

Poverty Assessment by Microfinance Institutions:

A Review of Current Practice



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MICROENTERPRISE BEST PRACTICES

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A USAID-funded project, implemented by DEVELOPMENT ALTERNATIVES, INC. in collaboration with Accion International, Foundation for International Community Assistance, Harvard Institute for International Development, International Management and Communications Corporation, Ohio State University Rural Finance Program, Opportunity International, and the Small Enterprise Education and Promotion Network

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August 1998

This work was supported by the U.S. Agency for International Development, Global Bureau, Economic Growth Section, Microenterprise Development Office, through funding to the Microenterprise Best Practices (MBP) Project, contract number PCE-C-00-96-90004-00.

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ACKNOWLEDGMENTS

The authors wish to thank a number of colleagues for their timely contributions to this paper. Beth Rhyne and Monique Cohen of AID made many technical and organizational suggestions that greatly helped to balance and focus the paper. The exceptional analytical and editorial talents of Joan Parker of DAI, as reflected in her introduction, have served to strengthen virtually every paragraph, page, table, and heading found in the document. Richard Meyer and Geetha Nagarajan of Ohio State University provided innumerable insights into the issues involved with poverty measurement indicators. Further assistance from the academic community was gratefully received from Claudio Gonzalez Vega of Ohio State University, Richard Yoder of Eastern Mennonite University, and Gary Woller of Brigham Young University. Microfinance practitioners who provided useful documentation of poverty targeting instruments included Muhammad Yunus of Grameen Bank; David Gibbons of Cashpor; Anton Simanowitz, Peter Sekobela, Jan Gottschalk, and John de Wit of Small Enterprise Foundation; Barbara Mknelly of Freedom from Hunger; Susan Cheston and Christy Stickney of Opportunity International; Laura Lopez of Trickle-Up; Ingrid de Segovia of Centro de Apoyo para la Microempresa (Microenterprise Support Center); and Scott Graham of FINCA/Malawi. The authors are indebted to Andrew Rogerson of the World Bank/UK, and Mark Cohen of Bread for the World in tracking down statistics on the estimated world population living on less than US\$1 per day. Other friends and colleagues who provided substantive assistance to the project include Lawrence Yanovitch of FINCA, Robert Gailey of RESULTS, Christopher Dunford and Didier Thys of Freedom from Hunger, Sue Szabo of Canadian International Development Agency, Hans Hoyer of CARE, Mark Edington and Christine Braun of Save the Children, Charitha Ratwatte of Sri Lanka Business Development Center, Elisa Sabatini of World Share, and Devorah Miller of Lassen Associates.

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EXECUTIVE SUMMARY

This paper looks at methods used by microfinance institutions (MFIs) to assess the poverty level of potential or new clients. It is based on self-reported information from twelve MFIs, collected and analyzed in 1997 by FINCA International. The paper categorizes different methods of poverty assessment, then evaluates the methods according to six technical criteria that reflect the ease of use of the method for the MFI and the strength of the information the method provides. The paper concludes with recommendations to help MFIs select a poverty assessment strategy that is appropriate for their clientele, institutional objectives, and operating conditions.

Poverty assessments serve as yardsticks by which donors can identify which programs serve which clientele on the poverty continuum. But they are more valuable to MFIs, both those that target the poor or the extremely poor and those that do not. For MFIs, poverty assessment methods serve multiple purposes: they guide client selection; they monitor who is actually entering the program; they provide operational information for better fitting financial services to client needs; they establish baselines of client poverty levels for later impact assessment; and in some cases, they are implemented in multiple stages as client monitoring tools.

Overall, four categories of poverty assessment methods have been identified: (1) nonmeasurement techniques to identify or attract poor clients; (2) rapid assessment methods that rank households using simple proxies or community-based techniques; (3) instruments requiring household visits and detailed questionnaires focusing mainly on economic indicators; and (4) “integrative” instruments that cover a broader menu of indicators using simple techniques and very short interviews. Each method is evaluated with regard to six criteria: (1) simplicity, (2) practicality, (3) cost, (4) the ability to discriminate among different levels of poverty, (5) quality of the data, and (6) reliability of the data.

Nonmeasurement techniques include three general categories: (1) use of selection criteria such as geographic area, gender, or participation in other programs; (2) use of loan size as a targeting tool; and (3) peer group self-selection. The first two are based on MFI procedures, while the third incorporates actual clients’ decisions in the new client selection process. These methods are extremely low cost and can be implemented as part of the MFI’s regular operational tasks. Unfortunately, however, these methods do not provide information about the poverty level of those who actually enter the program or those who choose not to participate, nor do they provide information for fitting financial services or for subsequent client monitoring.

Rapid assessment methods include visual indicators of poverty, such as housing quality, as well as methods in which members of the community identify households by poverty level. In both cases, the methods can be applied to each household within a preselected area but without a household interview. In sum, rapid assessment methods provide a low-cost and relatively effective method of ranking households by poverty level. Visual indicators, which are prone to mistakes, are best combined with follow-up household interviews to verify results if the MFI intends to use the results for targeting purposes. Community wealth

rankings can provide high-quality information if implemented by well-trained staff and with internal checks for consistency.

The third group of methods—economic variable measures—are designed to precisely measure the poverty level of households in terms of income, assets, or net worth. They are the most costly and rigorous of the methods examined in the paper, and involve detailed household interviews with potential clients. Institutions that use such methods to target the poor typically pair the economic variable measure with a visual indicator of poverty, where the economic variable measure confirms or rejects the findings of the rapid appraisal method. Economic variable measures are probably best used by mature or larger programs with sizeable research budgets.

The final category of methods—integrative variable measures—include a broader range of poverty variables than simply economic variables, while aiming for absolute simplicity and very brief interviews with potential clients. These methods provide a bare minimum approach for small or new programs, and require further testing to determine their accuracy.

Overall, the rapid assessment methods and economic variable measures received the highest scores on both ease of use for the MFI and strength of information provided. Integrative variable measures were not far behind, and will score well if examined more carefully for rigor. And nonmeasurement techniques, which perform poorly as stand-alone instruments, can be successfully paired with either rapid assessment or economic variable measures.

In conclusion, the poverty assessment field is a work in progress. All the methods surveyed in this study have strengths that are worthy of emulation, and all have weaknesses that could benefit from more active interchange of experience and expertise. It appears that most microfinance institutions do not correlate their local poverty indicators with the national poverty lines of their respective countries, a step that is necessary to confirm the quality of the assessment method. Some MFIs with already established poverty assessment capacity have not yet submitted their existing poverty indicators, measurement criteria, and weighting systems to a rigorous inspection and certification by external professionals. For these reasons, it can be concluded that many poverty-focused MFIs could derive great benefit from technical assistance in the poverty assessment area. Donor agencies could make an important contribution enhancing existing poverty assessment tools by: (1) coordinating the creation of poverty assessment tool kits; (2) sponsoring the development of checklists and similar instruments to certify the adequacy of MFI poverty assessment capacity; (3) making available to MFIs, on a cost-share basis, the services of evaluation consultants to upgrade inadequate poverty assessment capacity; and (4) providing grant funding to assist young MFIs in building the capacity to assess and monitor their clientele.

ASSESSING POVERTY OF MICROFINANCE CLIENTS: AN INTRODUCTION FROM THE MICROENTERPRISE BEST PRACTICES PROJECT

by Joan Parker, DAI

Before presenting the Review of Current Practice, it is useful to step back and ask what the USAID-funded Microenterprise Best Practices (MBP) Project hopes to achieve with this document. This introduction outlines why we find poverty to be a topic requiring careful research, what we mean by poverty, and what we hope can be accomplished in the field of poverty assessment, both through MBP and through other means.

Poverty has always been a concern of microfinance. In the early days of the microfinance revolution, practitioners celebrated the creation of new financial methodologies that allowed institutions to reach families below the poverty line. As the microfinance field has matured, subfields have emerged. Some microfinance institutions (MFIs) use methodologies that target the very poor as a separate client group, while others are based on nontargeted financial services for all those who lack access to formal credit institutions. As these various branches of microfinance have developed, the field has seen increasing debate about which programs and methods serve not only the poor, but also the “poorest of the poor.”

There are multiple efforts under way to identify the depth of outreach of programs in poor communities—some undertaken by practitioners and others by donors. For practitioner organizations, these efforts have typically been attempts to empirically test whether they are reaching their target clientele. More recent practitioner and donor efforts have tried to collect information from a wide range of MFIs, looking for poverty assessment methods that have been successful.¹

What does USAID’s MBP Project hope to achieve by supporting efforts to assess the poverty level of microfinance clients? First, MBP strives to support the development of cost-effective and accurate methods of measuring clients’ poverty level—methods that allow some comparability among institutions and settings. Once there is more comparable poverty information from a range of institutions, the microfinance field can better understand which methods and services best serve the needs of various populations within the poor. While it may be outside the timeframe of the MBP Project, we hope that a greater understanding of the linkages between poverty and microfinance methods and services will lead to the next wave of microfinance innovations.

¹ A major practitioner effort to share information is now under way through the Microcredit Summit’s Poverty Measurement Discussion Group, which can be found on the World Wide Web at www.microcreditsummit.org. Mathie’s recent work (1998) was funded by the World Bank’s Consultative Group to Assist the Poorest (CGAP) and the Canadian International Development Agency (CIDA); this MBP report was funded by the U.S. Agency for International Development (USAID).

POVERTY IS A CONNECTION TO OTHER MICROFINANCE THEMES

Many view the current poverty debate as one that entails wading into dangerous political waters. But in reality, all microfinance practitioners can benefit from discussions about poverty, just as the microfinance field benefits from open discussions on issues of institutional sustainability or economic growth. In fact, we would argue that exploring the issue of poverty will directly contribute to our understanding of other goals of microenterprise development. Following are two examples: MFI financial sustainability and microenterprise sector-generated economic growth.

- **Poverty and Financial Sustainability:** Providing different products and serving different clienteles engender different cost structures. Do poorer clients require more costly services and methodologies, and if so, what effect will this have on the timeframe for reaching financial sustainability? Can a case be made for ongoing subsidies to serve a particular clientele? If so, what sort of subsidies are required? As addressed directly by Morduch (1997) and Hulme and Mosley (1996), and discussed frankly among many practitioners, the issue of subsidies for serving the very poor is one that needs to be revisited—after we learn more about the types of services that the very poor require, the benefits they receive from those services, and the costs of providing them.
- **Poverty and Economic Growth:** In the past few years, economic growth has fallen off many microfinance practitioner maps as an important theme, and is rarely discussed in microfinance fora or publications. But despite the relative silence, it remains an important theme for programs that deal with the transition of microenterprises to small enterprises, and for donors with economic growth as a strategic objective. Within the microfinance community, the low profile of economic growth is due to the realization that the largest mass of microentrepreneurs—those at the bottom of the poverty pile—are unlikely to make great contributions to economic growth in terms of employment generation, linkages to other business, or even income growth for the microentrepreneur him/herself. Clearly, there may be some trade-off between poverty alleviation and enterprise expansion. But we still need to know: How does the poverty level of the client affect whether a loan (or series of loans) will likely generate new income or employment? At the aggregate level, the question becomes: How does the level of poverty of the population served affect the potential for labor absorption and GDP growth? If we cannot identify the level of poverty of our clientele, we will not understand the interconnection between poverty and growth, nor will we later be able to predict the economic growth outcomes of different types of microfinance activities.

Clearly, our ability as development practitioners to understand the poverty level of potential clients can have multiple benefits regarding our ability to clarify and reach various goals. In addition to the goals of economic growth and financial sustainability discussed here, similar questions may be raised about other goals of those engaging in microfinance activities, such as client empowerment, community development, or linking microfinance programs to health or environmental objectives. More knowledge about our clientele can only enhance our ability to develop better programs across the board.

