Measuring Poverty at Microfinance Institutions

LESSONS AND RESULTS FROM THE ACCION NETWORK

ACCION INTERNATIONAL POVERTY ASSESSMENT TEAM
Measuring Poverty at Microfinance Institutions

Lessons and Results from the ACCION Network

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ABOUT THE AUTHORS

This monograph was written by ACCION poverty analysis team members Rekha Reddy and Karen Horn Welch and supervised by Elisabeth Rhyne, Senior Vice-President, ACCION International. Ms. Reddy is a Senior Director in the Research and Policy Division of ACCION International and Ms. Welch, a former consultant for ACCION International is currently an investment officer at the David and Lucille Packard Foundation. This document draws extensively from previous reports published through the ACCION InSight series that were authored by Patricia Lee Devaney, David Dewez and Sandra Neisa, members of the ACCION poverty analysis team past and present.
Chapter I. Why Measure Poverty?

Many microfinance institutions have a mission to alleviate poverty through the provision of financial services. ACCION International’s mission is to “give people the tools they need to work their way out of poverty.”

But how do we know who is poor and who is not? Without the ability to determine which clients are being served, institutions will not be able to determine whether they are achieving their social missions, or how their ability to reach their goals is changing over time.

Measuring the poverty levels of clients enables management and other stakeholders in microfinance to make better-informed decisions, and ultimately to provide better services of their clients. Information on poverty levels and related social indicators can be used by microfinance institution management in the following ways:

- **Development or modification of strategies to target clients:** Information from poverty studies has prompted several institutions to consider adjusting their targeting strategies.
- **Monitoring fulfillment of social mission:** Measuring institutional outreach by looking at client poverty levels is part of an overall system of measuring social performance. This is important to social investors, donors, and the microfinance institution itself.
- **Market knowledge for product design:** By conducting poverty studies, ACCION provided microfinance institutions with information about whom they are serving. Armed with knowledge about the characteristics and loan performance of poor clients, microfinance institutions have the information they need to design products, services, and expansion strategies to better serve poorer clients in a way that is aligned with their mission.
- **Information for expansion:** Poorer clients often represent an untapped market for a MFI (microfinance institution) wishing to expand.
- **Baseline data for tracking clients over time:** Poverty studies yield data on a given set of clients who can be followed over time to see how their status changes as they continue to use the MFI’s services.
- **Risk management:** By learning more about how delinquency varies by poverty level, MFIs can better understand the behavior of clients and address risk.
- **Information for client selection:** Although ACCION affiliates do not use poverty levels as a screening tool, microfinance institutions, especially those exclusively targeting the poorest, may use information on poverty levels to screen out clients not be suitable for a particular program, or screen in clients they wish to target.

**ACCION’s Poverty Measurement Project**

This monograph describes ACCION’s experiences with poverty measurement at four microfinance institutions: Apoyo Integral in El Salvador, BancoSol in Bolivia, Mibanco in Peru, and SOGESOL in Haiti.

Through its poverty analysis project, ACCION and the microfinance institutions gained an improved understanding of their clients and how they compare with the overall population in their countries in terms of poverty level, demographic and socio-economic characteristics and borrowing activity.

**How This Monograph is Organized**

Chapter II of this monograph explains ACCION’s research objectives. Chapter III describes different approaches to the measurement of poverty that ACCION considered before developing its own poverty assessment tool, which is described in Chapter IV. Chapter V describes general lessons learned on the collection and analysis of poverty data. Chapter VI describes major findings of the poverty assessments at the four microfinance institutions. Chapter VII concludes by explaining how information from the poverty studies has been used at the four case study institutions. The “social scorecard,” a template to use data from the microfinance institution’s credit evaluation database to monitor poverty on a regular basis, is also discussed.
Chapter II. ACCION’s Objectives

ACCION began its poverty assessment project in 2002 with the aim of understanding and measuring the poverty level of the microfinance clients of its network affiliates. ACCION sought to use regularly captured information on client households and businesses to measure microfinance institution (MFI) outreach to the poor. These findings on poverty would then be incorporated into a reporting system enabling institutions to monitor outreach regularly. With better monitoring, it was expected that MFIs would develop or amend products and strategies to reach clients of a lower socioeconomic status.

Key Questions

ACCION designed its poverty assessment studies to address the following questions:

- How does the poverty distribution of the clients of ACCION’s affiliates compare with the poverty distribution of the country’s overall population? How do these clients compare with national and international poverty lines?

- How do the demographic and socioeconomic characteristics (such as gender, household size, education, and housing) of the clients of ACCION’s affiliates compare with the overall population, and how are these characteristics correlated with poverty?

- What are the general borrowing patterns of poorer clients? How are loan size, payment amount, loan maturity, number of previous loans, and repayment status related to poverty level?

- What sources of data can provide this information most readily and reliably? In particular, what are the pros and cons of using client loan evaluation data and/or household survey data?
• What types of data that MFIs regularly collect are correlated with poverty?

• How can poverty information be integrated into a regular reporting system?

The first three questions were designed to gather more information on clients and their poverty levels--comparing the poverty levels of clients with those of the general population and exploring the relationship between poverty levels, economic activity and credit history. The latter three questions address how best to collect and use this information on poverty.
Chapter III. Different Approaches to Poverty Measurement

Any institution that wants to assess the poverty levels of its clients or surrounding community will need to determine the approach that best fits its data availability, and the cost and feasibility of execution. ACCION considered five key issues in defining its approach in the poverty assessment project.¹

1) “Standards of Living” Approach vs. Broader “Capabilities” Approach

ACCION chose to begin with a “standard of living” approach by defining poverty as a lack of income and expenditure (consumption). Using this approach, consumption of goods and services is considered to be a proxy for an individual’s well being. The standards of living approach is the most common and traditional way to measure poverty, and income and expenditure data was readily available for the clients of the microfinance institutions studied.

However, some analysts take a broader approach to measuring poverty. Economist Amartya Sen (1999) been an influential advocate of defining poverty more broadly as the absence of one or more of the basic capabilities that are needed to function in society. This “capabilities” approach measures poverty across multiple dimensions including the adequacy of income, health, access to education, living conditions, and even political freedom. Subsequent ACCION poverty studies will likely make greater use of these other dimensions of poverty, particularly in microfinance institutions where income and expenditure data for clients is not collected in a centralized manner.

Both approaches have their advantages. The standard of living approach results in a single, direct measure of poverty that is known and accepted across countries. However, the capabilities approach considers many

¹ For more details, refer to ACCION InSights #1, #5, #8, #13 and #17 which detail the framework for ACCION’s poverty tool and the findings of poverty assessments for Mibanco in Peru, SOGESOL in Haiti and BancoSol in Bolivia. These publications are available for download at http://www.accion.org/pubs.
important features of deprivation that may be overlooked in a standards of living approach to poverty.

2) Income vs. Expenditure Data

Once the decision was made to take a standards of living approach, ACCION decided to focus on expenditure data to relate clients to poverty levels. Both national and international poverty lines are used to measure poverty in reference to expenditure and income (adjusted for savings), both of which are considered proxies for consumption. Expenditure is generally the preferred poverty indicator for developing country assessments for several reasons. First, expenditure is not as volatile as income, particularly due to the seasonality of income from agriculture and agriculture-related enterprises. Secondly, in societies with large rural populations, a large proportion of poor households’ income is non-monetary and therefore is not captured in a traditional income indicator. Third, researchers believe that in surveys income tends to be underreported, while there are fewer reasons for bias in reporting expenditure. Of course, both income and expenditure data from credit evaluations has specific biases, derived from the desire of candidates to qualify for loans, as will be discussed in the following section.

3) Data Collected by the Microfinance Institution vs. Separate Surveys for Poverty Assessment

For the four institutions studied, ACCION chose to use data collected as part of the routine credit evaluation process and available in the management information system (MIS) databases of the institutions as the basis for its ongoing poverty monitoring tool. These four affiliates collect detailed information from clients through the credit evaluation process, particularly for individual loans. This information includes the client’s business and the client’s household. Using data from the credit evaluations was desirable because its collection is integrated into the lending process and therefore data collection would add no additional cost to the institution’s operations.

However, while data from the microfinance institution can be rich and informative, it is based upon a credit evaluation process, for better or for worse. ACCION considered that this could lead to more conservative
data than an external survey, as the loan officer has a vested interest in keeping his or her portfolio free of delinquency and the potential client fears the consequences of misrepresentation. However, at the same time, credit applicants have the incentive to inflate household income or underreport expense to obtain loan approval. To assess the quality of data, ACCION conducted separate client household surveys at each institution in which data was gathered directly by survey researchers.²

4) Absolute vs. Relative Measure of Poverty

ACCION sought to develop an “absolute” measure of poverty, defined by actual levels of income and expenditure, rather than a relative measure in which clients are ranked among a group of people. With a relative measure, all that can be said is whether one person is better off than another, even though both could be poor or non-poor. Only an absolute measure would allow comparisons to the national and international poverty studies used to determine poverty lines and track national poverty distributions. The CGAP Poverty Assessment Tool and Participatory Wealth Rankings are examples of tools that assess poverty on a relative rather than an absolute basis.

5) Poverty Distribution vs. Poverty Lines

ACCION favors emphasizing the degree of poverty of the clients of microfinance institutions, i.e. the distribution of poverty, rather than focusing on the number of microfinance clients below a given poverty line. Headcount calculations are often uninformative; given that poverty lines are arbitrary and often politically determined.

