

State of the Microcredit Summit Campaign Report 2002

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“When my children cried at night from hunger, I felt like killing myself,” recalled Saraswathi Krishnan who lives in India. Saraswathi’s husband, an unskilled wage laborer, earned very little and often squandered what little he made on alcohol. Eventually, when the roof of their tiny hut was about to collapse, having no jewelry or other assets to pledge for a loan to repair it, Saraswathi sold her seven-year-old daughter into bonded labor to a local merchant for 2,000 Indian rupees (about US\$40).

“My little girl complained to me daily that the merchant abused her. His family would eat food in front of her and give her none,” she remembered. Five years later Saraswathi joined Working Women’s Forum, a women’s self-help and microcredit program based in Madras, India. With her first loan she paid off her debt to the merchant, freeing her daughter, who now attends school, and began a small vegetable selling business.

With a second loan she bought her sixteen-year-old son a loom. Previously he would bring home around \$5 per month doing odd jobs for wealthy families. With the loom, he can weave two saris per month, earning him \$25 per month.

Now Saraswathi’s vegetable business is thriving as well, thanks to her hard work and the training she has received from the program. She is glad to be able to give her children opportunities. With the family’s new sources of income, Saraswathi has a sense of pride and security she never before experienced. “I will never mortgage my children again; they will be educated. Now I see to it that my husband is good and does not beat me anymore.”

– Working Women’s Forum, India

Overview

Saraswathi’s story is not an isolated case. There are millions of women who have been empowered through microcredit.¹ The question that this year’s State of the Microcredit Summit Campaign Report asks is “How many lives must be changed for the better before world leaders realize that sustainable microfinance for the poorest² is a critical tool for cutting absolute poverty in half by 2015 and achieving the other Millennium Development Goals?”³

The first Microcredit Summit in 1997 was inspired by the accomplishments of women like Saraswathi and a desire to extend financial services to tens of millions more like her. The Summit’s organizers believed that the UN Summits of the 1990s did not give sufficient focus to microcredit and its role in reducing poverty. More than 2,900 delegates from 137 countries gathered at the 1997 civil society-organized Microcredit Summit and launched a nine-year campaign to reach 100 million of the world’s poorest families, especially the women of those families, with credit for self-

¹ For the purpose of this report, the 1997 Microcredit Summit, and the Summit’s nine-year fulfillment campaign, any reference to “microcredit” refers to programs that provide credit for self-employment and other financial and business services (including savings and technical assistance) to very poor persons.

² The Microcredit Summit Campaign defines “poorest” as the bottom half of those living below their nation’s poverty line. As stated in past reports, the Campaign’s greatest challenge lies in bridging the gap between its commitment to reaching the poorest and the lack of a sufficient number of effective poverty measurement tools in use. Therefore, every mention of the term poorest within this report should be read within the context of this dilemma. It is anticipated that, with every successive report, the use of quality poverty measurements will increase, and therefore, so too will the quality of the data reported. See page 11 for progress in this area over the last 12 months.

³ The Millennium Development Goals were agreed to at the United Nations Millennium Summit in 2000 attended by heads of state and government. The goals include cutting absolute poverty in half and reducing by two-thirds the mortality rate of children under five by 2015.

employment and other financial and business services by the year 2005. This report, released at the Microcredit Summit +5, looks at the achievements to date.

As of December 31, 2001, 2,186 microcredit institutions reported reaching 54,904,102 clients, 26,806,014 of whom were among the poorest when they took their first loan. Nine hundred ninety-four institutions submitted a 2002 Institutional Action Plan outlining their progress. Assuming five persons per family, the 26.8 million poorest clients reached by the end of 2001 affected some 134 million family members.

In order to reach 100 million poorest families by 2005, the Campaign will need to have a 38% growth rate per year from its starting point of 7.6 million poorest families at the end of 1997. The growth from 19.3 million poorest clients at the end of 2000 to 26.8 million poorest clients at the end of 2001 represents 38.7 percent growth over last year, and the Campaign's overall growth averages 37 percent per year.

This year, the Campaign was able to verify data from 211 institutions, representing 21,806,559 poorest families or 81 percent of the total poorest reported. This is a 53 percent increase in the number of institutions verified last year. A complete appendix of these institutions can be found on page 22.

This report will review our work to address a set of challenges faced by the campaign, outline the survey methodology used to arrive at the totals for this year, present the findings, and summarize our work in verifying the data of an ever larger number of institutions.

New Directions, New Challenges

Over the last five years the Microcredit Summit Campaign has been guided by four core themes: 1) reaching the poorest, 2) reaching and empowering women, 3) building financially self-sufficient institutions, and 4) ensuring a positive, measurable impact on the lives of the clients and their families.

The journey has not been easy. At the time of the 1997 Microcredit Summit, the microfinance field was rushing toward a vision that placed financial performance above all else. Many in the field believed that the poorest families in a community were too costly to identify and motivate, and that their inclusion would prevent a program from becoming financially self-sufficient. They also claimed that if a program were somehow able to reach very poor clients and become financially strong, the institution would only be adding a debt burden to these very poor families who needed other types of assistance before they would be ready to benefit from small loans.

These misconceptions are a central reason why leading bilateral and multilateral donor agencies have not recognized microfinance as a primary tool in their fight to cut absolute poverty in half by 2015.