DEFINING POVERTY IN A MICROFINANCE CONTEXT

What exactly is poverty in the microfinance context? There is no single definitive answer to this question, which makes discussions of client poverty inevitably subject to individual judgment. Everyone agrees that poverty connotes some form of deprivation and vulnerability. But what yardsticks provide the best measure to show who is poor, and how poor?

Those tasked with developing national poverty lines must often reduce the many dimensions of poverty to more limited calculations of household income or food consumption. More than eighty countries have national poverty lines based on estimates of income or consumption. But quantifiable estimates of poverty based on either of these measures may be insufficient for understanding the fundamental realities of poverty. As Hulme and Mosley (1996) report:

“...(t)he many forms of deprivation that very poor people identify themselves as experiencing ... are not captured by income-poverty measures. These include vulnerability to a sudden dramatic decrease in consumption levels, ill-health and physical weakness, social inferiority, powerlessness, humiliation and isolation. Such dimensions of poverty are significant in their own right and are also essential analytical components for the understanding of income poverty.” (pp. 105-106)

In its ongoing work to assess the impact of microfinance services, the USAID-funded AIMS Project (Assessing the Impacts of Microenterprise Services) developed a framework for analyzing expected impacts of microfinance services on the very poor. According to project documents, one of the key areas in which microfinance is expected to have an impact is a reduction in the risk faced by very poor households. Even if income itself is relatively unchanged, access to microfinance services would have the positive effect of consumption smoothing and improved the ability to undertake forward planning. Such changes reduce the vulnerability discussed by Hulme and Mosley, and would thereby reduce the effects of poverty.

Identifying measurable indicators of household vulnerability may therefore provide supplementary means of measuring poverty that may better separate the merely poor from the very poor. The effort to do so has led many microfinance institutions to focus on household assets as the key indicator of level of poverty. Assets are important for the vulnerable household because they can be used either as a source of liquidity or as collateral for loans to respond to unexpected needs. Assets can be measured in many ways. Some examples include the amount of land owned; the quality of the household's shelter; or the presence of physical implements such as pots and pans. The use of assets as a measure of vulnerability assumes that all households require such assets, and therefore that the absence of those assets indicates a definite vulnerability and probably an extremely low level of income.

But any single measure of vulnerability will not serve for all microfinance clientele. Because geographic, social, cultural, climatic, and other differences will cloud comparisons, a relevant

asset-based measure of poverty will be locally determined to some extent. This highlights the difficulty in identifying locally appropriate definitions of poverty, while retaining comparability among institutions operating under very different circumstances. This issue reappears in the following report and in much of the dialogue among practitioners.

There remains another difficulty as well: Although we might decide that income is an insufficient single definition of poverty for microfinance clients, do we need to build a link between our chosen indicators of poverty and existing income-based poverty lines that are (at least in theory) comparable from location to location? Until we can better understand how other measures of poverty correlate with income measures, the answer is probably yes, at least in some simple form. One way is to combine an income measure with variables that reflect the vulnerability of the clientele. An alternative is to test the correlation between preferred variables and the income-based poverty line so that there is a bridge between indicators. This is a task that some MFIs have already undertaken, and which MBP is researching for a program in Peru.

WHAT CAN POVERTY ASSESSMENTS ACCOMPLISH?

As is clear from the above discussion, creating a consensus around which to develop reliable and comparable poverty assessment tools is not an easy task, and may become mired in sticky discussions of terminology and methodology. Is it worth it? The answer depends on our willingness to evaluate assumptions about whom we are serving and how effectively we are doing so. Some individual microfinance institutions already are undertaking poverty assessments as a monitoring activity, which has led to important operational learning for the institutions. If there is a consensus within the practitioner and donor community that comparable information of a given quality among programs is required, then there is reason to devote resources to this effort.

Reliable assessments of clients' poverty levels lead to benefits both for individual microfinance institutions and for the field as a whole. And while microfinance institutions that target the very poor may have pressing operational reasons for undertaking poverty assessments, all microfinance institutions stand to benefit from such efforts.

For Institutions That Target Clients by Poverty Level

- Assessing the poverty level of potential clients allows the institution to maximize coverage and minimize leakage to nontargeted groups. Not only does this enable the institution to remain true to its mandate, but it also increases the program's efficiency and effectiveness.
- Even after targeting, measuring the poverty of those that actually enter the program can provide essential information for operational decisions. If the targeted group is not responding to the program as expected (for example, not taking advantage of specific

services or dropping out of the program), the institution can evaluate its methodology and services to better meet the needs of that population.

For All Microfinance Institutions

- Identifying different groups of potential clients by poverty level at the program design stage enables an institution to explore which types of services are required by clients at different levels of poverty. Such market research illuminates whether the very poor require different services than the moderately poor, and the appropriate delivery mechanisms for each. This information is essential for institutions determined to be demand responsive rather than supply driven in their choice of products and methodology.
- Once the program is under way, understanding the poverty level of new clients enables program managers to determine what types of clients the program attracts, and which of the financial products and services are in fact used by different client groups. It also facilitates cost analysis so an organization can identify which product lines and clientele groups contribute to generating profits and costs.

For the entire microfinance industry, understanding differences that arise due to the poverty level of the client can lead to new breakthroughs. By standardizing poverty assessment methods across institutions, those lessons can be synthesized across a wide range of institutions because the clientele groups can be more carefully defined. It will then be possible to understand the unique service needs of clients at different poverty levels; to compare costs of serving the poor versus the very poor; and to answer myriad other operational questions with respect to the poverty level of the clientele. As Hulme and Mosley (1996) comment, “a further phase of institutional experimentation and innovation...is required to extend financial services deeper down the socioeconomic pyramid.” Poverty assessment is one tool that encourages us to do just that.

CHAPTER ONE

A CONTEXT FOR POVERTY ASSESSMENTS

PURPOSE AND OVERVIEW

Good practice in microfinance is based on the ability to provide appropriate financial services to individuals and households that are otherwise excluded from the financial system. Most microfinance clients are poor, and many are extremely poor. Because the poverty level of clients affects how services are best delivered, as well as the types of services demanded, an important tool for microfinance institutions (MFIs) is a good method for assessing client poverty levels. This paper examines techniques (MFIs) used to assess clients' poverty level.

This study began as an exploratory effort to identify and categorize poverty assessment tools in use across the microfinance field. At the time, it was the first attempt to draw together this body of experience. In undertaking this “fishing expedition,” the authors cast a wide net, contacting 80 MFIs representing every geographic region of the world, and including both those that do and do not target services to the poor. Only 12 MFIs responded by sending a detailed description of their poverty assessment method. This review is based on those responses, all of which are from MFIs that explicitly target poor or very poor clients. Although only a few cases are presented, they are sufficient to indicate a useful variety of approaches and tools for poverty assessment by MFIs. Moreover, the actual instruments used by these methods are presented in the annexes, which may prove valuable to those interested in exploring these methods further for their own use in the field. Other techniques may have been excluded inadvertently, and may merit inclusion in future research.

The paper begins with definitions and assumptions that make more intelligible the key issues of poverty assessment in the discussion that follows. These include: What do we mean by poverty in the context of microfinance? What do we mean by poverty assessment? Because many MFIs do not exclusively target the poor, for whom or for what purposes are poverty assessments most appropriate? And when should such assessments be conducted?

The remainder of the paper reviews poverty assessment approaches used by poverty-focused MFIs. Among the institutions examined, four categories of poverty assessment methods were identified: (1) nonmeasurement techniques to identify or attract poor clients (such as geographic targeting, other selection criteria, or client self-selection); (2) ranking of households using simple proxies or community-based techniques; (3) instruments requiring household visits and detailed questionnaires focusing mainly on economic variables; and (4) integrative instruments that cover a broader menu of indicators using simple techniques and very short interviews. Detailed descriptions of methods from all four categories are provided in Chapter 2. Each method is evaluated with regard to six criteria: (1) simplicity, (2) practicality, (3) cost, (4) quality of data, (5) reliability of data, and (6) the ability to discriminate among different levels of poverty.

The paper concludes with a set of recommendations designed to help MFIs select a poverty assessment strategy that best serves their specific clients, institutional objectives, and operating environment.

BASIC DEFINITIONS AND ASSUMPTIONS

It is first necessary to make explicit the definitions and assumptions on which much of this paper is based. These reference points are based mostly on field experience with microfinance programs, and in particular the work of MFIs in developing countries rather than in middle-income and industrialized countries.

Microfinance Defined: Microfinance refers to the delivery of financial services—such as credit, savings, and insurance—to clients who are without access to the services of formal sector financial intermediaries. By this definition, the clientele of microfinance can include the very poor, the poor, and the nonpoor. Thus, microfinance is not synonymous with serving the poor, nor is poverty alleviation a primary objective of all or even most MFIs.

Poverty and Levels of Poverty Defined: Webster’s University Dictionary defines poverty as “lack of means of providing material needs or comforts.” Within the development community there is no consensus as to how best to define poverty in more precise terms. National poverty lines are typically based on quantitative measures of household income or food expenditure. Such measures are complicated, and may miss important qualitative forms of deprivation and vulnerability such as ill-health, a lack of defense against crises or cyclical losses of income, and powerlessness and isolation. What definition of poverty is most important for microfinance? Drawing on a dialogue already under way within the development community,² it seems appropriate to define two subgroups among the poor: those that meet a minimum threshold of security (however defined), and those that fall below that level. Those above the threshold can withstand cyclical downturns or crises, and may suffer less from social forms of poverty such as isolation.

Such a definitional distinction is relevant to microfinance in that it may identify a cutoff point between potential clients that can thrive on debt-based services and those that are ill-prepared to manage debt. It may also draw the line between those that can thrive on credit alone versus those that require additional services such as training or empowerment and community development support. It might be that, from a microfinance perspective, the somewhat poor have more in common with the nonpoor than with the extremely poor in terms of the types of services required. If so, MFIs may find it more important to understand and have methods for identifying distinctions within the poor than just to separate the poor from the nonpoor.

² Defining poverty in the microfinance context is an ongoing process. The approach taken here draws on Hulme and Mosley (1996), Hatch (1998), USAID’s ongoing AIMS (Assessing the Impact of Microenterprise Services) project, and discussions with multiple donors and practitioners. The consensus appears to be that poverty is a multifaceted condition that has both quantitative and qualitative characteristics. In addition, the consensus is that a distinction should be drawn between extreme poverty and the merely poor, and that an even more refined set of distinctions may be required. Hatch (1998), for example, advocates a three-level distinction.

Identifying cutoff points among levels of poverty is a difficult task, and depends on developing concrete indicators of the minimum security threshold. Assets are most often chosen as reliable indicators, whether measured as land, number of pots and pans, or housing quality. Because of the ease of measuring assets, as well as their effectiveness in signaling the level of poverty, more MFIs rely on an asset-based indicator as one stage in their poverty assessment method than rely on income, as will be shown later in the paper.³

Clients Defined: The term client refers not only to the individual that has primary contact with the MFI, but also to the adult head-of-household, male or female, who represents and/or is responsible for supporting a nuclear family of one or more dependents. Beyond this definition, however, we must recognize there are different kinds of clients, with different characteristics and different microfinance needs. For example, women clients must balance economic activities with family support responsibilities. They tend to borrow smaller amounts, reach loan plateaus more quickly, and often prefer diversified micro-investments run by family labor rather than growing a single business that employs nonfamily labor to an ever-larger scale. In contrast, men clients tend to borrow larger amounts, their loan demand is less likely to plateau, and they are more likely to grow a single business to ever-larger scale.