Second, a simple “headcount” of poverty, that is, how many clients fall below the poverty line, provides little information about the depth of poverty among clients. For example, hypothetical microfinance institutions A and B may both report 70% of their clients below the poverty line. However, if Institution A’s poor clients are the poorest people in the country, while Institution B’s poor clients hover just below the poverty line, the two institutions are serving very different segments of clients.

² ACCION is exploring other possibilities for institutions without detailed credit evaluation data for their clients or who do not store this data in a sound and reliable database.
A third issue is that no one “poverty line” exists. Poverty lines are generally determined by calculating how much it costs to fulfill basic needs. Most national governments calculate national poverty lines—in some cases, multiple national poverty lines broken down by region, population category (i.e. urban/rural), or severity of poverty (extreme poverty lines). International organizations have popularized the $1/day and $2/day international poverty lines, which were developed to permit cross-country comparison. This means that the percentage of clients in poverty can change dramatically according to the poverty line applied.

In short, the poverty line should never be taken seriously as a definitive cutoff. Examining the distribution of poverty levels, especially when of a subset of a population (such as microfinance clients) provides a clearer, less biased picture.

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3 National poverty lines theoretically represent the real cost of a consumption basket of food and non-food necessities in a particular country. Once established, national poverty lines are generally fixed for several years at a time and simply adjusted for inflation. The national poverty line is most useful for within-country comparisons, for it uniquely reflects the tastes and preferences as well as the costs and purchasing patterns in a specific country. National poverty lines come from a variety of sources, the most common of which are governments and national household surveys performed by national statistical institutes, often in partnership with the World Bank, United Nations or the Inter-American Development Bank.

4 The international poverty line, theoretically, represents a standard of poverty that is consistent across all countries and allows for cross-country comparisons. The international poverty lines test for the ability to purchase a basket of commodities that is roughly similar across the world. This international poverty line is based on purchasing power parity (PPP) and represents the purchasing power of $1/day (per capita) across countries. Purchasing Power Parities (PPPs) are currency conversion rates that both convert to a common currency and equalize the purchasing power of different currencies. It was constructed based on 1993 price data and PPP estimates and calculated as the median of the 10 lowest poverty lines. It equals $1.08/day in 1993 PPP terms or roughly $1.40 in 2005 dollars, although it is commonly referred to as “$1/day.” The upper international poverty line or “$2/day” poverty line is simply twice the $1/day poverty line.

5 While the international poverty line is useful in cross country comparisons, it does not account for economic and social conditions that are unique to individual countries. Also, the international poverty lines are based on relative PPP prices, which may not be representative of the consumption habits of the poor (World Bank, 2000).
Chapter IV. How ACCION Measured Poverty at Microfinance Institutions

ACCION’s goal was to create an ongoing poverty monitoring system—not just a one-time poverty assessment. To accomplish this goal, ACCION made use of three data sources: two of which already were in existence and one which was used to assess the comparability of the existing two data sources (see Table 1).

Table 1: Data Used by ACCION in its Poverty Assessments

<table>
<thead>
<tr>
<th>Data Type</th>
<th>Description</th>
<th>Use in the Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Existing Data Sources</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MFI Credit Evaluation Data</td>
<td>Data collected by MFIs (including income and expenditure) during the loan evaluation process</td>
<td>To assess client poverty levels and characteristics</td>
</tr>
<tr>
<td>National Household Survey Data</td>
<td>Data from national household surveys such as the World Bank’s LSMS or MECOVI(^6)</td>
<td>To compare the poverty levels of clients to that of non-clients in the region or country</td>
</tr>
<tr>
<td><strong>Data Collected for poverty assessment</strong></td>
<td>Household surveys of a random sample of active MFI clients</td>
<td>Modeled after national surveys like LSMS with a focus on income and expenditure</td>
</tr>
</tbody>
</table>

The MFI credit evaluation data used in these studies collected less detailed information on household expenditure and more information on the microenterprise than the national surveys in their countries. Thus, the major objective of the household surveys was to serve as a benchmark and to acquire a better understanding of whether MFI client

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\(^6\) LSMS is the Living Standards Measurement Study includes the methods developed by the World Bank to improve the quality and type of national household survey data. MECOVI (the Program for the Improvement of Surveys and the Measurement of Living Conditions in Latin America and the Caribbean) is a similar program developed by the Inter-American Development Bank.
data could be used to connect clients to poverty lines, prior to implementing the ongoing poverty monitoring system using MFI data. The second objective was to take advantage of the detail that can be gathered in surveys to learn more about the poverty and socio-economic status of the client population.

**Design of ACCION Household Surveys to Measure Poverty**

**Content:** The household surveys were modeled after the LSMS (World Bank national survey) country questionnaires with a focus on income and expenditure. When possible, the exact questions from the LSMS questionnaires were used, but in some cases, questions and response categories were limited in length and detail or adapted to local conditions.

**Sampling Procedure:** Client households to be surveyed were drawn from a population pool corresponding with the MFIs’ total current client population. If the MFI operated in multiple geographic regions or had multiple products, samples were stratified randomly according to obtain representative sub-samples.

**Sample Size:** Our samples ranged in size from 124 clients to 617 clients. Using statistical sampling practice, we calculated our sample size based on the variability of the actual population (the standard deviation of the client population’s income or expenditure) and our desired significance level. ACCION chose the most significant sample possible, given cost and feasibility considerations.

**Survey time:** ACCION’s household survey was implemented in a single visit. (The LSMS and some other national surveys are implemented in two visits that are two weeks apart, using a short recall period designed to increase the accuracy of responses.) Although the survey time varied depending on the style of the surveyor and size of the household, most were completed between 45 minutes and 1 hour.

**Duration of survey:** The duration of time needed to complete the required number of surveys was between 2 to 4 months. It took more

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7 The equation used for calculating the sample size is: \((z^2\sigma^2)/m.e.^2\), where the z-statistic is based on the desired confidence level \((z=1.96\) with a 95% confidence level), \(\sigma\) is the standard deviation, and \(m.e.\) is the desired margin of error.
time to complete surveys for the institutions with more rural clients, because these clients were more difficult to locate.

**Surveyors:** ACCION contracted professional survey firms whose surveyors had no prior relationship to the clients. The cost for these survey firms (which included a pilot survey and training for surveyors) ranged between $5,000 to $14,000 USD.
Chapter V. Key Lessons on Poverty

This section describes some of the key lessons learned by ACCION about the collection and analysis of poverty data.

The best approaches to measure poverty have their weaknesses.

To enable the reader to evaluate the strengths and weaknesses of these poverty studies for themselves, this report details sources of potential bias and error in our poverty assessments. Chapter III discussed some of the advantages and disadvantages of different approaches to measure poverty considered by ACCION.

One important issue is the definition of poverty. The ACCION studies focus on income and expenditure, with less emphasis on health and living conditions, which many argue are important considerations in the evaluation of poverty. Another important issue in the ACCION studies was the context of collection of data, for example, since the data used in these studies come from both loan officers of microfinance institutions and non-staff conducting separate household surveys. Finally, all surveys contain measurement error, such as man-made errors in the collection and processing of information.

Another key issue is that all data, whether it is collected through a credit evaluation or from an independent surveyor, is self-reported by individuals who 1) may not keep records; 2) may not regularly think about and monitor their expenditure accurately; 3) may not wish to reveal information. This means that measurements of poverty among people in the informal sector are rough estimates, and while accuracy may be good at the level of an entire group or population, there is no way of knowing how accurate they are at identifying the poverty level of individuals. These issues apply to all sources of data, including those used to develop national poverty lines.
Poverty lines place boundaries on a fluid concept of poverty, and force us to classify one client as poor who may be just a little worse off than his neighbor who is classified as non-poor. However, information on the percentage of clients below a poverty line can be required, for example by information clearinghouses like the MIX (Microfinance Information Exchange), the Microcredit Summit, and donors who often focus on “the poverty headcount,” i.e. the percent of clients below the poverty line. These figures enable interested parties to compare the poverty of clients living in different regions and in the case of the $1/day and $2/day poverty lines, different countries.

If poverty lines must be used, a description of the line used should be provided to improve understanding about how the choice of poverty line affected the number of clients classified as poor. National poverty lines differ widely from country to country. There exists considerable variability among poverty lines based on different institutions’ calculations and different household surveys. Typically the government must approve the poverty line, making it subject to political considerations, particularly in countries where transfers from the government are designated by who is poor and who is not poor. Economist Angus Deaton has noted that for this reason, poverty lines are “as much political as scientific constructions.”

Within our sample of countries, nationally defined poverty lines varied widely—both in their magnitude and in the type of specialized poverty lines used, such as poverty lines specific to urban areas or for extreme poverty. There is such diversity among the countries represented in this study and in the construction of national poverty lines that comparisons between the institutions using national poverty lines would be misleading. No two countries in this ACCION poverty study used the same categories of poverty lines.

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International poverty lines also have their issues. The $1/day poverty line is designed to be appropriate for extreme poverty, and give an idea of poverty in the poorest countries, but it is irrelevant for many developing nations, particularly in Latin America. All of the countries in the ACCION poverty study have national poverty lines that are significantly higher than the $1/day international poverty line.

**Different contexts for data collection generate different outcomes.**

Two sets of data with seemingly similar content can yield very different results. ACCION compared data on microfinance clients acquired through household surveys and through loan evaluations to ascertain whether the loan evaluation data was of sufficient quality to be used in ongoing poverty monitoring. The two sources of data differed in many ways.