The conventional wisdom at that time also held that measuring impact was too costly and would be another drag on an institution's financial performance. Wary of the costs, they warned against trying to add educational components in child survival, reproductive health, HIV/AIDS prevention, or business development services.

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Over the last five years, however, the Microcredit Summit and others have answered these arguments. The findings of this report show that the microfinance industry can continue to grow in capacity and financial performance while remaining true to its roots—to work with very poor women and offer them the services they need to move themselves and their families out of poverty:

1. **Microcredit institutions *can* reach the poorest.** The Consultative Group to Assist the Poorest (CGAP), a consortium of 29 donor agencies focused on microfinance, has developed a Poverty Assessment Tool⁴ that was initially used with seven institutions in as many countries. CGAP found that in *several* of the programs, 50-60 percent of the entering clients were in the bottom third of their community when they started with the program and, in one of the programs where the calculation was made, even more were living on less than \$1 a day. These are the kinds of programs that could have the greatest impact on cutting absolute poverty in half.
2. **Microcredit institutions reaching the poorest *can* become financially self-sufficient.** CGAP CEO Elizabeth Littlefield has said: “thankfully we have encouraging evidence on the ground that Microfinance Institutions (MFIs) can do both [reach the poorest and be financially self-sufficient]...” Further evidence can be found in the chapter “Ensuring Impact,” in *Pathways Out of Poverty* (Kumarian Press, 2002). The chapter reviews SHARE in India and CRECER in Bolivia. Both institutions reach very poor clients with operational self-sufficiency rates of 105 percent and 102 percent respectively and financial self-sufficiency rates of 100 percent.
3. **Microcredit *is* one proven way to help families move out of poverty.** In the early 1990s, Shahidur Khandker of the World Bank conducted an exhaustive study of three Bangladeshi microcredit institutions: BRAC, Grameen Bank, and RD-12 (a government-run program). By the end of 2000, Grameen and BRAC alone were reaching 5.3 million families (composed of more than 25 million family members). Khandker’s study, published by Oxford University Press in 1998, concludes:

“Thankfully we have encouraging evidence on the ground that Microfinance Institutions (MFIs) can do both [reach the poorest and be financially self-sufficient]...”

Elizabeth Littlefield, CGAP

Poverty in Bangladesh is largely a matter of not having enough to eat. Microcredit programs attack poverty at its source by increasing the household consumption expenditure of participants. Borrowing from a program is estimated to reduce moderate poverty among participants by as much as 20 percent and extreme poverty by as much as 22 percent. This means that as much as 5 percent of program-participating households should be able to lift their families out of poverty every year by borrowing from a microcredit program.

⁴ In brief, CGAP’s Poverty Assessment Tool works by interviewing 300 members of a community to determine the bottom third, middle third, and upper third. Then, 200 entering microfinance clients are interviewed to determine in which third they fall.

The Microcredit Summit Campaign's Contribution

The Microcredit Summit Campaign has worked hard to show that microfinance institutions (MFIs) can cost-effectively reach very poor families through the use of poverty targeting tools.

Last year's State of the Campaign report outlined actions taken in the previous 12 months: 1) updating the paper on overcoming the obstacles to identifying the poorest and discussing it in plenary sessions at regional meetings on three continents; 2) organizing day-long courses at the regional meetings on reaching the poorest as well as day-long training of leaders courses on reaching the poorest and financial self-sufficiency; 3) creating two training videos focused on the poverty targeting tools in the Summit's Poverty Measurement Tool Kit and distributing them to 600 practitioners; and 4) having campaign staff based in Africa and Asia lead classroom sessions using the training videos. More than 950 practitioners in 26 cities in 11 countries participated in a two-hour classroom session on the poverty targeting tools.

"...as much as 5 percent of program-participating households should be able to lift their families out of poverty every year by borrowing from a microcredit program"

Shahidur Khandkher, The World Bank (1998)

In the last twelve months that total has more than doubled—over 2,300 practitioners in 60 cities in 26 countries have participated in the classroom discussions. The feedback from these sessions shows that practitioners have a keen interest in learning more about these tools.

This report describes the many important strides made over the last five years. However, new initiatives are needed if we are to have a measurable impact on the income of those earning less than \$1 a day purchasing power parity (PPP).⁵

The Next Challenge in Reaching the Poorest

After several rounds of discussion by members of the Campaign, and deliberation by the Microcredit Summit Campaign Executive Committee, the Executive Committee decided to expand the Summit's definition of "poorest," beginning with the Action Plans submitted in 2003. They agreed to expand the current definition to include the original group (the poorest are the bottom half of those below their nation's poverty line) and to include any of the 240 million families who comprise the 1.2 billion people living in absolute poverty, on less than \$1 a day purchasing power parity.

The original definition, agreed to in 1996 by CGAP's Policy Advisory Group (PAG), stated: "The poor live below their nation's poverty line and the poorest are the bottom half of that group." The Microcredit Summit adopted this definition because: 1) it had already been agreed to by a respected group of leaders in the field of microfinance; 2) it allowed an institution to measure itself against poverty indicators established within its own country rather than comparing itself with countries on other continents; and 3) it included the poorest in relatively well-off countries such as Malaysia and Costa Rica.