Market for Microfinance in Developing Countries: In developing countries the potential clientele for microfinance services is very broad, usually encompassing at least half the entire population. This situation occurs precisely because the formal banking system has concentrated its services on the most affluent (and smallest) portion of the population, leaving a huge unserved population for microfinance to address. This population includes not only the poor, but also the disadvantaged nonpoor. Indeed, it is the unsatisfied demand of the disadvantaged nonpoor that creates an often irresistible pull for many MFIs to provide ever-larger (and more profitable) loans to nonpoor clients, a phenomenon sometimes referenced in the microfinance literature as “loan creep” or “leakage.”⁴ But even if some MFIs focus on the disadvantaged nonpoor as their major clientele, other poverty-focused MFIs may service a far poorer clientele, often with different services and methodologies. Overall, the potential market segment to be served by the microfinance industry is so wide that there is room for specialization among MFIs with regard to clientele and objective.

Poverty Assessment Defined: For purposes of this paper, poverty assessment is defined as the process of measuring the *presence* and *severity* of poverty. What is being measured is the relative deficiency of *households* in providing for their material needs and comforts. Severity of poverty is determined with reference to specific categories and values that allow the observer to distinguish one level of poverty from another. Who does the measuring and for what purpose are elaborated upon below.

³ The MFIs’ use of poverty measures not based on income results in a mismatch between MFI data and national poverty lines, which generally define households as poor or nonpoor on the basis of income. While the MFI measures may give a more accurate indication of the depth of poverty, their use results in a lack of comparability among institutions and an inability to relate the poverty level of clients to the national population.

⁴ The argument that there is leakage of poverty-alleviation resources to the nonpoor is most cogently presented by Gibbons (1997).

USES OF POVERTY ASSESSMENT TOOLS BY DIFFERENT MICROFINANCE STAKEHOLDERS

In the context of the microfinance industry, there are three principal clients for poverty assessment: (1) the MFIs themselves, (2) private sector sources of financing, and (3) government or multilateral donors. With regard to the practitioner agencies, poverty assessment is not necessary for all MFIs; rather, it is particularly important to poverty-focused MFIs; hence this group of practitioners is examined separately.

Uses of Poverty Assessment for Poverty-focused MFIs

For MFIs that strive to serve only the poor or the very poor, poverty assessments may serve as many as five purposes.

- **Client Selection:** The first and principal use of poverty assessment is to enable poverty-focused microfinance practitioners to better target, screen, and select clients who are poor or very poor.
- **Validation:** For poverty-focused MFIs that rely on nonmeasurement methods (such as geographic or gender targeting) to attract poor clients, a second use of poverty assessment tools is to verify that they are in fact attracting clients at the poverty level intended.
- **Fitting Financial Services to Client Needs:** A third use of poverty assessment is to help MFIs design credit, savings, training, and insurance products to better fit the needs of clients at different levels of deprivation. A related use is to help MFIs analyze the economic capacity of different clients to pay for the products they wish to design.
- **Establishing Client Baselines:** Poverty assessment is primarily a front-end activity, conducted *before* clients are accepted into the MFI's program. Therefore poverty assessment data can be extremely useful in establishing a baseline picture of the client's poverty level prior to receiving program services.
- **Client Monitoring:** Some MFIs may apply the same instrument used for poverty assessment to the same client at later points in time (say, at annual or biannual intervals) to understand changes in the client's poverty level. Although less rigorous than formal impact assessments, this exercise can reveal client progress as well as inform the MFI about clients' evolving needs.

Uses of Poverty Assessment by Other MFIs

While many MFIs do not specifically target the poor and may include the nonpoor as a major client group, they may still want to understand the poverty level of their clientele. For funding or monitoring purposes, some MFIs are required to report to donors or their boards on the number of poor or very poor clients in their portfolio. From an operational perspective, MFIs may want to better understand the type of clientele their products and

methodologies attract (or fail to attract). Indeed, MFIs that do not specifically screen clients based on poverty level may still want to serve the poor and very poor, and need tools to measure their success in doing so. Using the terminology set out above, these institutions do not want methods that serve a selection function, but may want poverty assessment methods that satisfy their needs for validation, fitting financial services to client needs, establishing client baselines, and client monitoring.

Uses of Poverty Assessment for Private Sector Financial Sources

Private sector investors (particularly conventional bankers) are becoming increasingly fascinated by the possibility that microfinance can alleviate poverty, enhance economic development, and expand employment, and do so using strictly market techniques. It is not only profit motivation that drives this growing interest but the possibility of doing well by doing good.⁵ While poverty assessments have not been the first priority of such players in the MFI field, these investors may soon want to document the success of their efforts; hence, the need for poverty assessment tools.

Uses of Poverty Assessment for Bilateral and Multilateral Donor Agencies

The donor community and multilateral institutions such as the World Bank and its regional counterparts are increasingly funding microfinance. Some, under growing pressure to focus on poverty alleviation, give priority to MFIs that (1) predominantly target the poor, or (2) can demonstrate—with poverty assessment tools—that their clients are indeed poor. These donors may insist that MFIs receiving funding utilize poverty assessment tools as part of regular screening or client intake, or may require regular reporting on the poverty level of incoming clients.

WHEN TO CONDUCT POVERTY ASSESSMENTS

Poverty assessment is primarily an up-front activity. Its fundamental purpose is to measure the poverty level of potential clients *before* they receive microfinance services. Poverty assessments are intended to answer either or both of the following two questions: (1) Is a potential client poor enough to qualify for a loan or other services from our program? and (2) At the time the client entered the program, did she represent a very poor, poor, or nonpoor family? The first question is designed for targeting particular clients, while the second is designed for monitoring which clients enter.

Why not use poverty assessment tools *after* microfinance services have been received? Because that would tell less about where the client began than where the client is now. Such

⁵ For an excellent review of the emerging interest in microfinance by the conventional banking community, see Montagnon (1997).

a practice would make it impossible to know whether the client—who today might be nonpoor or moderately poor—was already that way when she entered the program, or came in at a level of severe poverty and ratcheted her way up. In other words, examining clients after they partake of services changes the issue from one of *client selection* to one of *impact of services* —a related but distinct issue for a microfinance institution. And if the poverty assessment mixes ongoing and new clients, it obscures learning on both issues.

There are, however, compelling reasons to conduct poverty assessments at other critical moments for monitoring and learning purposes. One example is the assessment of the poverty level of clients that exit the institution. Such an exercise may reveal who is leaving and why.

CHAPTER TWO

A REVIEW OF POVERTY ASSESSMENT METHODS

The preceding discussion examined what is meant by poverty in the context of microfinance. Up to this point, we have implied that poverty is a *measurable* phenomenon. It remains to be demonstrated whether poverty *can* be reliably measured by MFIs, and how best to do so. This chapter takes a first step in that direction by examining different means now used by MFIs to measure poverty, with insights into the strengths and weaknesses of each method.

AN OVERVIEW OF METHODS

This review of MFI poverty assessment methods revealed four fundamental approaches. First, there are MFIs that do not employ any poverty measurement tool *per se*; rather, they use selection criteria and/or employ client self-selection methods to target the poor and the very poor. A household interview with the potential client rarely is conducted. Second, some MFIs apply quick methods to simply rank with reasonable accuracy the poverty level of different households, either through visual indicators such as a housing index, or through a community-based ranking procedure such as the participatory wealth ranking technique. Third, there are MFIs that conduct formal measurements of poverty, invariably requiring lengthy (30-60 minute) household interviews. Their dominant focus is on estimating economic variables such as income, assets, or net worth. And finally, there are MFIs that attempt to create relatively simple questionnaires that capture information on both social indicators (nutrition, health, education, sanitation, and home improvements) and economic variables. These instruments are often based on brief (5-10 minute) interviews with clients, and may not include a home visit.

SCORING THE METHODS

It is important to reiterate that this review is based on limited information from written and oral interviews, and that in no case were the authors able to visit the programs or observe the poverty assessment method first hand. But despite the inevitable limitations of such a desk study, we still attempt to score each poverty assessment method according to six criteria: (1) simplicity, (2) practicality, (3) cost, (4) ability to differentiate among different levels of poverty, (5) quality of the data, and (6) reliability of the data. Each criterion was defined and scored as follows:

- (1) **Simplicity** refers to how many questions are asked during the poverty assessment. Based on the assumption that programs will more consistently implement and use the data from a simpler system, higher scores were given to the methods based on the shortest questionnaires. *Scoring:*

1-4 questions	=	2 points
5-10 questions	=	1 point
11 or more questions	=	0 points

- (2) **Practicality** refers to whether the instrument is integrated into an existing operational task (such as completion of the loan application process) and can be conducted with existing staff or whether it requires a discrete, extra activity and/or requires additional staff to implement. As with simplicity, higher scores were given to methods that were integrated into other activities and used existing staff, on the assumption that they will be more consistently implemented within the MFI. *Scoring:*

Integrated task	=	1 point
Extra task	=	0 points

- (3) **Cost** refers to an estimate of staff time required to apply the assessment instrument with each potential client. The instruments requiring less time received higher scores, on the assumption that MFI staff will more consistently use shorter instruments. *Scoring:*

1-19 minutes	=	3 points
20-40 minutes	=	2 points
41-60 minutes	=	1 point
More than 60 minutes	=	0 points

- (4) **Ability of the instrument to differentiate among levels of poverty rates** refers not only to the ability to distinguish between poor and nonpoor but also to the ability to distinguish among levels of poverty. Instruments that could do both received the highest score.⁶ *Scoring:*

Distinguishes among levels of poverty as well as between poor and nonpoor	=	2 points
Distinguishes only between poor and nonpoor	=	1 point
Does not distinguish poverty levels	=	0 points

- (5) **Quality of the data** refers to whether the instrument yields very precise information and is cross checked for consistency. Methods resulting in the most precise information received the highest score. *Scoring:*

High quality (with cross checks)	=	2 points
Medium quality (without cross checks)	=	1 point
Low quality (records respondent opinion without probing)	=	0 point

- (6) **Reliability** refers to the risk of falsification of data by field staff or the respondent. *Scoring:*

⁶ To the authors' knowledge, only one of the MFI methods reviewed was compared with national poverty estimates to validate its ability to differentiate accurately between levels of poverty. Thus, this variable can be taken with the proverbial "grain of salt."

Low risk (interview is witnessed by others)	= 2 points
Medium risk (interview data reviewed by supervisor)	= 1 point
High risk (interview not witnessed, data not checked)	= 0 points

These six criteria for evaluating poverty assessment methods can be grouped into two categories. The first three criteria—simplicity, practicality, and cost—together define the burden the method places on the MFI, its staff, and its clients. Methods receiving a high score are those that can be more easily taught to staff, are more likely to be used regularly, and are accepted more easily by clients. Methods that score poorly are likely to be seen as a burden to staff and may cut into time spent on other critical MFI tasks, such as loan processing and monitoring or portfolio management. The highest total score for these criteria is six points.

The second three criteria—ability to differentiate among levels of poverty, quality of data, and reliability of data—together define the quality of the instrument. Methods that score well are likely to provide fairly reliable indicators of poverty, while those that score poorly are likely to provide very weak indicators. Again, the highest total score for these criteria is six points. Thus the scoring system gives the same weight to a method’s technical quality and to the simplicity with which it can be implemented.

Other criteria were considered but discarded for this analysis based on lack of information. Three such criteria are: (1) whether the data easily can be compared with national poverty estimates to rank clients against the national population; (2) whether the data can be drawn from operational records (such as loan size) rather than collected as a separate exercise; and (3) whether the data can be used for purposes other than initial poverty assessments, including such tasks as market development, product and methodology development, or impact assessment. Should a specific method be subjected to rigorous field analysis, these three criteria may prove useful additions to the six used in this study.