One reason for these differences is that two sets of data with seemingly similar content can have a different level of detail or focus. Another issue is that different sources may use different definitions to collect a single variable. Finally, the person collecting the data, whether it is someone with whom the microfinance client has an ongoing relationship is clearly different from reporting data to an anonymous surveyor. Chapter VI, Section 5 discusses these issues in greater detail.

**Microfinance institutions should look for country-specific indicators to distinguish between poor and non-poor clients, rather than trying to apply indicators that are “generally” associated with poverty.**

ACCION found many different indicators that were associated with expenditure, the variable that is used to measure poverty. However, few were common across all four countries in the study. The characteristics of poverty differed significantly, even among neighboring countries in Latin America. This means that it is difficult to generalize the characteristics of poverty to provide microfinance institutions with a single “tool” to measure poverty.

If a microfinance institution cannot conduct its own detailed poverty study, it may be able to find detailed information about what variables are associated with poverty in its country of operations from national...
statistical institutes or international organizations such as the World Bank. Information about what variables are associated with poverty is widely available for some countries, but scarce for others. Finding quality information at the national level is generally dependent on the quality of national household surveys in that country.

We would not expect the characteristics of poverty to be same across countries, because the causes of poverty are different across countries. Furthermore, the household surveys for each country where poverty studies were conducted differed slightly, so they were not collecting the same set of indicators. Finally, it is difficult to measure how accurate indicators are if you are measuring them against income and expenditure which have their own measurement error. Overall, it was difficult to find variables that explain a large portion of the variation in expenditure—even at the country level.
Chapter VI. Major Findings from the Four Poverty Studies

Section 1: Poverty Incidence: Summarizing Information According to Poverty Lines

**Major finding: The microfinance institutions in this study serve varying segments of the poor. In most cases, these institutions served a percentage of poor clients that was similar to the percentage of poor people in the urban areas of their countries.**

One of the main objectives of ACCION’s poverty analysis work was to determine how the clients of ACCION’s affiliates compare with national and international poverty lines.

The following tables in this section show the key country data and poverty outreach results for the ACCION affiliate microfinance institutions Apoyo Integral, BancoSol, Mibanco and SOGESOL according to data from the ACCION household surveys. Although all of the microfinance institutions studied were in Latin America and the Caribbean, their countries had different standards of living.

**Table 2: Key Country Indicators on Level of Development**

<table>
<thead>
<tr>
<th></th>
<th>Bolivia</th>
<th>El Salvador</th>
<th>Haiti</th>
<th>Peru</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP per capita(^9) (2006)</td>
<td>$2,800</td>
<td>$4,510</td>
<td>$1,780</td>
<td>$5,980</td>
</tr>
<tr>
<td>Human Development Index (HDI) Value(^10) (2003)</td>
<td>.687</td>
<td>.722</td>
<td>.475</td>
<td>.762</td>
</tr>
<tr>
<td>% of Poor in the National Population</td>
<td>58(^11)</td>
<td>46(^12)</td>
<td>76(^13)</td>
<td>66(^14)</td>
</tr>
</tbody>
</table>

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\(^9\) International Monetary Fund, World Economic Outlook Database, April 2006, GDP Figures adjusted for purchasing power parity (PPP), US$.  
\(^10\) UNDP Human Development Report, 2003. The HDI – human development index – is a summary composite index that measures a country's average achievements in three basic aspects of human development: longevity, knowledge, and standard of living by GDP per capita (PPP US$). The HDI value of a particular country takes on values between zero and 1, with 1 considered the highest level of development.  
\(^11\)Comparison data for the urban and national population of Bolivia are from the Instituto Nacional de Estadisticas (INE). 2002. Encuesta MECOVI, Programa MECOVI Bolivia. Individuals living in  

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According to the GDP per capita and Human Development Index (HDI) value data shown in Table 2, Haiti was the least developed country in this study and Peru the most highly developed. However, according to the percentage of poor in each country according to national poverty lines, Peru, has the highest percentage of poor clients, even though it has the highest GDP per capita and HDI value, because its national poverty line was defined more generously. Again, this illustrates why ACCION is wary of client poverty statistics calculated according to national poverty lines.

Although ACCION favors using poverty distributions for the more detailed information they provide, it also summarized poverty data using poverty lines, after noting the construction of the poverty line used. Table 3 compares the poverty lines in countries where ACCION conducted poverty studies for its microfinance institution affiliates.

This table shows the diversity of ways that four different countries set poverty lines. Richer countries have higher poverty lines than poorer countries. Haiti is the poorest country in this sample, and has the lowest poverty line. Peru’s urban poverty line (for the Lima metropolitan area where a majority of Mibanco’s clients lived at the time of the poverty study) is nearly double that of its poorer neighbor Bolivia’s urban poverty line. El Salvador’s urban poverty line is also lower than the Lima poverty line.

Table 3: Comparison of Nationally Determined Poverty Lines

<table>
<thead>
<tr>
<th>Country</th>
<th>Urban Poverty Line (US$)</th>
<th>Rural Poverty Line (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Haiti</td>
<td>120</td>
<td>100</td>
</tr>
<tr>
<td>Peru</td>
<td>240 (Lima metropolitan)</td>
<td>180 (national urban)</td>
</tr>
<tr>
<td>Bolivia</td>
<td>130</td>
<td>110</td>
</tr>
<tr>
<td>El Salvador</td>
<td>100</td>
<td>80</td>
</tr>
</tbody>
</table>

Urban areas are measured relative to the national urban poverty line, and individuals living in rural areas are measured relative to the national rural poverty line.

12Comparison data for the urban and national population of El Salvador comes from the 2004 household living conditions survey (EHPM) conducted by DYGESTIC (El Salvador Bureau of Statistics and Census). Individuals are measured using the relevant poverty line (urban or rural) for the population.


15 With Mibanco’s aggressive national expansion in recent years, the institution serves a significantly higher percentage of clients outside of Lima than at the time of the study.
<table>
<thead>
<tr>
<th>National poverty line</th>
<th>Bolivia</th>
<th>El Salvador</th>
<th>Haiti</th>
<th>Peru</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urban poverty line</td>
<td>$480</td>
<td>$828</td>
<td></td>
<td>$923 (Lima)</td>
</tr>
<tr>
<td>Rural poverty line</td>
<td>$360</td>
<td>$528</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Extreme poverty line</td>
<td>$408 (urban)</td>
<td>$144 (urban)</td>
<td>$264 (rural)</td>
<td></td>
</tr>
</tbody>
</table>

In Table 4, ACCION summarizes the information on numbers of microfinance clients below the relevant national poverty lines.

<table>
<thead>
<tr>
<th>Apoyo Integral</th>
<th>BancoSol Bolivia</th>
<th>Mibanco Peru</th>
<th>SOGESOL Haiti</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of Poor MFI clients</td>
<td>35</td>
<td>49</td>
<td>33</td>
</tr>
<tr>
<td>% of Poor in the Urban Population</td>
<td>40</td>
<td>51</td>
<td>31</td>
</tr>
<tr>
<td>% of Poor in the National Population</td>
<td>46</td>
<td>58</td>
<td>66</td>
</tr>
<tr>
<td>Sample Size of MFI Clients</td>
<td>N=365</td>
<td>N=493</td>
<td>N=122</td>
</tr>
</tbody>
</table>

The first row of the table reports the percent of clients below the nationally constructed poverty line of each country according to the results of the ACCION household surveys. The latter two rows report

---

16 The poverty lines were developed by the Instituto Nacional De Estadísticas (Bolivia’s bureau of statistics) in Documento Metodológico de la Encuesta a Hogares, Programa MECOVI Bolivia (2002), and adjusted for inflation by ACCION.

17 The poverty lines were determined by DYGESTIC (El Salvador’s bureau of statistics) with adjustments for inflation made by ACCION.

18 Following the practice of some Haitian research institutions, we use the 2$/day international poverty line as Haiti’s national poverty line due to lack of reliable national survey data as calculated by Sletten and Egset (2004) in Poverty in Haiti.

the percent of the urban population and the overall population of each country that are below the poverty line according to publicly available national data.

Mibanco serves a slightly larger percentage of the poor clients (33 percent) than are present in urban population. BancoSol also serves a percentage of poor clients (49 percent) that is similar to the percentage of urban Bolivians living below the poverty line. Apoyo Integral serves a slightly lower fraction of the poor clients (35 percent) than exist in the urban population. SOGESOL serves largely non-poor clients, in the Haitian context, even though were these clients to be considered against their counterparts in other countries, most would be considered poor. All of these results are discussed in greater detail during Section 2 where the poverty distribution for each country is presented.

Table 5 shows the percentage MFI clients or members of the urban population that fall below the $1/day and $2/day international poverty lines. These results are extremely different from the results of percentage of poor clients according to national poverty lines shown in Table 4. For example, Mibanco and SOGESOL have the same percentage of clients below the $1/day poverty line, even though the percentage of poor clients served according to the national line are so different. This result shows that some national poverty lines are much higher than others.