The definition and its implementation, however, had several very crucial weaknesses. It excluded

⁵ Instead of simply converting a country's local currency into dollars at the official exchange rate, analysts use purchasing power parity (PPP). \$1 PPP is the relative price of a given country's currency units needed to purchase the same quantity of an individual good or service in that country as 1 dollar would purchase in the United States.

tens of millions of very poor families who were in the *upper* half below poverty in the world's poorest countries. For example, it *included* the bottom half below the nation's poverty line in countries such as Niger, Haiti, and India, but *excluded* the upper half below the poverty line in those same countries even though many of these families live on less than \$1 a day PPP. These families in the upper half below the poverty line in a country such as Niger were *poorer* than families in the bottom half below poverty in a more prosperous country such as Malaysia.

Another weakness is in the current implementation. The best tools currently available—Participatory Wealth Ranking, the CASHPOR House Index, and CGAP's more rigorous Poverty Assessment Tool—all measure *relative* poverty; they identify the poorest families in a neighborhood or village. These tools tell you which clients are in the bottom third of the community, but will not tell you where those clients stand in relation to absolute poverty. The microfinance field must now develop cost-effective tools that measure *absolute* poverty, identifying those families living on less than \$1 a day.

The practical effect of the expanded definition of the poorest will be to include more families while still focusing on those living in absolute poverty: These are the families in the developing world whose children die at the rate of some 29,000 a day. These are the families whose children comprise the more than 100 million children of primary school age who have never been to school. Expanding the definition of poorest and developing these new tools will fully align the Campaign with the global commitment to cut absolute poverty in half by 2015.

At the same time, retaining the original country-specific target recognizes that MFIs, wherever they may be, can make an important contribution to community development by working with the very poor in their country.

Sustainable Microfinance that Helps the Poorest Families Leave Poverty

Six papers have been commissioned for the Microcredit Summit +5 and have been published by Kumarian Press in a book titled, *Pathways Out of Poverty: Innovations in Microfinance for the Poorest Families*. In addition to advancing the learning agenda of the Microcredit Summit Campaign, the book serves as a roadmap for world leaders and others who are committed to achieving the Millennium Development Goals, especially cutting absolute poverty in half by 2015.

The first chapter, "Ensuring Impact," by Anton Simanowitz of the ImpAct program, lays the foundation for the crucial role microcredit can play and is playing in reducing poverty. It features two institutions (SHARE in India and CRECER in Bolivia) that have undergone externally administered poverty assessments, financial ratings, and impact assessments. The paper shows that these two institutions on two continents are reaching very poor clients, are financially strong, and their clients are moving out of poverty.

CGAP has done a poverty assessment of SHARE, an institution with more than 80,000 borrowers. The assessment found that 60 percent of entering clients were below the national poverty line and that 72.5 percent lived on less than \$1 a day. An externally administered impact assessment showed that one third of mature clients are no longer poor. In March 2002, 100 percent of SHARE's costs were covered by interest charged and other fees. In other words, many very poor families were being reached by SHARE (nearly 60,000), large numbers were leaving poverty (more than 20,000), and the

institution had reached financial self-sufficiency.

The other institution, CRECER, a Bolivian microfinance NGO with 30,000 borrowers, had 73 percent of their entering clients living below the national poverty line and 41 percent living at or less than \$1 a day. These figures came from a CGAP poverty assessment of a new group of urban clients, the better-off sector of their clientele. Sixty-six percent of CRECER clients reported an increase in income, 41 percent increased household assets (primarily the purchase of animals) and 86 percent increased their cash savings. By December 2001, CRECER was 100 percent financially self-sufficient.

In other words, many very poor families were being reached by SHARE (nearly 60,000), large numbers were leaving poverty (more than 20,000), and the institution had reached financial self-sufficiency.

These two studies are not the only compelling evidence for microcredit's importance to poverty reduction. Shahidur R. Khandker's work outlined earlier was based on field research done in Bangladesh in 1990-91. His latest work, done in 1998-99 ends with the following:

The results are resounding: microfinance matters a lot for the very poor borrowers and also for the local economy. In particular, microfinance programs matter a lot to the poor in raising per capita consumption, mainly on non-food, as well as household non-land assets. This increases the probability that the program participants may be able to lift themselves out of poverty. The welfare impact of microfinance is also positive for all households, including non-participants, indicating that microfinance programs are helping the poor beyond income redistribution, with income growth. Programs have spillover effects in local economies, thereby increasing local village welfare. In particular, we find that microfinance helps reduce extreme poverty much more than moderate poverty.

In the chapter "Building Better Lives," Chris Dunford of Freedom from Hunger illustrates how microfinance can be combined cost-effectively with education in child survival, reproductive health and HIV/AIDS prevention to enhance impact. The paper argues that if financial services can help very poor families out of poverty, adding health education can speed up that progress and it can be done cost-effectively.

The Campaign has commissioned a new training video based on this chapter to be released at the Microcredit Summit +5. Over the next eighteen months our staff in Africa and Asia will lead classroom discussions using the new training video with thousands of practitioners in dozens of countries.

The chapter "Financing Microfinance for Poverty Reduction" by David Gibbons and Jennifer Meehan of CASHPOR Technical Services shows how innovative financing can speed the growth of small institutions to reach the very poor while maintaining strong financial performance. Many in the donor community argue that most MFIs are not ready for large infusions of capital because they don't have the vision and systems in place to be successful, but there are institutions that are ready for significant expansion. We must do a better job of identifying them and helping them along the path to dramatic and sustainable growth.