POVERTY ASSESSMENT METHODS I: NONMEASUREMENT APPROACHES

This section describes client screening methods MFIs use that do not require questionnaires, do not collect data by interviewing potential clients, and in general do not measure how poor these potential clients are. These are methods that cannot distinguish among potential clients based on poverty level. Instead, they allow potential clients to select themselves into the program, or to decide against participating. In all, the review identified and examined three categories of nonmeasurement approaches:

- (1) Use of selection criteria chosen by the MFI;
- (2) Loan size as a client targeting tool; and
- (3) Peer group self-selection.

Use of Selection Criteria Chosen by the MFI

Description

Most microfinance institutions that do not conduct formal poverty assessment (i.e., do not use measurement and scoring tools) rely on client selection criteria to determine whom the program will serve. Many MFIs employ such client criteria as (1) women only, (2) residents of the same neighborhood or community, which in turn are (3) human settlements that can be empirically judged to be poor. In some cases (such as Freedom from Hunger, FFH), this means targeting the most remote and rural communities possible. In others (such as the CAM in El Salvador⁷), the MFI will further refine gender criteria to select for (4) mothers with children, and/or (5) mothers who are single parents. Other nongovernmental organizations (NGOs), for which microfinance is only one service among several (World Vision, Foster Parents Plan, and Project Hope), usually provide loans to (6) families who are already beneficiaries of other services the agency provides, such as a feeding program or a well-baby clinic. Even MFIs that use highly sophisticated poverty assessment tools still employ criteria to define their target clientele. One example is BRAC's⁸ Vulnerable Group Development Program for women who have been receiving public assistance for two years (see Zaman 1997).

Analysis

All of these selection criteria represent characteristics MFIs use to define clients who are poor or very poor. Although not a poverty assessment tool *per se*, selection criteria merit attention in this study for two reasons. First, they often result in the identification of clients who appear empirically to be poor. And second, such criteria often represent the *only* method an MFI uses to select its clients.

For MFIs that wish to assess the poverty of incoming clients without targeting the poor exclusively, these methods are obviously inappropriate. This is because, using the language in Chapter 1, these methods serve a *selection* function but not a *validation* function. But for MFIs that do wish to target the poor, these client selection criteria represent both the starting point and the bare minimum prerequisite for establishing a poverty targeting capacity. For without such criteria, the MFI simply does not have a meaningful definition of poverty or a target clientele. This said, the issue to be resolved by each MFI is whether to use such selection criteria as its only tool, or to reinforce them with other poverty assessment tools.

⁷ Centro de Apoyo a la Microempresa, or the CAM, is a FINCA-affiliated microenterprise support center based in El Salvador.

⁸ BRAC, Bangladesh Rural Advancement Committee.

Scoring

As the only tool used, selection criteria have three advantages: they score well on simplicity (2 points), practicality (1 point), and time cost (3 points) because they do not require the collection of data. Of course, the disadvantages of using selection criteria alone are that the method is unable to distinguish among levels of poverty (0 points), the quality of the data is low (0 points), and the selection process can be easily manipulated by both staff and potential clients (0 points). Total score: 6 points.

Recommendation

It is suggested that all MFIs give attention to refining their client targeting criteria. Programs using selection criteria as their sole means of reaching the poor should verify that the criteria indeed select the intended client group and do not lead to high leakage of funds to the nonpoor, which would reduce the program's effectiveness. Such verification also would serve to assess whether the client selection outcome matches the program mandate. Reviewing whom the targeting method captures also provides an opportunity to think through the implications of the type of growth path that clients are expected to take. For example, capturing more clients who are less poor or even nonpoor has different implications for the types of services required, future services that may be required, and expected impacts.

Loan Size as a Client Targeting Tool

Description

It is commonly suggested that loan size is closely related to the poverty level of the client. Expressed differently, loan size is considered a good proxy for the client's income level. This view can be expressed from two separate perspectives: (1) the smaller the loan, the poorer the client; or (2) the smaller the loan, the more likely that nonpoor potential clients decide not to join the program. Similar arguments could be constructed regarding length of loan, interest charged, savings requirements, loan repayment schedule, and meeting frequency of the borrower group because these requirements establish a price in terms of time and cost burdens placed on clients. Presumably, each potential client would then decide whether or not that price is too high relative to the benefits he or she might receive from program services, given the loan size limitations. This should result in a choice to either select themselves into the program or to refrain from participating.

Analysis

Loan size may be a reasonable mechanism to discourage nonpoor clients from joining credit programs, but only in situations where other similarly priced financial services are available to that population. Should no alternative financing be available to the nonpoor, then they

might accept small loan size in the hope that they can later gain access to larger loans. And even in cases where loan size might serve as a useful device for separating the poor from the nonpoor, this indicator is a rather ineffective instrument for determining *different levels* of poverty. The amount of the initial loan offered new clients can vary widely from one MFI to the next. Some MFIs offer the same initial loan amount to *all* first-time borrowers, regardless of their repayment capacity or business experience. Furthermore, even loans as small as US\$50 still constitute too much risk for some very poor borrowers and may result in their self-selection out of the program.

Box 1 is a summary of empirical research undertaken by Ohio State University in which the relationship between loan size and poverty was examined for Bolivia, based on data from five MFIs. It highlights some of the problems of using loan size as a proxy for poverty level.

Box 1. Loan Size and Poverty in Bolivia

Analysis conducted at Ohio State University concerning the clients of five MFIs in Bolivia revealed the unreliability of loan size as a poverty proxy. Clients were randomly selected from three urban and two rural MFIs, all of which are committed to lending to poor clients.* The analysis revealed that clients from the rural MFIs systematically received smaller first loans than those from the urban MFIs. Because the rural clients were poorer in general than the urban clients, a negative overall correlation appeared between poverty level and initial loan size (the greater the client's poverty, the smaller the initial loan size). However, *within* programs, this relationship disappeared: there was no systematic relationship between first loan size and the poverty level of the client. This finding was particularly strong for group lending programs.

Did a relationship appear between poverty of the client and *subsequent* loan size? For programs using group lending methodologies, the average size of the current outstanding loan did not vary systematically by poverty level. However, for the two MFIs using individual lending technology, there was a clear pattern of making larger repeat loans to wealthier clients.

In sum, it appears that a combination of group lending technologies and resource constraints contributed to making same-size loans to clients irrespective of their poverty. Individual lenders, which serve a somewhat wealthier clientele, used their lending technology to better discriminate among repeat borrowers by poverty level.

* The urban MFIs included in the Ohio State University study are BancoSol (Banco Solidario S.A.), FIE (Centro de Fomento a Iniciativas Económicas), and *Caja los Andes (Caja de Ahorro y Préstamo los Andes, S.A.)*; the two rural MFIs are PRODEM (Fundación para la Promoción y Desarrollo de la Microempresa) and Fundación Sartawi.

Loan size as a proxy for client poverty is attractive to MFIs because it is a passive mechanism that only requires analysis based on existing operational data, and is therefore extremely simple and low cost. But for all the reasons presented here, it is a weak mechanism for selecting poor clients or excluding nonpoor clients. Moreover, it cannot serve the other poverty assessment functions of validation, fitting financial services to client needs, establishing client baselines, and providing data for client monitoring.

Scoring

Applying the six evaluation criteria used in this study, loan size scores high on simplicity (2 points), practicality (1 point), and cost (3 points). It scores very poorly on poverty differentiation (0 points), quality of data (0 points), and reliability of data (0 points). Total score: 6 points.

Recommendation

It is recommended that an MFI should never rely on loan size as its only poverty targeting method. Moreover, donors should not rely on loan size as a proxy for the poverty level of different MFIs' clientele, particularly for those MFIs utilizing group lending methods. However, this should not discourage individual MFIs from experimenting with loan size as a way to effectively match their services to the poverty level of clients, and as a way of attracting the type of clients they wish to serve.

Peer Group Self-Selection

Description

A related nonmeasurement approach that some MFIs use to select clients is to allow potential clients to select each other. Within the microfinance industry there are two types of group self-selection approaches—small groups and large groups. The small group approach allows prequalified candidates to organize “solidarity groups” (usually 4-5 members each) for the purpose of sharing a mutual loan repayment guarantee. Once clients are organized in this way for management purposes (loan supervision and collection), the MFI has the option of (1) treating each small peer lending group as a single administrative unit, or (2) combining several such groups (usually 6-8) into a larger administrative unit that manages 20-40 borrowers. The large group approach starts with peer lending groups of 20 or more members. They are variously known as “centers” (Grameen), “village banks” (FINCA), “trust banks” (Opportunity International), or “credit associations” (Freedom from Hunger).

Analysis

Creating peer lending groups in which members choose each other for risk-sharing purposes can be an important procedure for determining an MFI's clientele. Whether implicitly or explicitly, group participants undoubtedly employ very specific criteria in choosing peers with whom they do or do not wish to share risk. Precisely what gives self-selection its importance is the fact that it introduces an expanded set of selection criteria—those of the clients as well as those of the MFI. However, client-based criteria may or may not serve the goal of targeting the poor and the very poor. On one hand, self-selection by peer groups may be exactly the right tool to encourage groups of very poor clients (who already know each

other) to join the program. On the other hand, a partially formed peer group looking for reliable members with whom to share risk is *more likely* to reject candidates they consider most risky, namely the very poor. For self-managed peer groups, there may be additional pressure against choosing the very poor, since they may not have the skills to manage group finances without significant investments from the institution's staff.

Scoring

Self-selection scores high for simplicity (2 points) because it asks no written questions and collects no data. It also does well for practicality (1 point) and cost (3 points) because it makes no significant demand on staff resources. However, it does not differentiate among levels of poverty (0 points), provides no data to inform the selection decision (0 points), and therefore scores zero on data reliability as well (0 points). When used alone, the advantages of this instrument (simplicity, practicality, and cost) become questionable because there is no way to confirm the accuracy of client targeting and selection. It can, however, be used in conjunction with another instrument such as wealth ranking or client interviews, in which case it may serve to draw in the targeted clientele. Total score: 6 points.

Recommendation

While attractive from a participatory standpoint, peer group self-selection does not adequately control against the natural bias of not selecting new members from among the very poor. For poverty-focused MFIs, it may be necessary to introduce an instrument such as a simple application form for potential members that provides data on their poverty level. This could be combined with an MFI-enforced quota system that favors a search for poorer members. For example, there could be a rule that for every nonpoor new member selected, at least two very poor members must be selected. If this fails, it may be necessary to create groups that predominantly target the very poor, even though that may increase the transaction costs (or even the financial risk) borne by the program and change the incentive structure facing clients.

Conclusions on Nonmeasurement Approaches

Before moving on to consider rapid appraisal and measurement approaches to poverty assessment, it is useful to draw some initial conclusions about the nonmeasurement techniques described above. These methods score very well on ease of implementation, and very poorly on indicator quality.

Of all the potential objectives of poverty assessments—selection, validation, fitting services to client needs, establishing baselines, and impact evaluation—the nonmeasurement methods focus solely on accomplishing the selection function, and are not even technically able to assess whether the selection was successful. Even so, these methods are understandably attractive to MFIs in that they do not divert operational and management resources to client

selection activities. If MFIs or donors wish to have higher quality indicators such as those discussed below, there is clearly a price to be paid.

POVERTY ASSESSMENT METHODS II: RAPID ASSESSMENT METHODS

These methods strive to rank households within a target area by poverty level, but without resorting to individual interviews. Visual indicators of poverty, such as those based on housing quality, are employed by many MFIs at least as a starting point for identifying the poverty level of potential clients. Given its popularity, we review one such instrument—the housing index of Amanah Ikhtiar Malasia (AIM) in Malasia. Another method, which draws on members of the community to define poverty and rank households accordingly, is called participatory wealth ranking. We examine this interesting alternative as well.