We also see that the 1$/day poverty line is more relevant in the poorest countries. For example, the $1 day poverty line is only 33 percent of Peru’s poverty line and 43 percent of El Salvador’s urban poverty line. These are the two relatively well-off countries in this study. However, the $1/day poverty line is 60 percent of Haiti’s poverty line, 55 percent of Bolivia’s urban poverty line, and 80 percent of Bolivia’s rural poverty line. For poorer countries, the $1/day poverty line represents a more significant fraction of the national poverty line than in Peru and El Salvador.

| Table 5. Comparing Clients to International Poverty Lines |
| Source: ACCION household survey data and national survey data |

20 Due to data constraints, this study did not include Integral clients with the housing solidarity group loan product, which could underestimate the poverty outreach of the institution.
### Percent of Population Below $1/day Poverty Line

<table>
<thead>
<tr>
<th></th>
<th>Apoyo Integral, El Salvador</th>
<th>BancoSol, Bolivia</th>
<th>Mibanco, Peru</th>
<th>SOGESOL, Haiti</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of Poor MFI clients</td>
<td>4</td>
<td>3</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>% of Poor in Urban Population</td>
<td>9</td>
<td>4</td>
<td>1</td>
<td>23</td>
</tr>
<tr>
<td>% of Poor in National Population</td>
<td>19</td>
<td>13</td>
<td>10</td>
<td>56</td>
</tr>
</tbody>
</table>

### Percent of Population Below $2/day Poverty Line

<table>
<thead>
<tr>
<th></th>
<th>Apoyo Integral, El Salvador</th>
<th>BancoSol, Bolivia</th>
<th>Mibanco, Peru</th>
<th>SOGESOL, Haiti</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of Poor MFI clients</td>
<td>30</td>
<td>19</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>% of Poor in Urban Population</td>
<td>34</td>
<td>23</td>
<td>6</td>
<td>45</td>
</tr>
<tr>
<td>% of Poor in National Population</td>
<td>50</td>
<td>39</td>
<td>30</td>
<td>76</td>
</tr>
</tbody>
</table>

Many countries in Latin America and the Caribbean find the $2/day international poverty more relevant to their national settings. A greater percentage of clients and members of the urban population are below the $2/day poverty line, which makes it more relevant for the countries in this study. In fact, the $2/day poverty line has been used in leading Haitian studies as the national poverty line in the absence of a widely accepted poverty line sanctioned by the government.

**Section 2: Poverty Distribution**
Major finding: In most cases, the bulk of the microfinance clients studied clustered in the middle range of the poverty distribution, just above or just below the poverty line.

Analyzing the Distribution of Poverty Data

Another main objective of ACCION’s poverty analysis work was to determine how the poverty distribution of the clients of ACCION’s affiliates compares with the poverty distribution of the country’s overall population.

ACCION uses cumulative distribution functions to represent the poverty levels of microfinance clients graphically and how they relate to the national and the urban population samples of the country of operation. Figures 1 through 4 show the poverty distribution curves for the ACCION affiliate microfinance institutions Apoyo Integral, BancoSol, Mibanco and SOGESOL according to data from the ACCION household surveys.

These cumulative distribution functions (CDFs) display the total percentage of the population that has expenditures below an amount that corresponds to a certain level of poverty. A higher distribution curve indicates a higher number of households in poverty. The relevant poverty lines are imposed as vertical lines corresponding to the appropriate per capita expenditure level.

The comparison to urban population was included, because at the time of the data collection, each of the four MFIs involved in the project operated primarily in urban populations. With urban populations generally wealthier than the national population, we did not expect clients of these MFIs to be as poor as the general national population.

Apoyo Integral, El Salvador

Figure 1 compares the poverty distribution of Apoyo Integral clients to that of non-clients in urban El Salvador and the general Salvadoran population. We see that 35 percent of Integral’s clients live below the
national relative poverty line of El Salvador, as compared to 40 percent of the urban Salvadoran population. The overall distribution of expenditure levels for Integral’s clients is strikingly similar to the urban population as a whole.

Figure 1: Comparing Apoyo Integral Clients to the Salvadoran Population

![Graph comparing expenditure levels of Apoyo Integral clients and the Salvadoran population.]


The urban population is slightly poorer than the sample of Apoyo Integral clients. The curve representing the total population of El Salvador (including rural areas) is continuously higher than the curve of the urban population and the curve of Apoyo Integral clients. This illustrates that the general population of El Salvador has a greater
percentage of poor households than the other two populations.\textsuperscript{21}

We see that the majority of clients (about 52 percent) are between 50 to 150 percent of the poverty line. The remaining clients are very poor (far below the poverty line) or non-poor.

\textbf{BancoSol, Bolivia}

The ACCION household survey results indicate that the half of the clients served by BancoSol are poor. Household survey data collected by ACCION shows that BancoSol serves a percentage of the poor that matches the composition of the urban population—not a surprising result for an MFI operating primarily in urban areas and very similar to the case of Apoyo Integral.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure2.png}
\caption{Comparing BancoSol Clients to the Bolivian Population}
\end{figure}


Figure 2 compares the poverty distribution of BancoSol clients to the poverty distribution of the urban and national Bolivian populations. Four

\begin{itemize}
\item \textsuperscript{21} Although 46 percent of the El Salvadorian population falls below the national poverty line, this graph makes it seem as if 58 percent of Salvadorans are poor. This occurs because the urban poverty lines shown apply to those living in urban areas. The total Salvadoran population includes individuals in rural areas whose poverty is measured using poverty lines that capture the lower cost of living in these rural areas. This result shows that the rural population of El Salvador is poorer than the urban population.
\end{itemize}
poverty lines are provided for comparison: urban Bolivia, rural Bolivia, and two international poverty lines for those who live under $1 and $2 day, respectively.

The $1 day and $2 a day poverty lines are not equivalent to the market exchange rate of Bolivianos to $1 and $2 respectively. Rather, they represent the purchasing power of $1/day (per capita) across countries. For example, the market exchange rate for $1 was 8.1 Bolivianos in July 2005, but the purchasing power parity (PPP) adjusted exchange rate was 3.5 Bolivianos. This means that when you adjust for the relative difference in prices between Bolivia and the United States, the same amount of dollars can buy more in Bolivia than in the United States.

BancoSol serves nearly the same percentage of the extremely poor (below $1/day poverty line) that exists in the urban population, at all levels of expenditure. As in El Salvador, the national population has a higher percentage of poor households living below each poverty line than the urban population.

These distribution curves also showcase how the choice of poverty lines can influence the percent of a population designated as poor. For example, using the nationally determined urban poverty line 49 percent of BancoSol clients are in poverty. Using to the international $1/day poverty line, only 3 percent of BancoSol clients are poor.

**Mibanco, Peru**

The distribution curves in Figure 3 illustrate that Mibanco clients on average are slightly poorer than non-clients in urban Lima population. One reason for this is that nearly a third of Mibanco clients sampled in 2003 were from areas outside of Lima, where poverty is more prevalent and the cost of living is lower.

Four poverty lines are provided for comparison: a national poverty line, Lima’s poverty line and the $1 and $2/day international poverty lines. Again, the purchasing power parity exchange rates are used to calculate the $1 and $2 a day poverty lines rather than the market exchange rates. The market exchange rate for $1 was 3.1 Soles in September 2005, but the purchasing power parity (PPP) adjusted exchange rate was 2.2 Soles.
The same amount of dollars can buy more in Peru than in the United States.

**Figure 3: Comparing Mibanco Clients to the Peruvian Population**

<table>
<thead>
<tr>
<th>Annual Expenditure (Soles)</th>
<th>% of population</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1/day poverty line (PPP adjusted)</td>
<td>0%</td>
</tr>
<tr>
<td>$2/day poverty line (PPP adjusted)</td>
<td>20%</td>
</tr>
<tr>
<td>National Poverty Line</td>
<td>40%</td>
</tr>
<tr>
<td>Lima Poverty Line</td>
<td>60%</td>
</tr>
<tr>
<td>National Population</td>
<td>80%</td>
</tr>
<tr>
<td>Mibanco Clients</td>
<td>100%</td>
</tr>
<tr>
<td>Urban Population</td>
<td>100%</td>
</tr>
</tbody>
</table>

**Sources:** ACCION International Household Survey Data of Mibanco Clients (2003) and LSMS national household survey data for Peru (1994)

According to ACCION household survey data, 33 percent of Mibanco clients are below the relevant national poverty lines. Mibanco clients are located both within and outside of Lima, so for this reason, the Mibanco curve does not cross either the Lima or non-Lima national poverty line at 33 percent.

A very small percentage of these clients—about 1 percent—are below the international $1/day extreme poverty line, equal to the percentage of urban Peruvians who fall below this poverty line. We classified an additional 33 percent of Mibanco clients as vulnerable-non-poor, that is, up to 50 percent above the Lima poverty line.

As in Apoyo Integral and BancoSol, the national population poverty curve is continually higher than the CDF curves of the urban population.
client population, illustrating that more people in the national population are poor than in the urban and client populations.

**SOGESOL, Haiti**

Figure 4 shows the poverty distribution of SOGESOL clients. No comparison data is available to show a detailed distribution of poverty levels in Port-au-Prince and the overall population of Haiti. According to ACCION household survey data, the majority of SOGESOL’s clients in the Port-au-Prince metropolitan area are non-poor.

![Figure 4: Poverty Distribution of SOGESOL Clients](image)

One reason for this level of outreach is that extreme poverty in Haiti is predominantly a rural phenomenon. Seventy-seven percent of the country’s poor live in rural areas—a higher percentage than other countries in Latin America. The majority of SOGESOL clients in this sample live in urban Port-au-Prince.\(^{22}\) Not only is a larger part of the population outside of Port-au-Prince poor, the depth of poverty is greater outside of Port-au-Prince.