The “Innovations from the Field” chapter by John Hatch of FINCA International outlines dozens of innovations that are improving the quality of microfinance programs worldwide. Those highlighted include health and life insurance, housing loans, managing remittances from abroad, village phones, the use of smart cards to improve efficiency, and improvements in natural disaster response.

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Shahidur Khandker, 2002

In their chapter “Empowering Women through Microfinance,” Susy Cheston and Lisa Kuhn of Opportunity International show what can be done to more fully empower women who are involved in microcredit. They cite a range of promising practices: hiring more women bank workers and senior staff as role models for clients and their daughters; training in women’s

rights and domestic violence prevention, and working with husbands to support their wives’ involvement. The authors show that when the lives of women are transformed, their families are transformed as well.

The chapter “Policies, Regulations, and Systems,” by Women’s World Banking’s International Team led by Nancy Barry and Kathryn Imboden calls for standards that support solid performance and protect the poor, and the elimination of government programs that provide subsidized credit and undermine the development of a competitive market. They argue for fair tax treatment to MFIs given the high cost of small loans, and, for those that *are* regulated, policies and practices that fit the nature of microfinance. One of the concerns of the Microcredit Summit Campaign is the fact that moving from NGO to regulated status can push institutions away from working with the very poor because of excessive capital and reporting requirements.

Survey Methodology

As of October 1, 2002, 3,204 institutions from 133 countries were members of the Microcredit Summit Council of Practitioners, an increase of more than 580 in the last 12 months. Each member of the Council of Practitioners is asked to submit an Institutional Action Plan (IAP) within a year of joining the Council. In 2002, 994 institutions submitted an Action Plan, 420 of whom had previously never done so. Since we began collecting Action Plans, the Microcredit Summit Campaign has received plans from 2,186 institutions. This annual process and the resulting report produce the broadest primary source data collection on microfinance available.

Five years ago, the original Action Plan asked for the following data: 1) total number of active clients (clients with a current loan); 2) total number of active clients who were among the poorest when they received their first loan; 3) percentage of poorest clients who were women; 4) average size of first loan; 5) total number of active savers; 6) average savings per saver; 7) percentage of poorest clients who have crossed the poverty line; 8) financial or business development services offered, if any; and 9) percent financial self-sufficiency an institution has reached. In the 2002 IAP, on which

this report is based, practitioners were asked to provide the above data for December 31, 2000 (actual), December 31, 2001 (actual), December 31, 2002 (proposed) and December 31, 2005 (proposed).

Two additional questions have been added in the past few years. Beginning with the 2000 Action Plan, we also asked: “what poverty measurement tool was used, if any, to determine the number of poorest clients?” This was added because the Campaign had begun to disseminate a number of poverty measurement tools and a growing number of practitioners were able to answer this question with more than the word “estimate.” The growth in the number of responses over the last three years is presented below.

With the 2002 Action Plan, we added the second new question to the grid: “What impact measurement tool was used to determine the number of clients who were very poor when they took their first loan and have now crossed the poverty line?” This was added primarily due to the growing availability of the Assessment of the Impact of Microfinance Services (AIMS) tools and the increased number of practitioners beginning to incorporate impact assessment into their work.

In our report each year, we emphasize that this data is self-reported. Over the last five years, however, Microcredit Summit Campaign staff have reviewed each Practitioner IAP received; any institution with questionable data was asked to clarify its responses, and if the questions were not resolved, the questionable data was not included in our report. In 2000, we took the further step of independently verifying aspects of our data. The process began with the Campaign staff calling the largest institutions in Africa, Asia, and Latin America to provide us with names of donor agencies, research organizations, networks, or other institutions that could verify the number of poorest clients each institution reported. A letter was sent to potential verifiers asking them to confirm the data submitted by a given MFI. The letter says, “By confirm, we mean that you have visited the program, met with senior officials, reviewed aspects of the operation, they have provided you with numbers, and you believe that the institution and the numbers listed below are reliable and credible. While we understand that no one can provide absolute certainty, we would appreciate your participation in this process.”

In the 2000 State of the Campaign Report, 78 institutions, representing two-thirds of the poorest clients reported, had their data verified by a third party. In last year’s report 138 institutions, or two thirds of the poorest clients reported that year, had their data verified.

Clients Reached

As a result of this process, we are pleased to announce that by December 31, 2001, 2186 microcredit institutions reported reaching 54,904,102 clients with a current loan, 26,806,014 of whom were among the poorest (in the bottom half of those living below their country’s poverty line) when they started with the program.⁶

This year, we were able to verify the data of 211 institutions, representing 21,806,559 poorest families or 81 percent of the total poorest clients reported. A complete listing of these institutions

⁶ Of these 2,186 institutions, 994 sent in their 2002 Institutional Action Plans. The 1,192 remaining institutions sent us their data in previous years, and we have included those numbers in this report.

can be found on page 22. We hope to expand our verification process with each successive report.

The growth from 19.3 million poorest clients at the end of 2000 to 26.8 million poorest clients at the end of 2001 represents a 38.7 percent growth over the year. In the previous year, 22 percent of the growth came from institutions reporting for the first time and 78 percent of the growth came from institutions that had previously reported to the Campaign. This year, 57.8 percent of the growth came from institutions reporting for the first time.⁷ Institutions that had previously reported accounted for 42.2 percent of the growth.

This year, we were able to verify the data of 211 institutions, representing 21,806,559 poorest families or 81 percent of the total poorest clients reported.