Housing Index: Amanah Ikhtiar Malasia (AIM)⁹

Description

Amanah Ikhtiar Malasia (AIM) is one program that uses a housing index to identify new clients who are very poor. The housing index is based on the hypothesis that the level of poverty of a client's household will be reflected in the quality of his or her dwelling. It is notable that AIM uses the index as only the first step in its poverty assessment process, and follows it with a means test to more closely examine the poverty level of the household. Because some programs use a housing index as their only means of measuring poverty, AIM's index is examined and scored independently in this section, rather than in tandem with AIM's means test.

AIM's housing index is designed with eight housing variables: (1) size of the building, (2) number of stories, (3) structural condition, (4) roof material, (5) wall material, (6) electrical supply, (7) piped water supply, and (8) motorized vehicle (car or motorbike). Each indicator is accompanied by specialized scoring criteria, (e.g., wall material: brick=2, cement=2, wood and brick=1.5, bamboo=0, attap=0), with possible scores ranging from 4 to zero, and total score per house from 2 to 24. Any house scoring less than the cut-off point (say, 10 points) is considered very poor (although how the cutoff is determined or validated is not clear). Once scored, the location of the house is then indicated on a map for subsequent visitation by field staff to conduct an interview and complete a household means test. AIM's housing index instrument is shown in Appendix 1.

⁹ Cited in Grameen Trust (1995), Section 3, pp. 13-18.

Analysis

As a poverty assessment tool, the housing index is based on the expectation that the level of wealth or poverty of a household will be generally reflected in the quality of the family's dwelling. This is probably accurate in most cases; since home improvements are usually done in small increments over many months or years, they can reflect the economic progress of a household. But housing quality is not a very accurate indicator of short-term fluctuations in income. For example, a family with a nice home could be the victim of a recent death of the breadwinner, plunging the family into decapitalization and poverty. On the other hand, in some cultures it is not uncommon for people in poverty to lavish scarce resources on the exterior of their home to present a public image that their family is better off, while in other cultures families may go to great lengths to hide their wealth to avoid being targeted by thieves or being asked to sponsor a community event. It is noteworthy, therefore, that the AIM housing index is only used as a first estimate, to be followed by home visits designed to (1) observe the inside of the home, and (2) collect more specific information on income and assets.

Scoring

The AIM housing index is given a medium score for simplicity (1 point) because it asks between 5-10 questions. It scores one point for practicality because membership screening is a routine staff task. It scores high on cost (3 points) because it takes less than 20 minutes of staff time. The method should be able to broadly discriminate among levels of poverty (2 points). The quality of the data is medium (1 point) unless a second instrument such as a home visit is used as a cross check. The instrument is given a moderate score for reliability of data (1 point), presuming that data will be reviewed by a supervisor.¹⁰ Total score: 9 points.

Recommendation

The housing index is a simple-to-use screening tool that works best when combined with another instrument, preferably a personal interview with the borrower conducted inside the home. It is most effective in harsher climates, where housing is a more essential asset. Overall, it appears that the index should be considered one of the support tools for poverty assessment, but perhaps not the main instrument. Research is now under way for urban Peru to better understand the correlation between different types of housing indicators and the income level of the household. This research may provide better insight into the viability of using a housing index as a stand-alone poverty assessment tool.¹¹

¹⁰ In AIM's case, the housing index in tandem with the means test would score quite differently: it would get a lower score on simplicity and cost, since the length of the assessment process for each client goes up, but would get a higher score on the quality and reliability of data.

¹¹ This research is being carried out by Ohio State University's Rural Finance Program under the auspices of the Microenterprise Best Practices Project. It is examining data from ACP/Peru (Acción Comunitaria Peru). Upon completion (expected in late 1998), the findings will be available at the MBP website, www.mip.org.

Participatory Wealth Ranking (PWR)

Description

Wealth ranking represents a method that attempts to bridge the gap between nonmeasurement and measurement poverty assessment tools. In this procedure, all families in a community (preferably no more than 100 households) are identified by placing their names on cards. Next, the cards are sorted into a number of piles representing different levels of wealth. This sorting can be done in two ways. The first way (practiced by Freedom from Hunger/Thailand¹²) is to use a locally elected official (such as the village headman) who is considered to be knowledgeable about the community. The second way (practiced by the Small Enterprise Foundation, SEF, of South Africa¹³) uses four to five reference groups of local residents, with two to five members per group, to conduct the sorting. The process requires careful facilitation by an external professional, especially in the case of sorting by reference group, in order to: (1) establish common criteria of wealth relevant to the community being measured, (2) ensure that these criteria are used consistently within the sorting process, and (3) help identify the special poverty characteristics common to each pile. During the process of sorting, there is an opportunity for discussion during which much information can be gained about the participants' views of wealth and poverty. After sorting and scoring, cutoff points can be established that define different levels of poverty. These cutoff points form the basis of deciding who is eligible for the program.

Analysis

The wealth ranking method is attractive to practitioners favoring highly participatory microfinance programs. It is also a very rich method because it opens the door to myriad poverty indicators suitable to the local community of which outsiders may not be aware. However, the greatest strength of the method (namely, its adaptation to local conditions and perceptions) may also be the source of its greatest disadvantage—namely, the difficulty of creating poverty indicators that are widely applicable to different communities, regions, and even perhaps from one country to another. In addition, the method may not be good as a screening device because the event itself could raise the expectations of participants (village headman, other local officials), whom it might subsequently be hard to exclude as clients. This problem is likely to be mitigated by following the SEF approach of triangulating findings among multiple reference groups.

The Small Enterprise Foundation adopted the participatory wealth ranking as a replacement for a housing index called the Visual Indicator of Poverty (VIP). Box 2 presents SEF's comments on the use of wealth ranking for poverty assessment.

¹² MkNelly and Watetip (1993).

¹³ Simanowitz and Sekgobela (1996).

Box 2. SEF's Participatory Wealth Ranking

"PWR is simple in conception and very transparent. Although no attempt is made to generalize the findings beyond the community in which the ranking is conducted, comparisons can be made to similar communities where the ranking criteria tend to be fairly consistent. Although the subjectivity of the results may create 'anomalies' when compared with accepted 'objective' measures of poverty, this is balanced by the acceptance gained within the communities of programs that work according to the perceived needs of these communities and which affirm the validity of community-defined poverty criteria.

"The process generates increased understanding of the livelihoods of members, their perceptions of poverty, and the consequences of poverty. This is useful for deciding where the cutoff point should lie, but is also useful in designing financial products and in measuring impact.

"With triangulation (i.e., the repetition of the process with different reference groups), a high degree of reliability and validity can be achieved.

"The cost is about the same as the VIP method, depending on how many reference groups are used. However, the process generates a lot of awareness of the program, and therefore saves time spent by field staff doing motivational work.

"However, the practice is more complicated than the idea. Facilitators need to be skilled and sensitive. If the method is applied without full understanding, flexibility, and sensitivity, then poor results are obtained....The main challenge, therefore, has been the identification of the most sensitive elements in the method, so that the training and assessment of field staff can be strengthened accordingly."

Source: Mathie (1998).

Scoring

The wealth ranking method scores well for simplicity (2 points) because only a few questions are needed to induce local participants to conduct their assessment. However, it scores no points for practicality because it may require an outside facilitator (or additional staff training) and represents an extra task. The method is moderately costly because it requires a significant amount of time; however, the unit cost per respondent (20-40 minutes) is still quite low (2 points). The method differentiates well among levels of poverty in a given community, but loses a point for its lack of comparability across communities (1 point). The quality of data is high, particularly if the rankings are conducted by multiple groups, which serves as a cross check mechanism (2 points). Data reliability is also very high (2 points) because the wealth ranking exercise is witnessed by staff and other community leaders. Total score: 9 points.

Recommendation

Every poverty-focused MFI is encouraged to learn more about and experiment with this tool, particularly in that it provides an essential kind of "ground truth" as to what communities

targeted for microfinance initiatives think about what defines wealth and scarcity. Ultimately, the greatest benefit of this very participatory technology might be its potential for sensitizing MFI staff about how their clients see themselves—before, during, or after receiving program services. As a poverty assessment tool, wealth ranking is potentially very useful, although it may be stronger when paired with another poverty assessment instrument.

POVERTY ASSESSMENT METHODS III: ECONOMIC VARIABLE MEASURES

This section describes instruments used by two poverty-focused MFIs—the Grameen Bank in Bangladesh and Kabalikat para sa Maunlad na Buhay, Inc. (KMBI) in the Philippines—to measure the poverty level of their potential clients. These detailed tools are designed to measure poverty in more precise terms such as income, assets, or net worth, and typically involve questionnaires administered to the potential client within his or her home. These more rigorous methods are often paired with a rapid assessment tool, with in-depth interviews conducted for those households that meet, for example, visual poverty criteria. In addition, these measurement tools are likely to follow some form of nonmeasurement selection criteria, such as initially choosing to locate the program in a poorer geographic area. In effect, then, there may be as many as three stages to a poverty assessment process, which might look something like this: (1) choose a poor area; (2) conduct a rapid assessment to find the poorer households; then (3) conduct detailed interviews to confirm eligibility.

Net Worth Test: Grameen Bank¹⁴

Description

Grameen Bank's Net Worth Test is the second stage of its poverty assessment process, following upon and validating its housing index. As with the AIM approach, we are reviewing Grameen's Net Worth Test separately from its housing index in order to understand it as a unique measurement tool. Obviously, it can be paired with another instrument, as Grameen Bank has done.

Grameen Bank's Net Worth Test is administered to households that occupy small, dilapidated dwellings. It is conducted by means of an interview with the head of household and, ideally, his or her spouse. The Grameen version of the net worth test, which is specialized mainly for rural populations, is divided into three sections: (1) agricultural land (including irrigated and nonirrigated), (2) other assets, and (3) liabilities. Agricultural land is subdivided into (a) currently owned, and (b) currently cultivated but not owned, with the latter category further subdivided into land sharecropped and land that is leased or rented. Other assets are subdivided into (a) productive assets (e.g., large farm animals, gardens, buildings, machinery, equipment, fishing boat and equipment, stall or store and valuation of stocks, remittances or pensions); (b) house assets (e.g., house value and plot, and major

¹⁴ Grameen, op. cit., pp. 19-25.

consumer appliances or vehicles); and (c) financial assets (e.g., savings, jewelry, and other nonproductive assets. Finally, liabilities cover indebtedness to banks and informal moneylenders, cash or in-kind debts to friends and relatives, debts to wholesalers and suppliers, and others. Net worth is determined by subtracting the sum of liabilities (section 3) from the sum total of agricultural assets and other assets (sections 1 and 2). For the household to pass the means test and be accepted into the program as a very poor family, its net worth must not exceed the average value of an acre of single-cropped, nonirrigated land. In areas where significant leakage of resources to the nonpoor is suspected, a sample of households is re-interviewed by senior staff to verify the validity of their original net worth data. This instrument is shown in Appendix 2.

Analysis

The Grameen Net Worth Test is a detailed and rigorous instrument that appears to perform well in terms of quality and reliability of data and ability to distinguish among different levels of poverty. It employs a broad list of variables, which allows it to document a household's short-term economic picture and its long-term performance. Its most unique strength is that it is specialized to a largely agricultural population, providing a guide for how to document in-kind income flows such as food produced by the family for its own consumption. Another strength of the test is that it focuses on family liabilities, an aspect often missing from questionnaires attempting to document the income and assets of the poor. Perhaps the chief disadvantage of the method is that it requires a 45-60 minute interview with each potential client, which implies a fairly high cost for the implementing institution and limited applicability to MFIs with few resources.

Scoring

The Net Worth Test scores low for simplicity (0 points). It scores one point for practicality because it is implemented routinely by field staff as part of the client screening process. The instrument scores one point on cost because it can be conducted in just under an hour. It scores high (2 points) on its ability to differentiate among levels of poverty. Finally, it scores high for quality (2 points) and reliability (2 points) of data because of its cross check and re-interview features, the latter conducted by someone other than the original interviewer. Total score: 8 points.