*Measuring Poverty at Microfinance Institutions*
Figure 4 shows the percentage of poor clients according to $1 and $2/day international poverty lines for Haiti, in the absence of any commonly accepted national poverty line. According to ACCION household survey data, 5 percent of clients fall below this poverty line, a percentage that is significantly lower than the percentage of the urban population below the poverty line. Similar to the other three institutions in the study, a small percentage of clients fall below the $1/day international poverty line.

To some extent the ACCION study under represents the outreach of SOGESOL. The sample of clients studied was not representative of the institution’s total client base, as it covered only four Port-au-Prince branches for which centrally captured data was available. Since this data was collected, SOGESOL has opened more branches in provincial cities, and urban clients represent only 60 percent of their portfolio.

Section 3: How Demographic and Socioeconomic Characteristics Vary With Poverty

**Major Finding:** Neither the age nor the sex of microentrepreneurs vary consistently with poverty level. However, poverty varies consistently with household size, geographic location and education level in ways that could make them useful poverty proxies.

The second objective of the ACCION poverty assessment was to determine how the demographic and socioeconomic characteristics of the clients of ACCION’s affiliates are correlated with poverty. This section disaggregates basic client data by poverty level with the aim of identifying some common characteristics of poor clients. Once MFIs can identify poor clients, they can more easily target these clients if they have a desire to move down-market.

**Distribution of Clients by Four Discrete Poverty Levels**

Table 6 presents the poverty distribution for the four MFIs in a more condensed format. For that purpose, we group clients into four levels. In both cases, households are classified on the basis of per capita expenditure, and compared to the per capita poverty lines.
Table 6: Distribution of Clients by Poverty Level

Source: ACCION household survey data

<table>
<thead>
<tr>
<th>Poverty Levels</th>
<th>Definition of Poverty Level</th>
<th>Apoyo Integral</th>
<th>Banco-Sol</th>
<th>Mibanco</th>
<th>SOGESOL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very poor</td>
<td>0-50% of the relevant poverty line</td>
<td>7%</td>
<td>15%</td>
<td>5%</td>
<td>1%</td>
</tr>
<tr>
<td>Poor</td>
<td>50 – 100% of the relevant poverty line</td>
<td>28%</td>
<td>34%</td>
<td>28%</td>
<td>4%</td>
</tr>
<tr>
<td>Vulnerable-non poor</td>
<td>100-150% of the relevant poverty line</td>
<td>24%</td>
<td>18%</td>
<td>33%</td>
<td>7%</td>
</tr>
<tr>
<td>Non-poor</td>
<td>&gt; 150% of the relevant poverty line</td>
<td>41%</td>
<td>32%</td>
<td>34%</td>
<td>88%</td>
</tr>
</tbody>
</table>

Very poor and poor clients are classified as poor. Vulnerable non-poor clients have levels of expenditure just above the poverty line, and non-poor clients are considerably above the poverty line. In all of the institutions studied except for SOGESOL, the majority of clients are clustered near the poverty line, in the poor and vulnerable non-poor categories.

Demographic Characteristics

Table 6 disaggregates basic demographic data by poverty level for the four institutions in the study. These poverty categories were created according to per capita expenditure.

Age

This variable (not shown in the table) varies little between the poverty categories and even among the MFIs in the study. This implies that age would be of little use as a “proxy” for poverty. Clients averaged about 40 years of age in all 4 institutions and all poverty categories. Apoyo Integral the greatest variation in this category, with a higher average age in non-poor categories than in poor categories.

Sex

Measuring Poverty at Microfinance Institutions
There exists some relationship between the percentage of females and poverty level—though it is a different relationship for different institutions. For Mibanco and BancoSol, the percentage of female clients increases as the poverty of the clients decreases. One of the reasons for this might be that better-off females might be more likely to participate in activities outside of the home. Or, simply that a source of income from a female makes the household less likely to be poor. Another reason for the better-off females as recipients of credit is that men who are less poor have other options for obtaining credit. In contrast, for Apoyo Integral and SOGESOL, females make up a greater percentage of the poor than the non-poor categories.

**Household size**

In each MFI, household size is smaller for less-poor clients, supporting the widely held view that larger families tend to be poorer in developing countries.

With an average of 4.8 persons per household, households in the institution SOGESOL have the largest household sizes, with the Spanish speaking countries presenting smaller households of approximately 4.3 persons.

As shown in Table 7, we did not find a clear relationship between the household size of microfinance clients and household sizes in the general population. At Apoyo Integral and SOGESOL, the average household size of clients was larger than that of non-clients in their countries. In Haiti, SOGESOL clients also had larger household sizes than non-clients. However, Mibanco clients had smaller household sizes than Peruvian non-clients.

**Table 7: Gender and Household Size by Poverty Level**

*Source: ACCION household survey data*

<table>
<thead>
<tr>
<th>Poverty Levels (consumption as % of Poverty Line)</th>
<th>Apoyo Integral Clients</th>
<th>BancoSol Clients</th>
<th>Mibanco Clients</th>
<th>SOGESOL Clients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Poor</td>
<td>% Female</td>
<td>90%</td>
<td>49%</td>
<td>50%</td>
</tr>
</tbody>
</table>

*Measuring Poverty at Microfinance Institutions* 33
<table>
<thead>
<tr>
<th>Category</th>
<th>House- hold Size</th>
<th>50-100%</th>
<th>50-100%</th>
<th>50-100%</th>
<th>50-100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor</td>
<td></td>
<td>% Female</td>
<td>88%</td>
<td>57%</td>
<td>56%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>House- hold Size</td>
<td>5.1</td>
<td>4.5</td>
<td>4.9</td>
</tr>
<tr>
<td>Vulnerable-non poor</td>
<td>100-150%</td>
<td>% Female</td>
<td>86%</td>
<td>59%</td>
<td>56%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>House- hold Size</td>
<td>4.4</td>
<td>4.2</td>
<td>4.9</td>
</tr>
<tr>
<td>Non-poor</td>
<td>&gt;150%</td>
<td>% Female</td>
<td>74%</td>
<td>61%</td>
<td>66%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>House- hold Size</td>
<td>3.5</td>
<td>3.5</td>
<td>3.4</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>% Female</td>
<td>78%</td>
<td>57%</td>
<td>62%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>House- hold Size</td>
<td>4.3</td>
<td>4.3</td>
<td>4.4</td>
</tr>
</tbody>
</table>

**Geographic Characteristics**

**Location**

Although this study presents aggregated data for each institution and country comparison data for reasons of brevity, doing so masks important differences between different regions or areas of the country. Each poverty study revealed regional differences among clients. For example, in El Salvador, there are vast disparities in the level of poverty by region. Fifty percent of clients from the San Salvador region are poor, whereas only 9 percent of clients from Usulutan region are poor. For BancoSol, the regional 54 percent of clients from El Alto were poor, whereas in La Paz, the wealthiest region, 43 percent were poor.

These strong regional differences suggest the feasibility of geographic targeting. Microfinance institutions could create poverty maps to consider poverty in their expansion strategy. An example of such a map is shown in Figure 5, which shows the percentage of Apoyo Integral clients below the national poverty line in each major cities where the microfinance institution has operations.

*Measuring Poverty at Microfinance Institutions* 34
Poverty and Education

Microfinance institutions often collect information about the education level of their clients, and education varies clearly with poverty. Not surprisingly, the ACCION poverty studies found poorer clients had lower levels of educational attainment. Still, for the most part, microfinance clients had higher education level than the average person in their country.

Table 8: Educational Attainment of Microfinance Clients

<table>
<thead>
<tr>
<th></th>
<th>None</th>
<th>Primary School</th>
<th>Secondary School</th>
<th>Higher education</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Apoyo Integral</strong></td>
<td>11</td>
<td>37</td>
<td>48</td>
<td>4</td>
</tr>
<tr>
<td><strong>BancoSol</strong></td>
<td>20</td>
<td>30</td>
<td>36</td>
<td>13</td>
</tr>
</tbody>
</table>

Measuring Poverty at Microfinance Institutions 35
For example, in El Salvador, the majority of Apoyo Integral clients have finished either primary school or secondary school. This represents a higher education attainment than the average Salvadoran, who has 5.6 years of schooling (nearly complete primary school). In Peru, a larger percentage of Mibanco clients finished secondary school than in the general population.

**How Education Differs With Poverty Level**

Although the client samples of Mibanco and SOGESOL were too small to yield significant results in some poverty categories, Figures 6 and 7 demonstrate a clear negative correlation between poverty and educational attainment at BancoSol and Apoyo Integral.

The percentage of clients who report that they had not finished any formal

<table>
<thead>
<tr>
<th>Mibanco</th>
<th>2</th>
<th>20</th>
<th>61</th>
<th>17</th>
</tr>
</thead>
<tbody>
<tr>
<td>SOGESOL</td>
<td>14</td>
<td>40</td>
<td>36</td>
<td>9</td>
</tr>
</tbody>
</table>

---


24 Encuesta Nacional de Hogares Sobre Medición de Vida, ENNIV (LSMS), 1994

*Measuring Poverty at Microfinance Institutions*
education or had finished only primary school declines sharply at both institutions as poverty diminishes. In general, the percent of clients who have finished secondary or higher education increases in wealthier clients.