The growth from 7.6 million poorest at the end of 1997 to 26.8 million poorest at the end of 2001 represents a growth of just over 350 percent during that four year period. In order to reach 100 million poorest by 2005, the Campaign will need to sustain a growth rate of 38% per year. Currently, we average 37% per year. The following table shows growth over the last four years:

Table 1:

Year	Number of Programs Reporting	Total Number of clients reached	Number of “poorest” clients reported
12/31/97	618 institutions	13,478,797	7,600,000
12/31/98	925 institutions	20,938,899	12,221,918
12/31/99	1,065 institutions	23,555,689	13,779,872
12/31/00	1,567 institutions	30,681,107	19,327,451
12/31/01	2,186 institutions	54,904,102	26,806,014

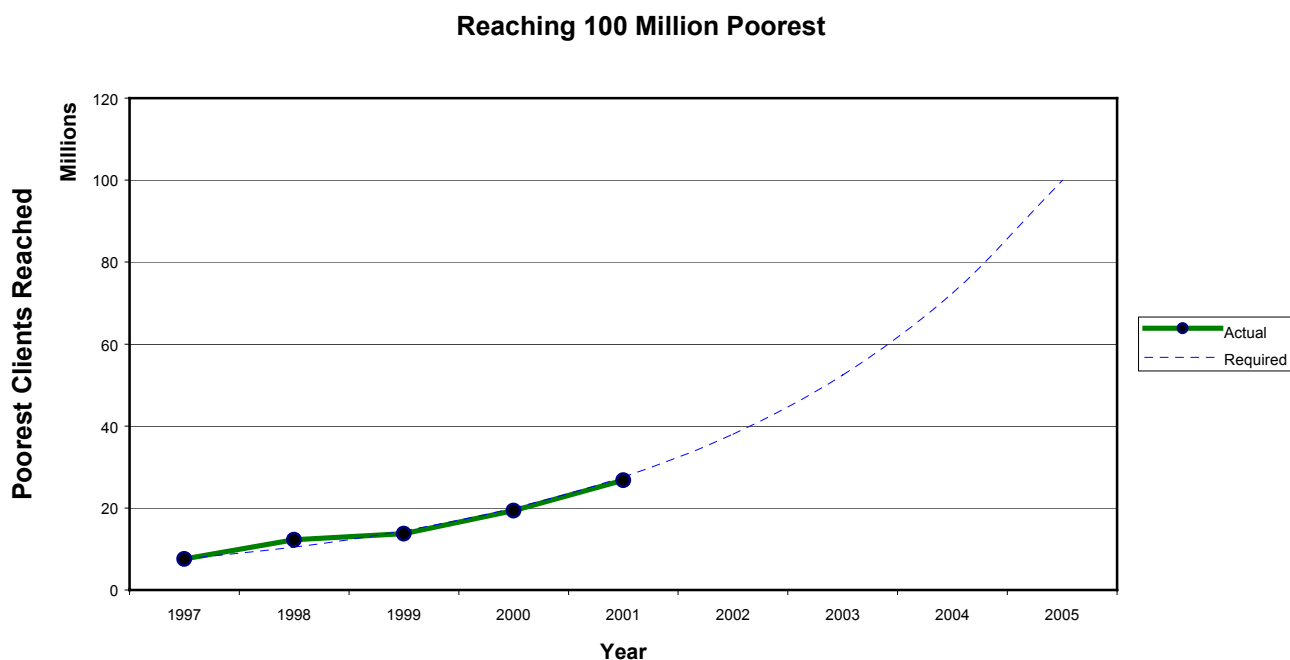
Figure 1 shows the trajectory of growth in clients reached since 1997 versus growth required to reach 100 million poorest clients by 2005.

⁷ The National Bank for Agriculture and Rural Development (NABARD) is one of two very large institutions included in this report for the first time. NABARD is the apex development bank in India for agriculture and rural development. NABARD has played a central role during the last decade in pioneering the self help group (SHG) movement in India, under which poor and poorest women organize themselves into groups. The SHG members save and lend among themselves and also manage the affairs of their groups. The matured SHGs are linked to the formal banking system, which has an extensive branch network throughout the country, to bolster their resources. Although this is the first time NABARD’s clients are being included in the State of the Microcredit Summit Campaign report, their 7,837,000 total clients and 3,130,000 “poorest” clients in 2001 are the result of continuous growth of the NABARD program.

As of March, year	1997	1998	1999	2000	2001	2002
Number of SHGs (avg 17 members per group)	8,598	14,317	32,995	94,645	234,843	461,000
Total Number of Clients	146,166	243,389	560,915	1,608,965	3,992,331	7,837,000
Number Poorest Clients	58,613	97,599	224,927	645,195	1,600,925	3,130,000

Some of NABARD’s partners (banks and NGOs) are also members of the Microcredit Summit Campaign and submit their Institutional Action Plans. In order to avoid double counting, figures reported by these agencies have been subtracted from the figures of NABARD, in order to arrive at the total clients, poorest clients and poorest women clients. After these calculations, NABARD accounted for 6,651,701 total clients, 2,663,901 of whom were among the poorest when they started with the program.

Figure 1:



The size of the institutions reporting data varies greatly. Table 2 shows the breakdown in size of the 2,186 institutions reporting.