Recommendation

This instrument provides one approach for how to document income flows in agricultural settings. Its inclusion of questions to determine liabilities deserves wider experimentation and replication among poverty assessment practitioners. This method is more suited to poverty-focused MFIs with a substantial research budget and staff, than to startup programs needing less complicated and less expensive assessment tools.

Means Test: Kabalikat para sa Maunlad na Buhay, Inc. (KMBI/Philippines)¹⁵

Description

KMBI in the Philippines has created a composite poverty assessment instrument it calls the Means Test Form. This single-page household interview form consists of: (1) an unscored section for borrower background information (address, age, education, civil status, business experience), (2) an unscored section on income (current sources for spouse and immediate family members), (3) a 5-variable housing index, (4) a 12-variable asset index, and (5) a box for estimating the composite score. The scoring system—based only on the sum of the housing and asset indices—creates five levels of poverty ranging from level 1 or poorest (4-15 points) to level 5 or wealthy (46-55 points). KMBI excludes potential clients with scores higher than 30. It is noteworthy that both the housing and asset sections do not require numerical estimates by the potential client; rather, the interviewer simply checks boxes with predetermined scores. Furthermore, the reported income of the household is a reference point only and does not affect the final score. Finally, data on household liabilities are not requested. This instrument is shown in Appendix 3.

Analysis

The KMBI Means Test retains most of the advantages of the AIM housing index and the Grameen Net Worth Test while overcoming most of their disadvantages. First, it combines the housing index and means test into a single household visit. Second, its flexible format appears to be equally applicable to urban and rural clients. Third, it is a simpler format based mainly on the completion of checklists, which are less intrusive than numerical estimates for the respondent and involve easier calculations for the interviewer. Finally, the instrument includes useful social variables (family size, education)¹⁶ as well as a summary of the business experience of the household. However, it does not ask for information on liabilities. Nor does it document the expenditure profile of the household. It is interesting to note that KMBI also uses the information collected in the Means Test as a baseline for subsequent impact evaluations.

Scoring

This instrument scores in the mid range for simplicity because even though it asks more than ten questions it is restricted to one page and is more succinct than the other models examined (1 point). It scores high for practicality because it is conducted as a routine function of field staff screening of clients (1 point). The instrument scores fairly high for cost because it

¹⁵ Women's Opportunity Fund (1997), fax communication.

¹⁶ Key social variables are only included in the Tagalog language version of the instrument. In the English version (included in the Appendix), social variables have been removed.

requires less than 40 minutes to complete (2 points). Its point system does a good job of discriminating among the very poor, poor, and nonpoor (2 points). The quality of the data gets a high score (2 points) because of the precoded checklist system of answers, which has built-in cross checks. The reliability of the data is in the mid range (1 point) because data collection is not witnessed but forms are checked by a supervisor. Total score: 9 points.

Recommendation

It is the opinion of the authors that of all the instruments reviewed, the KMBI Means Test provides the best balance of simplicity and practicality with good quality and reliability of data. It can be completed in less than an hour and does a good job of distinguishing among levels of poverty, and could easily be refined further by adding a few variables (family size, education of the respondent, family food expenditures). This kind of instrument seems well adapted to the needs of a medium-sized poverty-focused MFI with a modest research budget.

POVERTY ASSESSMENT METHODS IV: INTEGRATIVE VARIABLE MEASURES

In this category we describe instruments that seek to include a broader range of poverty variables, although on a more superficial basis, while aiming for absolute simplicity and very brief interviews with potential program clients. The two institutions surveyed include the Trickle-Up Program, which is active in dozens of countries, and the microenterprise support center for village banking programs based in El Salvador, the *Centro de Apoyo a la Microempresa*, or CAM.

Indicator Menus: Trickle-Up Program (TUP)¹⁷

Description

As a network of support agencies, the Trickle-Up Program guides its partner agencies in disseminating seed capital to very poor clients. To assist in this effort, TUP has designed an instrument it calls a Poverty Targeting Tool to differentiate the poorest from the poor in any given locale. It is based on the premise that definitions of poverty and its descriptive indicators must be *locally driven*, highly flexible, and based on local partners' definitions and understanding of poverty.¹⁸

The instrument consists of two parts. In Part I—Client Selection—the local partner is asked to describe the five most important indicators of severe poverty in the partner's working area. These are listed in order of priority on the left side of a single page. To the right of each

¹⁷ Lopez (1997), pp. 39-47.

¹⁸ In this aspect, the Poverty Targeting Tool is similar to the participatory wealth ranking system, which also is locally driven, flexible, and based on a local understanding of poverty.

indicator there is space for a yes (1 point) or no (0 points) answer. If the person interviewed scores 3-5 points he or she is considered eligible for TUP funding. Part II—Poverty Assessment—is completed only for those households that qualify for TUP services. Its purpose is to generate a more complete profile of the clients. Part II is divided into six categories: (1) dwelling, (2) education, (3) sanitation, (4) health and nutrition, (5) assets, and (6) other. To assist the partner in designing Part II, TUP provides a menu of ten categories of indicators, with 6-8 indicators per category, for a total of 63 suggested indicators. For each indicator selected the partner is then asked to come up with three measures that indicate, respectively, best condition, middle condition, and worst condition. Once this assessment template has been constructed, interviews with potential clients begin. The interview itself is likely to last only about 5-10 minutes. Only if the respondent scores 3-5 points on Part I does the interviewer continue with Part II. An example of TUP's one-page client assessment (covering both Part I and Part II), plus TUP's list of sample indicators, is shown in Appendix 4.

Analysis

To support its partner agencies, TUP has attempted to create a method that: (1) any of its partners, in any country, can adapt to local circumstances; and (2) enables its partners to conduct poverty assessments easily and very inexpensively, since many TUP partners are single individuals volunteering their services. The TUP Project Targeting Tool is, as a result, one of the simplest and certainly the most flexible of the poverty assessment methods reviewed in this paper.

The menu of indicators approach developed by TUP gives authority for final design of the instrument to its partners in the field—leaving them both the choice of final indicators and how to score outcomes. A special strength of the TUP method is that it covers ten categories of indicators, with 6-8 indicators per category, making it the most comprehensive and eclectic method reviewed. However, a salient disadvantage of the TUP system is that it is weak on the quality and reliability of data collected, and with little comparability from one site to the next.

Scoring

TUP's Poverty Targeting scores in the mid range for simplicity, because it goes well beyond ten questions but in a concise, easy-to-complete format (1 point). It scores high for practicality (1 point) and cost (2 points), because not only is the questionnaire streamlined, but it is delivered by volunteer labor. The instrument also gets a high score for differentiating among levels of poverty (2 points). However, it gets a modest grade for quality of data (1 point), because while cross checks can be designed in by the user, most users would not do so. Finally, data reliability is questionable (0 points) because data are gathered under unsupervised conditions and might not be reviewed before reaching TUP world headquarters. Total score: 7 points.

Recommendation

TUP has created a great starter system in poverty assessment that even the smallest poverty-focused MFI could afford to use and adapt. Such a system might be useful to large, high-budget research efforts as well, because it could provide an inexpensive check for more costly and detailed poverty assessment instruments.

Pre-loan Evaluation: The Microenterprise Support Center (CAM)¹⁹

Description

The CAM program in El Salvador uses a poverty assessment tool called a Pre-loan Evaluation. This tool does not target clientele but monitors the poverty levels of existing clients once in every 4-month loan cycle. When CAM village bankers prepare their group loan application, a CAM credit officer conducts a 5-minute interview with each applicant. During this time each borrower is asked 15 simple questions, each one representing an indicator of level of poverty of his or her household. While the CAM has been adapting or redesigning its indicators for several years, they usually include: (1) family size, (2) children and infants under 5 years, (3) children in school, (4) level of schooling of borrower, (5) weekly food purchases, (6) home size, (7) water service, (8) electricity, (9) sanitation, (10) outlays for home rent or purchase, (11) recent home improvements, (12) family health status, (13) number of working adults, (14) estimated family income (all sources), and (15) average daily net income from borrower's business. Each answer is assigned a score. To facilitate the interviewer's work, the instrument is accompanied by a script for each of the 15 questions and a guide for scoring the answers. Scoring for some answers is as simple as 1 point for yes, zero for no; other answers (e.g., for income, food purchases) earn points based on numerical cutoffs; still others (number of children under 5 and children in school) earn negative points. A composite score is then calculated (maximum 20). A composite score of 7 or less is considered very poor, 8-12 points indicates poor, and over 12 indicates not poor. An interesting feature of this instrument is that the names of all loan applicants from a single village bank—along with their answers and scores—are included on a single piece of paper that is attached to the group loan application (submitted every 4 month loan cycle). This provides management with an overall profile of the credit group and each of its members three times a year. A copy of CAM's pre-loan evaluation is shown in Appendix 5.

Analysis

Unlike any of the other methods surveyed, the CAM instrument is unique for several reasons. First, although it does not serve a client targeting function because it is applied only to clients

¹⁹ Hatch (1990-1993).

who already have been accepted into the program, it does identify the poverty level of those who join the program *before they receive their loans*. Second, because it deals with both new and existing clients, the CAM Pre-loan Evaluation creates an automatic baseline for new borrowers and an impact measurement for existing borrowers. And third, it also can provide these measurements for groups of borrowers—for example, new borrowers versus those in their fourth loan cycle (after one year) or eighth loan cycle (after two years). The instrument scores well for simplicity, practicality, cost, and poverty level discernment, but scores only moderately on data quality and reliability. The 15 poverty indicators employed have not been rigorously tested by outside evaluators, and no doubt the indicator list itself—as well as the scoring scheme—could be improved. The instrument is a work in progress with potential for extensive further refinement.

Scoring

The CAM Pre-loan Evaluation (like its TUP counterpart instrument) scores in the mid range for simplicity because, while there are more than 10 questions, they are succinct and quickly administered (1 point). The tool gets a high mark for practicality (1 point) because it is integrated into the loan application process. It also receives a high score for cost (3 points) because it can be completed in 5-10 minutes, and a high score (2 points) for poverty level differentiation. However, the instrument gets a low score for quality of data (0 points) because it is based only on respondent opinion. For repeat clients, however, there is the possibility that the CAM credit officer could cross check current results with those of a previous test, which might improve the quality of the data. The instrument also gets a moderate score for reliability (1 point) because it takes place during or following a village bank meeting, and is therefore witnessed by others. Total score: 8 points.

Recommendation

The CAM's Pre-loan Evaluation represents an innovative and flexible overall framework that provides a good mix of poverty indicators, obtains data quickly and inexpensively, and does a good job of poverty differentiation. In practice, however, the CAM has repeatedly redesigned and/or discontinued the instrument's use, and has not done much with the information collected. This instrument would greatly benefit from a rigorous test, by outside evaluators, of its indicators and scoring procedures. Meanwhile, other MFIs might wish to experiment with the CAM format and adapt it to their particular needs.