Figure 7. The Highest Educational Level Reached by Apoyo Integral Clients
Section 4: Poverty and Loan Characteristics

Major Finding: In some microfinance institutions, a correlation exists between poverty and loan size and poverty and client satisfaction.

The fourth objective of the ACCION poverty project was to try to draw some conclusions on the relationship between poverty level and client behavior. In this section, we analyze the relationship between poverty and information on client loans, such as loan size and repayment status. Additionally, we examine the relationship between poverty and client satisfaction. Since all of this information (except for client satisfaction data) is available from MFI databases, we examine credit evaluation data, rather than household survey data, to draw conclusions using a larger pool of clients.

Poverty and Loan Size

Until recently, donors, social investors and MFI managers have used average loan size—or average loan size as a percentage of GDP—to assess what segment of the market they are reaching.

Table 9: Average Loan Size
2005 Figures reported in US$

<table>
<thead>
<tr>
<th>Poverty Levels</th>
<th>Apoyo Integral</th>
<th>BancoSol</th>
<th>Mibanco</th>
<th>SOGESOL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very poor</td>
<td>$600</td>
<td>$3171</td>
<td>$1026</td>
<td>$421</td>
</tr>
<tr>
<td>Poor</td>
<td>$844</td>
<td>$3544</td>
<td>$1196</td>
<td>$607</td>
</tr>
<tr>
<td>Vulnerable-non poor</td>
<td>$1175</td>
<td>$3928</td>
<td>$1223</td>
<td>$848</td>
</tr>
<tr>
<td>Non-poor</td>
<td>$1592</td>
<td>$4237</td>
<td>$1845</td>
<td>$878</td>
</tr>
<tr>
<td>MFI Average</td>
<td>$1043</td>
<td>$3736</td>
<td>$1026</td>
<td>$812</td>
</tr>
</tbody>
</table>

Without considering any other variables, loan size is directly related with expenditure in all four institutions. These results are consistent with our expectations because of the nature of the credit evaluation process. Loan

Measuring Poverty at Microfinance Institutions
officers assess credit applicants’ creditworthiness on the basis of their capacity to repay a loan. Loan officers determine the appropriate loan size and payment size on the basis of applicants’ income and expenditure levels. Therefore, it is expected that the variables will be highly correlated.

Table 10 shows annualized loan size as a percentage of GDP per capita, which some donors and research institutions use as a measure of depth of outreach. These annualized loan sizes report monthly loan payments to an annual basis so they can be more easily compared.

Although the loan amounts are somewhat similar, the percentage they represent of national GDP varies greatly across institution. Apoyo Integral and Mibanco’s loan sizes make up the lowest percentage of GDP. BancoSol’s loans are approximately 40 percent of GDP, while SOGESOL’s annual loans are similar in size to annual GDP.

Table 10: Annualized Loan Size as a Percentage of Annual GDP

<table>
<thead>
<tr>
<th></th>
<th>Apoyo Integral, El Salvador</th>
<th>BancoSol, Bolivia</th>
<th>Mibanco, Peru</th>
<th>SOGESOL, Haiti</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005 national GDP per capita</td>
<td>$4510</td>
<td>$2800</td>
<td>$5980</td>
<td>$1780</td>
</tr>
<tr>
<td>2005 Annualized Loan Size</td>
<td>$1043</td>
<td>$1113</td>
<td>$1311</td>
<td>$1880</td>
</tr>
<tr>
<td>Average Loan Size/ GDP per capita (%)</td>
<td>23%</td>
<td>40%</td>
<td>22%</td>
<td>99%</td>
</tr>
</tbody>
</table>

This table also illustrates why using average loan size as a percentage of GDP can be misleading. BancoSol has an average loan size that is much higher than that of other microfinance institutions, but its average loan term is also higher—more than 20 months. When loan sizes are annualized, loan sizes become fairly similar across institutions. For some
institutions like Apoyo Integral, where the average loan size is about 12 months, this issue does not present itself.

Table 11 shows that loan payment size increases as clients become less poor at Apoyo Integral, Mibanco and BancoSol.

**Table 11: Average Payment Size**  
*Figures reported in US$*

<table>
<thead>
<tr>
<th>Poverty Levels</th>
<th>Apoyo Integral</th>
<th>Mibanco</th>
<th>BancoSol</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very poor</td>
<td>$52</td>
<td>$40</td>
<td>$208</td>
</tr>
<tr>
<td>Poor</td>
<td>$62</td>
<td>$66</td>
<td>$214</td>
</tr>
<tr>
<td>Vulnerable-non poor</td>
<td>$86</td>
<td>$96</td>
<td>$223</td>
</tr>
<tr>
<td>Non-poor</td>
<td>$237</td>
<td>$158</td>
<td>$338</td>
</tr>
<tr>
<td>MFI Average</td>
<td>$106</td>
<td>$111</td>
<td>$250</td>
</tr>
</tbody>
</table>

Since loan payment size and loan size are related; this is not surprising, given the results from Table 9.

Table 12 addresses the relationship between poverty level and delinquency in loan repayments. In the two institutions for which data was available, delinquency rates and poverty did not vary strongly. This implies that reaching poor clients does not necessarily mean facing a greater portfolio at risk.

**Table 12: Poverty and Credit Risk**  
*% Portfolio at Risk, greater than 30 days*

<table>
<thead>
<tr>
<th>Poverty Levels</th>
<th>Apoyo Integral</th>
<th>BancoSol Clients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very poor</td>
<td>12.5%</td>
<td>3.5%</td>
</tr>
<tr>
<td>Poor</td>
<td>13.5%</td>
<td>2.9%</td>
</tr>
<tr>
<td>Vulnerable-non poor</td>
<td>12.1%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Non-poor</td>
<td>12.6%</td>
<td>3.2%</td>
</tr>
</tbody>
</table>

Poverty and Client Satisfaction

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At the request of Apoyo Integral, ACCION included questions regarding the satisfaction of clients within the household survey. We then examined how client satisfaction varied by poverty level. As demonstrated in Table 13, clients were generally satisfied with the services offered by the bank.

Table 13: Client Satisfaction by Poverty Level

<table>
<thead>
<tr>
<th>Poverty Levels</th>
<th>Percent of Satisfied Clients</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-50% Very Poor</td>
<td>63</td>
</tr>
<tr>
<td>50-100% Poor</td>
<td>67</td>
</tr>
<tr>
<td>101-150% Vulnerable Non-Poor</td>
<td>62</td>
</tr>
<tr>
<td>&gt;150% Non-Poor</td>
<td>55</td>
</tr>
<tr>
<td>MFI Average</td>
<td>61</td>
</tr>
</tbody>
</table>

Non-poor clients exhibited the lowest level of satisfaction of the clients in the household survey (55 percent). Clients suggested the following improvements for their microfinance institution: an increase in new product offerings (19 percent), an improvement in existing products (13 percent) and better client service (11 percent) in proportions that did not vary strongly with poverty levels.
Section 5: What Characteristics are Associated with Poverty?

**Major Finding:** After controlling for relevant socioeconomic and geographic factors statistically, the variables most strongly associated with poverty (as shown by expenditure) are possession of household assets and geographic location.

In sections 3 and 4, we identified some demographic and socioeconomic characteristics, as well as characteristics associated with participation in a microfinance program that were correlated with poverty. In this section, we attempt to analyze these factors as a group, using regression analysis.

The dependent variable is expenditure per capita (the variable upon which the poverty level categories are based) and the independent variables are a mix of socioeconomic characteristics and information on geographic location and household fixed assets. Table 14 identifies variables that were significant at a 95 percent confidence level. We did not test the same variables for each country, as the surveys differed slightly due to adaptations to the unique conditions of each country.

The samples of clients surveyed for Mibanco and SOGESOL were smaller than the samples of clients for BancoSol and Apoyo Integral, which may be one reason why fewer significant indicators were identified for those two institutions.

After controlling for relevant variables, we find that there are few indicators that are consistent across countries. For each of these four MFIs, the R-squared, the percentage of variation in the dependent variable explained by the independent variables, was around 0.30 for the best-fit regression. This figure was similar to some of the other R-squared values in country studies examined by ACCION. Household size was not used in these regressions, because it is not an independent variable (it was used to construct expenditure per capita).
Table 14: Identifying Indicators to Distinguish Between Poor and Non-Poor Clients

<table>
<thead>
<tr>
<th></th>
<th>BancoSol</th>
<th>Apoyo Integral</th>
<th>Mibanco</th>
<th>SOGESOL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significant at 5% level</td>
<td>■ Level of fixed assets</td>
<td>■ Sex</td>
<td>■ “Socio-economic status” category</td>
<td>■ Loan size</td>
</tr>
<tr>
<td></td>
<td>■ Geographic area (city)</td>
<td>■ Owns a vehicle</td>
<td>■ Micro-enterprise assets</td>
<td></td>
</tr>
<tr>
<td></td>
<td>■ Sex</td>
<td>■ Owns a refrigerator</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>■ Education level</td>
<td>■ Number of dependents</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>■ Loan size</td>
<td>■ Geographic area (Sal</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Salvador)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Not significant</td>
<td>■ Age</td>
<td>■ Education level</td>
<td>■ Age</td>
<td>■ Age</td>
</tr>
<tr>
<td></td>
<td>■ Education level</td>
<td>■ Education activity</td>
<td>■ Geographic area</td>
<td>■ Geographic area</td>
</tr>
<tr>
<td></td>
<td>■ Perception of client that he is poor</td>
<td>■ Economic activity</td>
<td>■ Gender</td>
<td>■ Gender</td>
</tr>
<tr>
<td></td>
<td>■ Having savings</td>
<td>■ Gender</td>
<td>■ Civil status</td>
<td>■ Civil status</td>
</tr>
<tr>
<td></td>
<td>■ Level of savings</td>
<td>■ Geographic area (Lima/</td>
<td>■ Economic activity</td>
<td>■ Economic activity</td>
</tr>
<tr>
<td></td>
<td>■ Receiving remittances</td>
<td>Province)</td>
<td></td>
<td>■ Level of business profits</td>
</tr>
<tr>
<td></td>
<td>■ Sector</td>
<td>■ Level of business</td>
<td></td>
<td>■ Loan size</td>
</tr>
<tr>
<td></td>
<td>■ Geographic region</td>
<td>profits</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>■ Category of loan</td>
<td>■ Number of meals per</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>■ Loan size</td>
<td>day</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Asset possession

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In three of the four institutions, asset possession (either household assets or assets of the microenterprise) was negatively associated with poverty. The ownership of assets reduces vulnerability within a household, and many institutions ask for information about asset possession as a form of collateral and as an indicator of creditworthiness.