Table 2:

Size of Institution (in terms of poorest clients)	Number of Institutions	Combined Number of Poorest Clients
1 million or more	5	8,458,908 or 31.6% of total
100,000-999,999	24	6,191,086 or 23.1%
10,000-99,999	188	4,955,300 or 18.5%
2,500-9,999	384	1,902,476 or 7.1%
Fewer than 2500	1583	824,304 or 3.1%
Networks ⁸	2	4,473,940 or 16.7%

Of the 26.8 million poorest clients being served, 14.6 million of them, or 54.7 percent, are being served by the 29 largest individual institutions reporting, institutions with 100,000 or more poorest

⁸ The numbers above include data from two large networks: the National Bank for Agriculture and Rural Development (NABARD, see footnote 7) in India; and the Association of Asian Confederation of Credit Unions (ACCU), which has 2,104,697 total clients and 1,810,039 poorest clients. These entities are not individual microfinance institutions, but they report the aggregate number of clients served to the Microcredit Summit and are included accordingly in our report, after we have eliminated any double counting. One institution whose data is not included in this year's report is the Bangladesh Rural Development Board. While their data had been verified, we did not have time to complete the process of ensuring that there was no double counting with any of the hundreds of other institutions from Bangladesh that report to us.

clients.

Women Clients Reached

Over the previous two years, the growth in the number of very poor women reached has gone from 10.3 million in 1999, to 14.2 million in 2000. Now, as of 2001, 21,169,754 women have been reached. This is a 49.6 percent increase in the number of poorest women reached from December 31, 2000 to December 31, 2001. This increase represents an additional 7,016,841 poorest women reported with microloans in the last year.

The Use of Poverty Measurement Tools

As mentioned earlier, the Microcredit Summit Campaign's greatest challenge lies in bridging the gap between our commitment to reaching the poorest families and the lack of a sufficient number of quality poverty measurement tools in use.

Since 2000, the Campaign has asked practitioners to tell us what, if any, poverty measurement tool they used to target or identify poorest clients. Of the institutions reporting that year, two-thirds (341 out of 512 institutions submitting an Action Plan in 2000) reported using a tool other than an estimate. Thirty percent of that group (or 104 institutions) told us they were using one of the two tools in the Poverty Measurement Tool Kit: Participatory Wealth Ranking or the CASHPOR House Index.

Of the 994 institutions submitting data in 2002, 716, or 72 percent, reported using a poverty measurement tool other than an estimate. Of this group, 45 percent (or 324 institutions) told us they are using one of the two tools from the Poverty Measurement Tool Kit. This is a 166 percent increase in the number of practitioners using Poverty Measurement Tool Kit tools over last year and a 312 percent increase over the last two years.

These statistics are reviewed in the following table:

Table 3:

Year	Institutions Reporting in that year	Institutions that report using a poverty measurement tool other than an estimate	Number of these reporting using a Microcredit Summit Campaign Poverty Measurement Tool Kit tool
2000	512	341	104
2001	827	532	195
2002	994	716	324

As mentioned earlier, over the last 18 months our Africa and Asia organizers have led two-hour classroom sessions on poverty targeting tools in 60 cities in 26 countries for more than 2,300 practitioners. The year 2002 has seen a number of other breakthroughs in poverty targeting.

Advances in Poverty Focus and the Development and Use of Targeting Tools

Through a technical assistance grant provided by the International Fund for Agricultural Development (IFAD), our Asia regional organizer will begin leading four-day village-based trainings on the poverty targeting tools at the end of 2002. While the two-hour discussion sessions play an important role in disseminating knowledge about the existence and use of poverty targeting tools to a large number of practitioners, the village-based trainings will give interested practitioners an in-depth view of how the tools are used. By providing hands-on experience, the village-based trainings will go further in inspiring innovation among practitioners. By learning how these tools work, practitioners will more clearly see the possibilities for implementing and adapting such tools to their own contexts. The same intense outreach of coupling two-hour classroom sessions with four-day trainings will be used with the newly produced training video based on “Building Better Lives” focused on integrating microfinance with educational components in a cost-effective manner.

It must be stressed that these trainings are intended to raise awareness among practitioners about whom they are reaching and how they can better affect clients’ lives. The goal is not to impose one tool or method on the microfinance industry. Rather, the classroom sessions and the four-day trainings will provide a hands-on opportunity for practitioners to experience how these methods work. Our hope is that following this experience they will begin to ask themselves, 1) would this work in their context, 2) how might it be adapted for their context, and 3) what might be a better tool for their situation. By starting this dialogue, we hope to be a catalyst, encouraging institutions to create new and better tools.

As the work of our regional organizers continues, more and more practitioners will be exposed to the idea of using and adapting poverty measurement tools to reach clients who are very poor. In the next few years, we expect the number of practitioners reporting the use of poverty measurement tools to increase as a result of this work.

Legislation and the Development and Use of New Tools

Perhaps the most profound breakthrough may come about through legislation making its way through the U.S. Congress in 2002. Through the leadership of Republican Representatives Christopher Smith (NJ), Henry Hyde (IL), and Ben Gilman (NY) and Democrat Representatives Tim Roemer (IN), Tom Lantos (CA), and others in Congress and in non-governmental organizations (NGOs), legislation passed the House of Representatives that would advance the U.S. Congress’ long-standing commitment to allocating half of USAID microenterprise funds to families that are very poor. Up to now, only loan size, a very imperfect tool, determined whether very poor families were being reached and whether Congress’ intent was being fulfilled.