Table 1: Evaluation of Poverty Assessment Methods

Method	Institutions	Comparative Evaluation of Poverty Assessment Methods						
		Simplicity	Practicality	Cost	Levels of Poverty	Data Quality	Data Reliability	TOTAL SCORE
Nonmeasurement Approaches								
1. Use of Selection Criteria	diverse MFIs	2	1	3	0	0	0	6
2. Loan Size	diverse MFIs	2	1	3	0	0	0	6
3. Peer Group Self-selection	diverse MFIs	2	1	3	0	0	0	6
Rapid Assessment Methods								
1. Housing Index	AIM and others	1	1	3	2	1	1	9
2. Participatory Wealth Ranking	SEF and FFH	2	0	2	1	2	2	9
Economic Variable Measures								
1. Net Worth Test	Grameen Bank	0	1	1	2	2	2	8
2. Means Test	KMBI	1	1	2	2	2	1	9
Integrative Variable Measures								
1. Indicator Menus	Trickle-Up Program	1	1	2	2	1	0	7
2. Pre-loan Evaluation	CAM/EI Salvador	1	1	3	2	0	1	8

Table 2: Aggregated Evaluation of Poverty Assessment Methods

Method	Institutions	Comparative Evaluation of Poverty Assessment Methods		
		Ease/Cost of Use [Simplicity, Practicality, Cost] (6 = best score; 0 = worst score)	Quality of Information Provided [Quality and Reliability of the Data; Ability to Distinguish Levels of Poverty] (6 = best score; 0 = worst score)	TOTAL SCORE
Nonmeasurement Approaches				
1. Use of Selection Criteria	diverse MFIs	6	0	6
2. Loan Size	diverse MFIs	6	0	6
3. Peer Group Self-selection	diverse MFIs	6	0	6
Rapid Assessment Methods				
1. Housing Index	AIM and others	5	4	9
2. Participatory Wealth Ranking	SEF and FFH	4	5	9
Economic Variable Measures				
1. Net Worth Test	Grameen Bank	2	6	8
2. Means Test	KMBI	4	5	9
Integrative Variable Measures				
1. Indicator Menus	Trickle-Up Program	4	3	7
2. Pre-loan Evaluation	CAM/EI Salvador	5	3	8

CONCLUSIONS AND RECOMMENDATIONS FOR USE

Comparative Evaluation of Methods

Tables 1 and 2 present summary scores for the poverty assessment methods surveyed in this paper. While Table 1 provides the score by all six of the evaluation criteria (simplicity, practicality, cost, capacity to distinguish levels of poverty, quality of data, and reliability of data), Table 2 aggregates these criteria to look at the method against two categories: (1) general ease of use for the MFI, and (2) the quality of the poverty information provided by the test. The first category is the sum of the first three evaluation criteria (simplicity, practicality, and cost); and the second category is the sum of the last three (ability to distinguish levels of poverty, quality of data, and reliability of data). Thus, Table 2 provides a simplified format for assessing the overall strengths of the methods.

By this rather subjective matrix, no method achieves a perfect score of 12, or even 10 or 11 points. This finding reflects an inherent tradeoff between quality of the method and its cost to the MFI. Two types of methods have consistent scores of 8 or 9: rapid assessment and economic variable measures. The integrative variable measures show promise but have not achieved the same level of rigor as these techniques, and nonmeasurement approaches are far behind due to their poor quality of information.

Three methods reviewed here (those receiving total scores of 9) showed a good balance between ease of use and quality of information. These three are the AIM housing index, the SEF and FFH participatory wealth ranking, and the KMBI means test. All scored at least 4 out of 6 points on ease of use and on information quality. While Grameen Bank's Net Worth Test provides even higher quality information (scoring 6 out of 6), that comes at a cost to the MFI, where it scored only 2 points on ease of use.

The integrative variable measures scored well on ease of use and ability to distinguish among levels of poverty. Therefore, they provide important alternatives to the three top scorers mentioned above. They are, however, more susceptible to misreported or falsified data, which can be a disadvantage if the information is to be used for other than internal purposes (i.e., for external evaluations or donor funding decisions).

Recommendations for Use

This study suggests that no one perfect method exists for all MFIs to use in conducting poverty assessments. There is still no single instrument that we would term "best practice." We can, however, make some recommendations for MFIs to consider in choosing their poverty assessment tool (or tools):

- Nonmeasurement approaches should not be used as stand-alone poverty assessment or poverty targeting tools. They can, however, serve as an important first step to identify, attract, and serve poorer populations.

- Rapid assessment methods can be used as stand-alone instruments or with a follow-up tool. With proper testing for accuracy, these methods can provide good quality and affordable methods of defining poverty for a particular locale. However, as stand-alone instruments, they do not allow comparisons of clientele across programs, and may not provide the rigor required for external evaluators—a concern for institutions drawing on public funding.
- Economic variable measures, with relatively high overall scores, may be ideal for large and well-financed MFIs but too costly for small MFIs to implement. In all cases, these measures should, for efficiency reasons, be used as a follow-up to a reliable rapid assessment method and/or nonmeasurement selection criteria such as a geographic focus or housing indicator.
- As they exist today, integrative variable measures may be too simplistic for MFIs that are already using more rigorous tools, or may be too untested to be considered reliable. They are, however, an important alternative for small or young MFIs. Given their strengths (inclusion of a wide variety of poverty variables, flexibility, and local adaptability), these techniques are good candidates for additional research to learn more about their reliability and effectiveness.

Multiple Tools and Validation

These comments highlight the need for using multiple instruments. Every instrument reviewed has one or more disadvantages when used by itself. However, all are strengthened when used in combination with another poverty assessment tool. Three of the institutions surveyed—AIM, Grameen, and KMBI—use multiple poverty assessment tools: one to apply selection criteria (e.g., choice of location), one to pre-screen clientele (e.g., using a housing index), another to validate these selections by household interviews (e.g., means tests). In some cases, second interviews are ordered when findings are inconsistent with an earlier test and the risk of an error is perceived to be high. While the use of multiple tools can be assumed to greatly increase an MFI's poverty assessment costs, enhanced quality and reliability of data may prove illusive without this investment. Furthermore, more reliable data may result in large savings to the program in terms of reduced resource leakage to the nonpoor. Better targeting, in turn, may also lead to further savings from reduced membership turnover. The validity of these assertions merits further field research.

Rural versus Urban Clientele

With the exception of Grameen Bank, the poverty assessment methods surveyed for this paper do not contain questions that explicitly apply to agricultural sector clients. It seems appropriate to ask whether poverty assessment tools need to be specialized by sector. The World Bank has conducted poverty assessments that calculate an urban poverty line separately from a rural poverty line for 31 countries. The rationale for this distinction is not

difficult to imagine. Rural areas have seasonal and in-kind income, can grow their own food, build their own homes, and have intact family and community support networks. On the other hand, rural areas are more likely to suffer from a relative scarcity of schools, health, and public services, and greater isolation in general. In contrast, urban residents have greater access to services, but fewer extended family and community support structures. Plus, urban households are heavily dependent on cash income in order to finance their subsistence requirements. Thus, the urban poor have a distinctly different poverty profile than the rural poor. It would therefore seem prudent for poverty-focused MFIs that serve both rural and urban clients to review their poverty assessment tools, or adjust the instruments borrowed from other MFIs, with an eye to creating specialized instruments for each type of client. This is a topic that merits considerable additional research and instrument testing in the field.

MFI and Donor Roles in Enhancing Existing Poverty Assessment Methods

The poverty assessment field is a work in progress. All the methods surveyed in this study have strengths that are worthy of emulation, and all have weaknesses that could benefit from more active interchange of experience and expertise. It appears that most microfinance institutions do not correlate their local poverty indicators with the national poverty lines of their respective countries. Likewise, some MFIs with already established poverty assessment capacity have not yet submitted their existing poverty indicators, measurement criteria, and weighting systems to rigorous inspection and certification by external professionals. For these reasons, it can be concluded that many poverty-focused MFIs could greatly benefit from technical assistance in poverty assessment. Donor agencies could make an important contribution to enhancing poverty assessment tools by: (1) coordinating the creation of poverty assessment tool kits; (2) sponsoring the development of checklists and similar instruments to certify the adequacy of MFI poverty assessment capacity; (3) making available to MFIs on a cost-share basis the services of evaluation consultants to upgrade inadequate poverty assessment capacity; and (4) providing grants to young MFIs to build their capacity to assess and monitor their clientele.

CHAPTER THREE

NEXT STEPS

This discussion has focused on the value of poverty assessment information to microfinance institutions. The use of high-quality poverty assessment tools is expected to give institutions better information on which to base decisions about targeting, products, methods, and pricing. The key is to identify and fine-tune a range of poverty assessment products that can do so. A range of methods is necessary because of differences in institutional capacity or client profiles among:

- Rural and urban programs;
- New and mature programs;
- Small and large programs;
- Indigenously run and internationally run programs; and
- Programs based on public funding and those that are self-funding.

One next step, therefore, is to narrow the search to a few highly promising methods (perhaps some of those identified in this paper), and conduct more detailed field assessments of those methods. Field tests could determine not only a method's ease of implementation for the MFI and its quality of information, but also answer the larger question of how it performs in improving operational decisions about services. The objective is to find methods that not only identify clients by poverty level, but also provide operationally relevant information that is directly useful to the program. Once we have a better understanding of the methods now in use, the next step is to develop a set of guidelines for programs that wish to develop a poverty assessment technique. Such guidelines would help MFIs to decide which poverty assessment method is best for an individual program, and how to implement it successfully.

One of the themes purposely neglected in this paper was the correlation between MFI poverty indicators and national estimates of poverty based on sophisticated quantitative measures. The silence on this issue is for two reasons: (1) the complexity (and often inaccessibility) of poverty-line data to those in the microfinance community, and (2) the low operational priority of statistical verification of poverty assessment methods against more rigorous methods. However, if the goal of future research is to accurately evaluate a method's effectiveness, it is important to reopen the question of which MFI poverty assessment tools can be verified as legitimate against national poverty lines. Program-specific work is already in process. One example is SEF's verification of its participatory wealth ranking against national poverty line estimates in South Africa. Another is the work now under way at Ohio State University to test the correlation of a range of MFI indicators against measurements of client income (which mimic national poverty line calculations) in Peru. Because we expect different indicators to show robustness in different environments, such examination of single programs is still just illustrative. For example, a robust indicator of poverty in urban Peru may not work in rural Peru, or in urban Nairobi. So in addition to identifying a menu of high-potential indicators for different contexts, it is also valuable to provide guidelines on how MFIs can best identify indicators that are robust in their context.

Finally, there is another stakeholder that has been little mentioned in this paper: the microfinance client. In general, the client has been identified as the object of data collection, but not as the ultimate beneficiary of the research. But what does success of microfinance mean, other than providing the right kinds of services in the right packages at the right price to attract one's target population? If the target population does not like the service, its packaging, or its price, it either will not come to the MFI in the first place, or will exit quickly. Thus, a third step is to examine operational experiences across MFIs with respect to the poverty of their clients: What types of services and methods attract clients at different levels of poverty? Which clients are dropping out of programs, and why? This research will lead to the next round of innovations to move microfinance services into poorer communities. And this is what makes our clients the ultimate winners from good poverty assessments.

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- * Michael McCord, FINCA/Uganda
- * Richard Meyer, Ohio State University
- * Barbara MkNelly, Freedom from Hunger
- * Devorah Miller, Lassen Associates
- * John Owens, USAID

- * Charitha Ratwatte, Sri Lanka Business Development Center
- * Mark Rostal, FINCA/Kyrgyzstan
- * Christy Stickney, Opportunity International
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- * Hassan Zaman, Bangladesh Rural Advancement Committee

APPENDIX 1
AIMS HOUSING INDEX

HOUSING INDEX

		Points
1.	Size of Building : Big (4)/Medium (2)/Small (0)	
2.	No. of Stories : Double (4)/Single (1)	
3.	Structure Condition : Firm (4)/Medium (2)/Bad (0)	
4.	Roof Material : Asbestos (2)/Zinc (1)/Atap + Zinc (0/5)/Atap (0)	
5.	Wall Material : Brick (2)/Cement Block (2)/Wood (1)/Zinc (0.50) Wood + Atap (0.5)/Bamboo (0)/Atap (0)	
6.	Electric Supply : Yes (2)/Shared (1)/None (0)	
7.	Piped Water Supply : Yes (2)/Shared (1)/None (0)	
8.	Vehicle : Car (6)/New Bike (5)/Old Bike (2)	
Total :		

If household scores 10 points or less = PASS

If household scores more than 10 points = FAIL

Does the household have a car or an expensive motorbike?