**Highest Level of Educational Completed**
Educational attainment also shows promise as a proxy for poverty. The “socioeconomic status” category that was one of the few significant variables for Mibanco includes information on highest level of education completed by the client and information on the client’s housing condition. Including this socioeconomic status category, two of the four institutions showed that higher levels of education were negatively associated with poverty.

**Geographic Location**
In Apoyo Integral and BancoSol, geographic location—whether it was indicators representing different cities or a dummy variable showing a client as a resident of an urban or rural area—was strongly associated with expenditure, suggesting that making a “poverty map” of a country will aid institutions in moving down-market.

**Loan Size**
Loan size showed some potential as a proxy for poverty. It was negatively correlated with poverty for all four institutions, but after controlling for other variables in the equation, it was significantly associated with poverty in only two institutions.

**First Steps for Other Microfinance Institutions Interested in Finding What Characteristics are Associated with Poverty**

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25 This variable is composed of educational attainment, occupation of the head of the household, household goods, and housing characteristics.
Practitioners at microfinance institutions that are interested in finding out what indicators are correlated with poverty could start with the following steps:

1. **Research Existing Studies**
   Search the Internet and libraries for existing country level studies on poverty and the characteristics of poverty. Many of these studies identify characteristics that are associated with poverty that may be useful to identify poor microfinance clients. If possible, obtain the raw dataset from which these studies are based. An institution could do basic statistical analysis to see which characteristics are associated with poverty for a specific subgroup that has similar characteristics to their client population.

2. **Conduct basic client research**
   Examine the distribution of clients for variables that are correlated with poverty (such as asset possession, education and geographic location.) Although it is difficult to translate this data into a percentage of poor clients, having such data will give institutions an idea of the variation in living standards within their client base.

If a microfinance institution cannot conduct its own detailed poverty study, it may be able to find detailed information about what variables are associated with poverty in its country of operations from national statistical institutes or international organizations such as the World Bank. Information about what variables are associated with poverty is widely available for some countries, but scarce for others. Finding quality information at the national level is generally dependent on the quality of national household surveys in that country.
Section 6: Who Collects? Comparing Data from Household Surveys and Client Credit Evaluation

Major Finding: Expenditure and income data gathered through credit evaluations are significantly lower than the same data collected through household surveys.

The last research objective of the ACCION poverty project was to identify what sources of data could be used to acquire information on poverty most readily and reliably. In this section, we examine the differences and identify the pros and cons of using client loan evaluation data and/or household survey data.

Results of Comparison between Household Survey Data and Client Loan Evaluation Data

Absolute Measures of Poverty

ACCION had to determine whether Management Information System (MIS) data could be used to measure absolute poverty levels of its clients, i.e. be connected to actual levels of income and expenditure rather than a comparison of clients to other clients. With reference to national lines, we compared data collected through an LSMS-type household survey with data from the same client households collected through the institution’s own credit evaluation process.

Table 15 compares the medians and means of household survey to credit evaluation data. In all cases, the table demonstrates that income and expenditure data collected through the household survey process is higher than income and expenditure data collected through the credit evaluation process. In some cases, the data are significantly higher.
### Table 15: Comparison of Loan Evaluation Data and Independent Household Survey Data
*All figures are in US$ per year*

<table>
<thead>
<tr>
<th></th>
<th>Apoyo Integral</th>
<th>BancoSol</th>
<th>Mibanco</th>
<th>SOGESOL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Household Survey</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income per capita</td>
<td>198</td>
<td>331</td>
<td>1435</td>
<td>2403</td>
</tr>
<tr>
<td>Expenditure per capita</td>
<td>90</td>
<td>139</td>
<td>488</td>
<td>771</td>
</tr>
<tr>
<td><strong>MFI Loan Evaluation Data</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income per capita</td>
<td>200</td>
<td>317</td>
<td>1440</td>
<td>2100</td>
</tr>
<tr>
<td>Expenditure per capita</td>
<td>71</td>
<td>95</td>
<td>495</td>
<td>693</td>
</tr>
</tbody>
</table>

Table 16 presents differences (expressed by ratios) between the household survey and the MIS data for households in which both household survey and credit evaluation data were available. The reported figures are the medians and means of all the individual household-level ratios.

### Table 16. Comparison of Ratios of Household Survey to Loan Evaluation Data

<table>
<thead>
<tr>
<th></th>
<th>Apoyo Integral, El Salvador</th>
<th>BancoSol, Bolivia</th>
<th>Mibanco, Peru</th>
<th>SOGESOL, Haiti</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income per capita</strong></td>
<td>1.0</td>
<td>1.0</td>
<td>1.1</td>
<td>1.9</td>
</tr>
<tr>
<td><strong>Expenditure per capita</strong></td>
<td>1.3</td>
<td>1.5</td>
<td>3.0</td>
<td>4.0</td>
</tr>
</tbody>
</table>

For example, for the median client of Mibanco, income per capita measured by the household survey was twice as high as income per capita measured by the loan evaluation data.
capita recorded through the loan evaluation process. The expenditure figures reported through the loan evaluation process for the institution were closer than the income figures to the survey results. Only BancoSol’s median ratios for income and expenditure yielded similar results for loan evaluation data and household survey data.

The mean and median ratios displayed in Table 14 mask the wide range of differences between the ratios. In the cases analyzed thus far, differences between the MFI and survey data did not vary in a predictable way. Multiplying the data by a fixed adjustment factor would not connect the two sets of data reliably.

The wide range of differences between institutions suggests that institutional procedures and different collection processes for loan evaluation data play a role in determining the gap between the measures provided by the two sets of data. Household surveys also are not immune to variations from one setting to another.

In order to understand the disparities in the data, it was necessary to examine the data more closely.

**Comparing Apples to Oranges: Why Household Survey Data and Client Loan Evaluation Data Differ**

The following three factors account for most of the majority of differences between MFI loan evaluation data and household survey data shown in Tables 15 and 16.

1. **Credit evaluation data for income and expenditure have a different focus and level of detail than household survey data.** Although the household surveys solicit information on the income of the entire household, the loan evaluation focuses on a narrower definition because it attempts to assess the creditworthiness of potential borrowers as measured by their capacity to repay a loan. Therefore, in collecting information for a credit evaluation, loan officers tend to focus primarily on the income generated by clients and their microenterprises. Loan officers do not collect detailed income information about the remainder of the household. Conversely, the household surveys, modeled after the World Bank’s LSMS household surveys, collect income data from the

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entire household. On the other hand, the LSMS surveys ask for minimal information about microenterprise income, while loan officers carry out a detailed assessment of the incomes, expenses, and profits of the microenterprise. On the expenditure side, ACCION credit evaluations collect monthly data based on broad expenditure categories. The credit evaluations do not capture the detailed level of expenditure data or information on large, infrequent expenses that the LSMS household surveys attempt to collect on an annualized basis.

2. The two sources use different definitions for household size. The calculation of per capita income and expenditure divides the household level data by the number of household members. Therefore, differences in household definitions have a very strong effect on the results. In collecting information for a credit evaluation, loan officers use a relatively narrow definition of the household, focusing on the applicant’s immediate dependents. The household surveys modeled after the World Bank’s LSMS household surveys, however, define a household based on the number of people who regularly share meals within a home, including non-family members and non-dependents. A broader definition of a household increases the household size figure, reducing the final per capita income and expenditure. At SOGESOL in Haiti, little difference exists between the household sizes reported in the loan evaluations and the household surveys, with means of 4.8 and 4.6, respectively. The Mibanco data, however, showed a significant difference: the mean household size reported in household survey data is 4.5, and the mean household size reported in the credit evaluation form is just 2.4. BancoSol’s data showed a similar discrepancy in household size.

3. Different contexts for data collection generate different outcomes. Reporting loan evaluation data to a loan officer with whom one has an ongoing relationship is clearly different from reporting data to an anonymous surveyor. Loan officers control a client’s access to credit, giving prospective loan clients an incentive to overstate repayment capacity (income) by minimizing stated expenditure. Loan officers could have incentives to either over-report income (to get the loan approved) or underreport income (to reduce the possibility of default), because both quantity and quality of loans are rewarded in staff incentive structures. At the same time, survey researchers and the subjects they interview can also be subject to incentives that can lead to biases.
Chapter VII. From Measurement to Management: Making Use of Poverty Data

Some potential uses for poverty data were discussed in the introductory portion of this report. This final section discusses how ACCION has promoted the ongoing use of poverty data within the management of the four institutions where it conducted studies.