In his chapter, “Ensuring Impact,” Anton Simanowitz states, “The most commonly used, and much criticized proxy for depth of poverty outreach is loan size. This is likely to give very misleading conclusions—large loan size is certainly a good indicator that very poor clients are not being served, but it does not follow that small loan size implies very poor clients are being served.” Simanowitz goes on to quote Dunford, “Loan size is often much more a reflection of the institution offering the loan than of the characteristics of the borrower.”

The legislation’s definitions of poorest are: 1) individuals living in the bottom 50 percent below the poverty line or 2) living on the equivalent of less than \$1 a day.

As the legislation moves to the U.S. Senate, compromise language has been approved by USAID and the bill's proponents, which calls for the USAID Administrator to consult with others in developing "no fewer than two low-cost methods for partner institutions to use to assess the poverty levels of their current or prospective clients."

The legislation directs the Administrator to certify no fewer than two such methods no later than October 1, 2004 and requires that, with reasonable exceptions, all organizations applying for microenterprise assistance use one of the certified poverty measurement tools beginning no later than October 1, 2005. Beginning with fiscal year 2006, the Administrator must submit an annual report to Congress that addresses compliance with the legislation by documenting the percentage of resources allocated to the very poor and the absolute number of very poor reached based on the data collected using the certified poverty measurement tools.

Regional Data

Of the 2,186 institutions that have reported to us, 740 are in Africa, 1,075 are in Asia, 230 are in Latin America and the Caribbean, 59 are in North America, 59 are in Europe and the NIS, and 23 are in the Middle East. The low numbers of institutions reporting in Latin America are a direct result of the Campaign not yet having placed a Regional Organizer in the region.

Table 4 shows the regional breakdown of data:

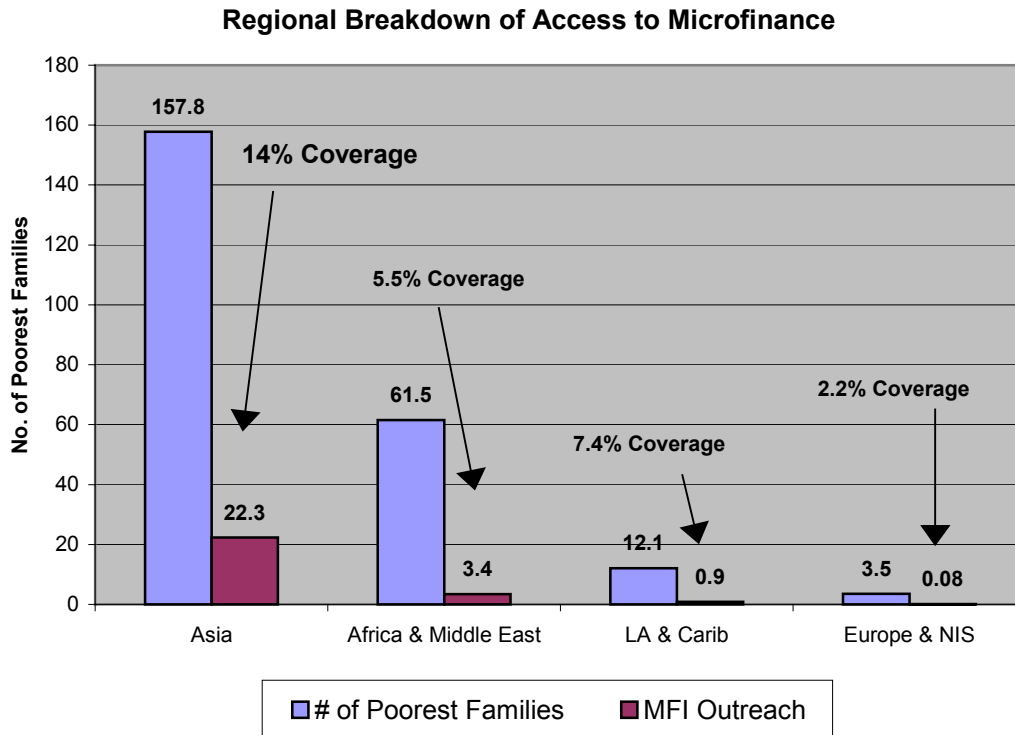
Table 4:

Region	Number of programs reporting	Number of current clients reported 2000	Number of current clients reported 2001	Number of current poorest clients reported 2000	Number of current poorest clients reported 2001	Number of current poorest women clients reported 2000	Number of current poorest women clients reported 2001
Africa	740	5,180,881 ⁹	4,548,019	3,784,026	3,356,244	2,449,756	2,303,596
Asia	1,075	23,576,938	47,891,977	14,674,277	22,340,073	11,141,678	18,098,695
Latin America & Caribbean	230	1,672,541	1,973,352	745,676	927,830	516,844	643,547
Middle East	23	54,272	128,158	27,438	96,681	10,012	75,900
Developing World Totals	2,068	30,484,632	54,513,373	19,231,417	26,693,510	14,118,290	21,121,738
North America	59	111,204	263,395	58,809	31,517	24,281	16,628
Europe & NIS	59	85,271	127,334	37,225	80,987	10,343	31,388
Industrialized World Totals	118	196,475	390,729	96,034	112,504	34,624	48,016
Global Totals	2,186	30,681,107	54,904,102	19,327,451	26,806,014	14,152,914	21,169,754

