

Poverty outreach

Big expectations, mixed results, transparency opportunity

*Does microfinance reach the poor?
Sometimes yes, sometimes in part;
Sometimes it does not really want to;
Generally we say it does;
In most of the cases we do not know.*

Microfinance promises to reach the poor and the excluded. Yet, very little is known about the profile of the clients reached. MicroFinanza Rating presents the actual poverty outreach observed in the industry over the past 7 years of [social ratings](#).

Research rationale



- To help **managing** the microfinance industry's **reputation risk**;

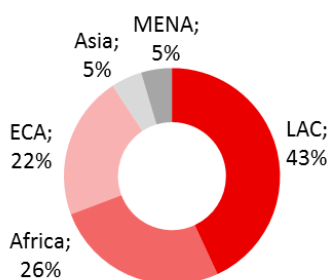
Objective

- **Increasing transparency** on the poverty outreach results, for more realistic decisions and expectations of poverty outreach;
- Identifying the opportunities to improve poverty outreach **up to the level of the expectations raised**

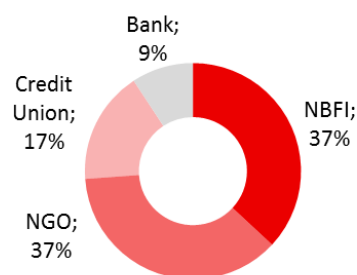
Source of information

- Source: comprehensive social ratings carried out by MicroFinanza Rating, including a field survey on recent clients of Microfinance Institutions (MFI);
- Household poverty level estimated using the [PPI](#) or consumption data;
- Poverty line used in this study: 2\$PPP/day, for comparability reasons;
- MFI's *mission orientation* towards the poor analysed in social ratings;
- Sample: 65 MFIs, 30 Countries, 12,000 new clients (~180/MFI).

Sample, by region



Sample, by charter type

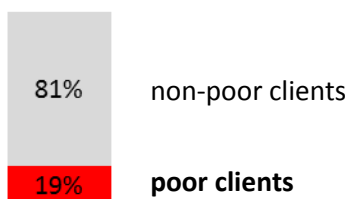


Caveats

- Focus on one monetary dimension of poverty, within the multidimensional definition of poverty adopted in social rating analysis (please see [Social Rating Methodology](#), section 6);
- Focus on the gap between the poverty rate among clients and the poverty rate in the country, rather than on the poverty rate value; the gap is confirmed using other poverty lines. Different poverty lines are relevant in each specific context for management purposes;
- Sample not meant to be representative of the entire microfinance industry, due to the still limited size, and the possible better performance of MFIs undertaking a social rating;
- More research needed: larger sample size and deeper analysis will shed more light on the topic.

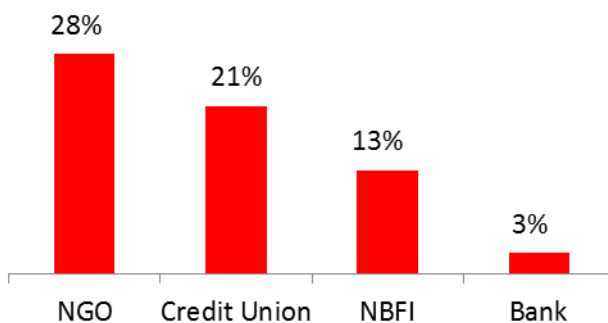
Evidence from social ratings

% of MFI clients below 2\$PPP/day



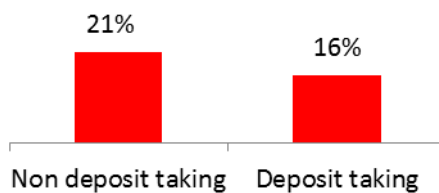
Globally, only 19% of the MFI clients in the sample are poor, suggesting a **transparency opportunity**: the poverty outreach message communicated by the industry may not always be reflected in reality.

Average % of poor clients in MFIs, by charter type

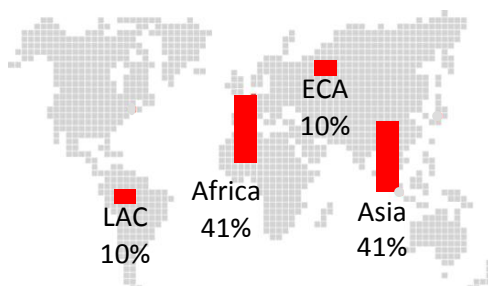


Beside the global picture, the first differences in **poverty outreach emerge from the charter type breakdown**: higher in NGOs and Credit Unions, lower in Non Bank Financial Institutions and banks. However, it is important to note that Banks and NBFs may reach a larger absolute number of poor clients in spite of the lower % of poor clients, thanks to the large breadth of outreach.

Average % poor clients in MFIs, by FI

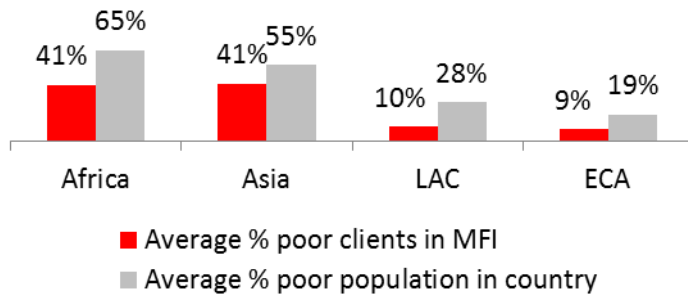


The financial intermediation analysis indicates a potentially **higher poverty outreach for the non-deposit taking MFIs**, possibly due to the broader population target involved in some saving mobilization strategies.