Using Poverty Information to Change Ideas

In each case where ACCION has carried out poverty studies, the studies themselves have had an immediate impact on the thinking of senior management about their clients. The studies inspired discussions about the markets currently being served and brainstorming sessions about ways to reach different types of clients.

The institutions ACCION works with have made changes in their operations in the years following their poverty assessments. For example, SOGESOL used information on the comparisons between household survey data and loan evaluation data to guide their loan officers in gathering better data for the credit evaluation. Before the poverty study, credit evaluations gathered income and expenditure data for the potential client for a particular month and often did not pick up important expenses that are paid annually, such as school fees and rent. Now SOGESOL loan officers are instructed to look beyond daily expenses and seek information on these less frequent categories of expense. If expenses are below a certain percentage of income on the credit evaluation, the loan evaluation is flagged for further investigation. Similarly, loan officers are instructed to probe more deeply to make sure that clients are not reporting overly optimistic sales data. SOGESOL is also developing a new product, Cash Rapide, similar to Mibanco’s Chasqui, to reach a lower income stratum.

In recent years, Mibanco has developed new product offerings to serve an untapped market of poorer clients, particularly those in rural areas. Mibanco developed a rural loan product and is increasing its outreach in the provinces of Peru, which represents a shift in the regional composition of its portfolio. Mibanco also developed a rapid-disbursement loan product with a range of 300-1000 Peruvian soles.
called the Chasqui. This product does not require any form of guarantee and is also aimed at lower income clients.

BancoSol was interested to see if it was serving less poor clients over time, as some of its critics had claimed. In fact, its poverty outreach was substantial. The institution used the poverty study as a baseline for measuring client outreach and as a source of information in developing its own down-market product. During strategic planning sessions, management was able to set targets for the following years based upon the baseline information provided in the poverty study.

For example, Apoyo Integral was interested to learn how its outreach to the poor differed across different geographic regions and product types. The institution was particularly interested in incorporating information on outreach to poor clients into its reporting system, and now its Board of Directors receives regular reports on poverty outreach.

The poverty studies have also influenced microfinance institutions where studies were not conducted. Institutions within and outside of the ACCION network have looked at ACCION’s social scorecard as a model for reporting key information on their balanced scorecard. The information ACCION uses to measure poverty has also been of interest to many practitioners, since the income and expenditure indicators collected are fairly standardized across countries.

The very process of comparing two sets of data on the same clients has been a powerful motivator for improved data collection processes. For example, during a recent ACCION working group meeting, attendees discussed the possibility of changing loan evaluation forms to get a more accurate representation of household size after learning about the discrepancies in household size information gathered through the ACCION household survey and MFI client forms.

**Integrating Poverty Assessment into the Regular System of Reports**

Finding a practical way to make poverty measurement a regular part of MFI reporting presents a different set of challenges than a one-time poverty assessment. In microfinance institutions, where human and technological resources are already strained, convincing management of the need to prioritize the analysis of poverty data can be a difficult sell.
The Social Scorecard

ACCION has proposed a model for regular reporting of poverty information called the *social scorecard*. The social scorecard is a poverty outreach report that disaggregates commonly used indicators by levels of poverty, as shown in Table 17.

We divide the client base into three poverty categories in the social scorecard. We found that three categories provided the optimal balance between the detailed information we wanted and the accurate information we required. Level 1 represents clients who are below the poverty line, level 2 includes the group of vulnerable non-poor clients (100-150 percent of the poverty line) and level 3 is non-poor clients (greater than 150 percent of the poverty line).

**Table 17: Abbreviated Model of a Social Scorecard**

<table>
<thead>
<tr>
<th>Statistics by Poverty Level</th>
<th>% of clients</th>
<th>% of loan portfolio</th>
<th>% of new clients</th>
<th>Average loan size and balance</th>
<th>% of portfolio at risk</th>
<th>% of clients with savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 1 Poor Clients</td>
<td>54.6</td>
<td>50.3</td>
<td>57.6</td>
<td>3,411</td>
<td>3.5</td>
<td>20.2</td>
</tr>
<tr>
<td>Level 2 Vulnerable-non poor Clients</td>
<td>16.1</td>
<td>16.7</td>
<td>16</td>
<td>3,928</td>
<td>2.9</td>
<td>25.5</td>
</tr>
<tr>
<td>Level 3 Non-poor clients</td>
<td>29.3</td>
<td>33</td>
<td>26.5</td>
<td>4,237</td>
<td>3.0</td>
<td>30.7</td>
</tr>
</tbody>
</table>


The social scorecard draws from credit evaluation data and can also be modified as requested by an MFI to report poverty data by geographic region or product type. ACCION worked with all of the institutions to develop manuals that explain how to program this social scorecard as a regular report into their MIS. The report should be monitored regularly as part of overall performance monitoring along with financial indicators.
As such, the social scorecard should be part of the data that management regularly presents to the board of the institution. Eventually, management should set targets for outreach in strategic and business planning exercises that are in alignment with their mission.

Assessing the Accuracy of the Social Scorecard

The purpose of conducting extensive poverty studies was not to have detailed client data. Rather, it was to use these studies as a benchmark, so we could estimate how accurate the social scorecard was in classifying the clients into the “correct” poverty level. Table 18 shows the level of overlap between the poverty levels obtained from the two data sources.

Table 18: Comparison of Poverty Levels Obtained through the Household Survey and the Social Scorecard

<table>
<thead>
<tr>
<th>Expenditure per capita</th>
<th>Apoyo Integral</th>
<th>BancoSol, Bolivia</th>
<th>Mibanco, Peru</th>
<th>SOGESOL, Haiti</th>
</tr>
</thead>
<tbody>
<tr>
<td>Same poverty level</td>
<td>42%</td>
<td>45%</td>
<td>46%</td>
<td>60%</td>
</tr>
<tr>
<td>Difference of 1 poverty level</td>
<td>32%</td>
<td>32%</td>
<td>39%</td>
<td>18%</td>
</tr>
<tr>
<td>Difference of 2 poverty levels</td>
<td>26%</td>
<td>23%</td>
<td>15%</td>
<td>22%</td>
</tr>
</tbody>
</table>

Source: ACCION calculations based upon databases from each institution

With the exception of SOGESOL, results were relatively similar across institutions. Approximately 45 percent of the microfinance clients in the samples of these three institutions were categorized in the same poverty level for the household survey data and the loan evaluation data. Approximately 35 percent of clients were categorized in poverty levels that were different by one level for the household survey data and the loan evaluation data. Approximately 20% of clients were sorted into poverty levels that differed by more than one poverty level for both sets of data. To put it loosely, if the data is used to place individuals into one of three poverty groups, the individual will be placed in the correct group.
nearly half of the time, close a third of the time and way off a quarter of the time. Having an idea of the accuracy of the data reported is critical, because readers of the report can judge for themselves how much weight they want to give to this data, while keeping in mind that even the best of data collection procedures could be improved.

**Issues in Accuracy**

The higher accuracy for SOGESOL highlights an important issue: the percentage of clients correctly classified into categories is directly related to the overall incidence of poverty. In SOGESOL, more clients are correctly identified as non-poor using credit evaluation data because most of the clients were identified as non-poor in the household survey. Similarly, the poverty assessment tool being tested by IRIS for USAID initially in Kazakhstan had lower accuracy relative to its other poverty studies. The initial tool did not pick up differences between very poor people and not very poor people in Kazakhstan, simply because there fewer very poor people in Kazakhstan relative to other countries where studies were being conducted.

Accuracy numbers also reflect how poverty data is disaggregated. ACCION divides clients into three poverty categories (poor, vulnerable non-poor and non-poor), rather than two poverty categories as many institutions do to fulfill the USAID mandate (very poor and not very poor). Accuracy declines as institutions try to identify their clients more precisely. Prizma, a microfinance institution in Bosnia, also classifies its clients into three poverty categories, and reports a similar level of success in identifying poor clients as ACCION.26

Since nearly half of all clients are sorted into the “correct” poverty level that is, the same poverty level for both credit evaluation and household survey data, we conclude that using credit evaluation data in a Social Scorecard format provides these microfinance institutions with a practical, low-cost tool to regularly monitor the poverty level of clients whose accuracy compares favorably with other poverty monitoring tools currently being tested.

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Plans for Future Research

ACCIÓN chose the standard of living approach to poverty assessment to take advantage of household financial data collected in the loan evaluations of the institutions studied. The next challenge, however, is to define and implement a methodology for institutions that do not collect detailed household financial data for their clients or do not record this data in a sound and reliable database.

For institutions in which income and expenditure data are not collected, ACCIÓN is exploring the use of poverty proxies, such as household size, geographic location, possession of specific household assets, and level of education of client, that are available through many loan evaluations and entered into many MFI databases. Future poverty assessments in ACCIÓN in institutions that do not collect income and expenditure data will experiment with more indirect ways to measure poverty and well-being, taking into account health, living conditions, education, social outcomes. This will result in a less direct connection to a poverty line, but possibly a fuller picture of client well being.
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