If yes, stop and reject the household.

APPENDIX 2
GRAMEEN NET WORTH TEST

SECTION A

AGRICULTURAL LAND (in local unit of measurement)

	a. Currently owned		b. Cultivated currently but not owned			
	a.i Size*	a.v value	Sharecropped size b.i	b.v value	Lease/Rent Size b.ix	b.xiii value
1. Irrigated	a.ii	a.vi	b.ii	b.vi	b.x	b.xiv
2. Non Irrigated	a.iii	a.vii	b.iii	b.vii	b.xi	b.xv
Total	a.iv	a.viii	b.iv	b.viii	b.xii	b.xvi

- c. Weighted Total Agriculture Land Owned = $(a.ii + (0.5 \times a.iii)) =$
- d. Weighted Total Agriculture Land Sharecropped in = $(b.ii + [0.5 \times b.iii]) =$
- e. Weighted Total Agriculture Land Leased/Rented-in = $(b.x + [0.5 \times b.xi]) =$
- f. Grand Total Weighted Agriculture Land Owned and/or Operated = $c + d + e =$
- g. Convert to Acre
- h. Total Weighted Value of Agriculture Land Owned and/or Operated by any Member of the Household = $a.viii + (0.1 \times b.viii) + (0.2 \times b.xvi) =$

* Give Formula For Converting Local Measure of Land to Acre.

SECTION B**OTHER ASSETS**

(i) Assets descriptions	(ii) Number	(iii) Total Present Value	(iv) Remarks
a. Productive Assets			
1. Large Farm Animals (Owned or shared)			
2. Fruit Garden			
3. Buildings, Machinery and Equipment (Farm and non-farm)			
4. Fishing Boat and/or Engine and Net (large)			
5. Stalls or store and stocks (overall valuation of the present goods)			
6. Remittances From Fully Employed Children Living with the Household + Pension	No. of times past year	Total Amount	
7. Any Other Productive Assets			
b. House Assets			
1. House Plot	Size		
2. House			
3. Major Consumer Goods (Especially Vehicles from House Index)			
c. Financial			
1. Savings			
2. Jewelry/Gold			
3. Any other non-productive Assets			
(TOTAL ESTIMATED VALUE OF HOUSEHOLD ASSETS)			

SECTION C**LIABILITIES**

(i) Descriptions	(ii) Number	(iii) Current Outstanding/ Present Valuation	(iv) Remarks
1. Debts with Financial Institutions			
2. Debts with Informal Moneylenders			
3. Large Debts with Friends, Relatives (Cash or Kinds)			
4. Debts with Supplier/Wholesalers			
5. Any Other Major Obligations That Can Be Financially Valued			
Total Liabilities of the Household			

Net worth = ([Section A.h] + Total Section B) – Total Section C =
 Less Value of 1 acre average, single cropped land (-)
 balance (if any balance) household fails

APPENDIX 3
KMBI MEANS TEST FORM

KABALIKAT PARA SA MAUNLAD NA BUHAY, INC. (KMBI)

MEANS TEST FORM (MTF)

NAME			MTF No.:
ADDRESS			
BUSINESS EXPERIENCE			
TYPE OF BUSINESS	DATE STARTED	YEARS OF EXPERIENCE	

I. INCOME INDEX:

Current Source of Income		Ps
Spouse		
Immediate Family Members		
TOTAL INCOME:		Ps

II. HOUSING INDEX:

	4	3	2	1	0	POINTS
Size of House (flr. area)	51 & above	41-50 sq. m.	31-40 sq. m.	21-30 sq. m.	20 sq. m. & less	
Number of Floors				two	one	
Overall Condition			new & sturdy	old but sturdy	dilapidated	
Roofing			new GI sheets	old GI sheets	cardboard box/tin	
Walls			finished concrete	old lawanit/coco lumber, rough concrete	old GI sheets/sack	
Floor			tiles	concrete	soil/wood supported by column submerged in water	

III. ASSET INDEX:

	4	3	2	1	0	POINTS
Land/Lot	owned with title		inherited with title	lessee/allocattee awardee	squatting	
Water Supply				faucet (owned)	public faucet	
Electricity				metered	none	
Toilet			built-in flush	manual flush	none	
Cooking Fuel			LPG/electric	kerosene	wood/charcoal	
Refrigerator			new	old	none	
Tables & Chairs			plastic or wood with mattress (new)	plastic or wood with mattress (old)	wood	
Television			color	B&W	none	
Stereo/Radio		mini component karaoke (new)	mini component karaoke (old)	radio-cassette player	none	
Video Player/Recorder			new	old	none	
Type of Bed			mattress	wooden bed	floor with sleeping mat	
Vehicle	jeepney	tricycle (new)	tricycle (old)	bicycle with or w/o sidecar	none	
TOTAL POINTS:						

SCORING SYSTEM

SCORE	4 TO 15	16 TO 25	26 TO 35	36 TO 45	46 TO 55
LEVEL	1	2	3	4	5
INTERVIEWED BY:	REMARKS:				
DATE:					

APPENDIX 4
TUP INDICATOR MENU

LIST OF SAMPLE INDICATORS

I. DWELLING	II. EDUCATION
<ul style="list-style-type: none"> • Market Value of house • Type of roof • Type of walls • Number of persons per room • Lighting Source • Cooking Fuel Source • House ownership 	<ul style="list-style-type: none"> • Number of school-age children in school • Distance to school • Level of adult literacy • Level of adult numeracy • Head of household last grade completed • Participation in adult education or training activities
III. SANITATION	IV. HEALTH AND NUTRITION
<ul style="list-style-type: none"> • Method of Human Waste disposal (latrine, toilet etc.) • Access to potable/drinking water • Bathing/washing facilities • Household and food waste disposal methods • Depth of water well • Bars of soap used in last month 	<ul style="list-style-type: none"> • Daily Caloric Intake • Weekly intake of meat • Level of visible malnourishment of children • Immunization of children • Number of working days lost to sickness • Incidence of diarrhea in last week/month • Number of children under age six who have died of illness • Access to medical services
V. ASSETS	VI. LAND
<ul style="list-style-type: none"> • Type of clothing (shoes, etc.) • Number and type of cooking utensils • Number and type of farming tools • Forms of Transportation owned • Number and type of animals • Number and type of jewelry • Electronic Devices (radio, tv, telephone) 	<ul style="list-style-type: none"> • Amount of land owned vs. leased • Quality (ability to produce) • Plot size • Market value of land • Access to irrigation sources • Use of fertilizer / pesticides
VII. INCOME	VIII. SOCIAL STATUS
<ul style="list-style-type: none"> • Average weekly / monthly / annual household income (from all sources) • Number of adult wage earners • Number of days worked in last month • Last year's crop yield • Dowry / bride price levels • Level of household savings (in animals, jewelry, cash) • Level of household debt 	<ul style="list-style-type: none"> • Caste membership • Ethnic group membership • Minority group membership • Level of participation in community organizations (political parties, NGOs, etc.) • Access to local elites • Gender • Marital Status
IX. TRANSPORTATION	X. SEASONAL VULNERABILITY
<ul style="list-style-type: none"> • Distance to vehicle roads • Access to buses • Access to trucks • Access to bicycles (rickshaws) • Access and means of animal transportation 	<ul style="list-style-type: none"> • Number of months without enough food • Number of months that household members must leave village / community for work • Number of failed harvests in last three years • Number of times household has had to move due to natural disaster (flood, cyclone, etc.)

Potential Client's Name Rahima Jahan Date March 12, 1997

Part 1: Client Targeting

Criteria	Yes = 1 pt.	No = 0 pt.	Points
1. <u>Household owns less than 50 decimals of land.</u>	<u>1</u>	<u> </u>	<u>1</u>
2. <u>No wage earner living in household.</u>	<u> </u>	<u>0</u>	<u>0</u>
3. <u>Assets valued at less than 10 decimals of land.</u>	<u>1</u>	<u> </u>	<u>1</u>
4. <u>Female-headed household with children.</u>	<u>1</u>	<u> </u>	<u>1</u>
5. <u>School-aged children are not attending school because of lack of resources.</u>	<u>1</u>	<u> </u>	<u>1</u>
Total Number of Points			<u>4</u>

Part II: Poverty Assessment: Complete only if household will receive a TUP grant

I. DWELLING

Indicator: Roof Type

1. Tin
- ② Tile
3. Thatch

II. EDUCATION

Indicator: Head of Household Education Level

1. some formal schooling
2. literate and numerate
- ③ Illiterate and not numerate

III. SANITATION

Indicator: Access to potable/drinking water

1. Owner of a tubewell
- ② Shares tubewell with community
3. Uses water from rain ditches

IV. HEALTH AND NUTRITION

Indicator: Food Intake Last Week

1. Rice three times a day
- ② Rice once a day
3. Rice less than once a day

V. ASSETS

Indicator: Type of clothing

1. more than one sari
- ② one sari and one blouse
3. one sari and no blouse

VI. Social Status (Other)

Indicator: Marital Status

1. Married woman
2. Divorced woman
- ③ widow

* This is an example of a completed tool for a TUP grant recipient.

APPENDIX 5
CAM PRE-LOAN EVALUATION FORM

GUIDE TO QUESTIONS AND SCORING

In your home...	Scoring
1. How many persons live (sleep and eat) in your house?	Less than 5 persons = 2 pts 5-7 persons = 1 pt. More than 7 persons = 0 pt.
2. How many persons are under 5 years of age?	Subtract 1 pt. for each child or infant
3. How many children are of school age (6-18 years) and continuing their studies?	Subtract 1 pt. for each child in school
4. How many years of school have you completed?	Complete primary or higher = 2 pts Incomplete primary = 1 pt. Illiterate = 0 pt.
5. How much do you spend on groceries each week?	More than \$10/per person = 2 pts \$5-10/per person = 1 pt. Less than \$5 per person = 0 pts
6. How many rooms do you have in your house?	More than 4 rooms = 2 pts. 3-4 rooms = 1 pt. 1-2 rooms = 0 pt.
7. What water service do you have?	Own well or piped water inside house = 2 pts. Near source: neighborhood standpipe = 1 pt. Distant source: truck, river, or standpipe = 0 pt.
8. What do you pay for electricity each month?	More than \$10 = 2 pts. \$5-10 = 1 pt. Less than \$5 or no service = 0 pt.
9. What toilet facilities do you have?	Flush or water-stoop toilet = 2 pts. Letrine = 1 pt. No facility = 0 pt.
10. What do you spend each month for home rent or home purchase installments?	Fully owned and paid or more than \$50/mo = 2 pts. \$25 to \$50/mo = 1 pts. Less than \$25/mo = 0 pt.
11. Have you made a recent home improvement? If so, what was it and how much did it cost?	Yes and more than \$50 = 2 pts. Yes and less than \$50 = 1 pt. No recent improvement made = 0 pt.
12. Has anyone in your family been seriously ill in the last four months?	No = 2 pts. Yes, an adult = 1 pt. Yes, a child = 0 pt. If a fatality resulted, subtract 2 pts.
13. How many other working adults live in your home, <u>not</u> including yourself?	One point for each adult worker If borrower is sole source of support, subtract 1 pt.
14. From all sources, how much income does your family currently earn and bring home each week?	More than \$100/week = 2 pts. If family receives foreign remittances, add 1 point From \$50-100/week = 1 pt. Less than \$50 = 0 pt.
15. From your own business, how much do you earn on a typical day (neither very good nor very bad)?	More than \$10/day = 2 pts. \$5-10day = 1 pt. Less than \$5 per day