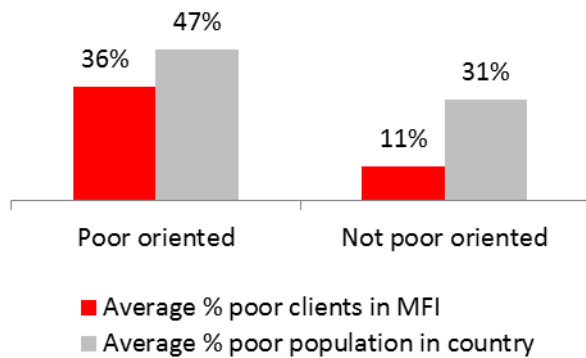
Differences in poverty outreach are also observed across regions: significantly higher in India, Africa and Asia, than in ECA and LAC.

Average % poor clients in MFIs and in Countries, by region



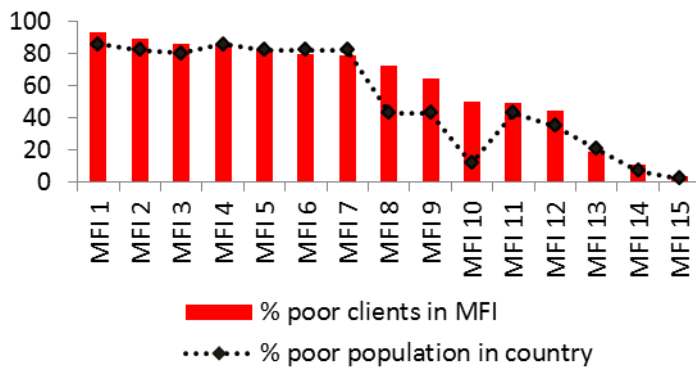
The regional differences in poverty outreach are also due to the **different poverty rates among the population of the different regions**: the higher the % of poor population in the region, the higher the % of poor clients reached by the MFI.

Poverty rate in MFIs and Country, by MFI mission



However, those differences do not tell the whole of the story. **Not all MFIs have a poverty alleviation mission**: some of them do, others may have different development objectives. The breakdown of the MFIs by mission tells us a good news: **MFIs with the intention of reaching the poor tend to achieve a higher poverty outreach**, compared to the MFIs with no such specific intention.

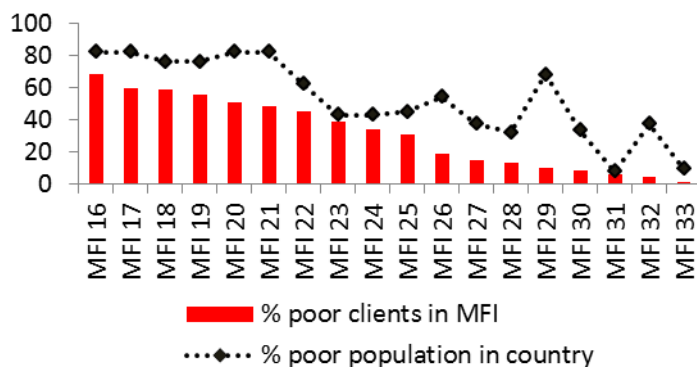
MFIs with % poor clients > % poor population in Country



Let's consider the MFIs with a poverty alleviation mission, for whom it is relevant to ask: *what is the poverty rate among the clients? Is it in line with the mission?* Even though MFIs with a poverty mission generally have a deeper outreach, significant differences emerge analyzing the single MFIs:

45% of MFIs with poverty oriented mission demonstrate to achieve good poverty outreach results:
% poor clients > % Country poor

MFIs with % poor clients < % poor population in Country



On the other hand, **55% of MFIs with a poverty oriented mission show a gap between the intentions and the moderate poverty outreach results:**
% poor clients < % Country poor

MFIs with poverty oriented mission:

% poor clients > % Country poor	% poor clients < % Country poor
45%	55%

Conclusion

Every poverty alleviation mission raises expectations. To alleviate poverty, we need to reach the poor first. Yet, very little is known about the actual poverty outreach results, as few MFIs have measurement systems in place. The research suggests that **poverty outreach should not be given for granted**: not every MFI has a poverty oriented mission; among the MFIs with a poverty oriented mission, some are doing a great job at reaching the poor, while others may be exposed to the risk of mission drift. The investors' portfolios may reflect the investees varied poverty outreach results.

Keeping the expectations artificially high without sufficient measurement and transparency systems –the poverty outreach bubble- may be a **risky** strategy for an industry depending on its **poverty alleviating reputation**. A new reputation risk crisis may be prevented with enhanced **MFI internal measurement systems, independent transparency tools** such as social ratings, and **investors' commitment to focus on MFIs that achieve the results they support**.

Opportunities:

MFIs	MIVs	DFIs, Investors
-Build measurement systems as the first step for management, enabling the improvement of the poverty outreach alignment to the mission, if necessary.	-Promote transparency ; -Inform decisions with reliable poverty measures (in addition to the proxies); - Reward MFIs with good and improving poverty outreach; - Meet their mission and the investors' expectations by demonstrating the poverty outreach of their investees.	-Enhance awareness ; -Recognize differences ; -Require transparency and accountability ; -Use reliable poverty data to inform fund allocation decisions to meet the mission .

Social ratings increase **transparency** and **bridge** the **gap** by providing independent poverty data.