⁹ While the number of programs reporting from Africa in 2002 rose from 613 to 740, the number of clients reported from African institutions fell from 3,784,026 poorest at the end of 2000 to 3,356,244 poorest at the end of 2001 and from 5,180,881 total at the end of 2000 to 4,548,019 total at the end of 2001. This is due in part to restructuring at three large African MFIs. The Nigerian Agricultural Cooperative and Rural Development Bank, which is the result of a merger of the People's Bank of Nigeria and the Nigerian Agricultural and Cooperative Bank, would have had a combined portfolio of 966,390 total clients but as a result of restructuring report 360,349 total clients. Their combined portfolio poorest would have been 485,744 but report 216,593 poorest clients in their restructured form. Association d'Appui aux Conducteurs de Chariots du Congo was affected by the civil disorder in Democratic Republic of Congo and other challenges, and reduced its lending volume from 161,500 poorest in 2000 to 26,904 poorest in 2001.

Figure 2 shows the relationship between the number of families living in absolute poverty in each region (i.e., those living under one dollar a day PPP) and the number of poorest families reported reached in each region at the end of 2001.

Figure 2¹⁰:



Conclusion

Over the last five years the number of poorest clients reached has grown by 350 percent, from 7.6 million at the end of 1997 to 26.8 million at the end of 2001. Sustaining the growth required to reach 100 million of the world's poorest families by 2005 will be more challenging. What will those who are committed to the Summit's goal need to do if we are to reach 100 million of the world's poorest families with credit for self-employment and other financial and business services by 2005?

Practitioners

1. **Commitment to and success in delivering financial services in an efficient, responsive, and financially sustainable manner.**

Clients should not have to pay the cost of inefficient operations.

2. **Commitment to and success in reaching the poorest families, especially those living on less than \$1 a day PPP.**

This will require the use of poverty measurement tools to certify that the very poor are being reached and, if they aren't, the use of poverty targeting tools to ensure that incoming clients are

¹⁰ Adapted from the Financing Microfinance for Poverty Reduction chapter of *Pathways Out of Poverty*, Kumarian Press (2002).

among the very poor. It has been shown that even programs with a commitment to reaching very poor clients can miss the mark without a cost-effective measurement or targeting tool.

3. Commitment to and success in tracking clients' movement out of poverty.

Providing sustainable financial services, even to very poor families, should not be an end in itself; the goal should be movement out of poverty. This will require implementing cost-effective ways to measure clients' movement out of poverty, and using the findings as a tool for change within the institution.

4. Commitment to enhancing movement out of poverty.

MFI should also implement cost-effective ways to enhance the impact of their programs on clients such as integrating microfinance services with education in child survival, reproductive health, HIV/AIDS prevention, and business development.

Heads of State and Government, Parliamentary Leaders, and Bilateral and Multi-lateral Donor Agencies

1. Champion the expansion of sustainable microfinance for the very poor as a pivotal intervention in achieving the Millennium Development Goals (MDGs), especially that of cutting absolute poverty in half by 2015.

Microcredit programs that are true to the Summit's core themes (reaching the poorest, reaching and empowering women, achieving financial self-sufficiency, and ensuring impact) are critical to achieving the MDGs.

2. Identify and support small MFIs with the vision and commitment to reach large numbers of very poor families sustainably.

Doing business as usual will be insufficient. Donor agencies have often made financial performance their only goal and have given little or no priority to depth of outreach. In addition, although donors often stick with larger, more established programs, it has been shown that when support is provided to smaller programs with the commitment and systems to reach very poor families sustainably, their expansion can be very rapid.

3. Champion the development of autonomous microcredit funds similar to PKSF in Bangladesh.

PKSF, created by the Bangladesh government, has been able to disburse more than \$250 million in loans from the World Bank and other institutions to some 180 MFIs in Bangladesh reaching more than 2 million clients, while remaining autonomous. For more information see: <http://www.microcreditsummit.org/papers/fundspaper.htm>.

4. Develop funding mechanisms such as national, regional, and global quasi-equity funds.

David Gibbons and Jennifer Meehan describe the value that quasi-equity has played in the growth of the MFI CASHPOR India, and how such funds could fuel the dramatic expansion of small, but quality MFIs. For more information see: *Pathways Out of Poverty*, Kumarian Press, 2002.

Governments

1. Champion the establishment, development, and growth of sustainable microfinance for the very poor in your country.

Look for opportunities to bring best practices from within your country or from neighboring countries that will firmly establish and grow a broad range of sustainable microfinance institutions for the very poor. This will require the use of cost-effective poverty measurement tools to ensure that the very poor are not excluded and, in the event of exclusion, the use of cost-effective targeting tools.

2. Stay out of retailing financial services for the poor and poorest.

Retailing financial services to the poor and poorest is not the job of the government but of well-run microfinance NGOs, grassroots savings and credit groups, cooperatives, regulated MFIs and those commercial banks committed to reaching very poor clients. There are too many possibilities for inefficiency, subsidized credit, and the development of unsustainable systems when governments administer lending programs. Once that happens, even good programs run by efficient MFIs are threatened.

3. Create an enabling environment that allows a wide range of institutions to develop, that supports best practices and strong performance, and that does not require regulation unless a program accepts savings from the general public.

4. Create an autonomous Microcredit fund in your country using an institution such as PKSF in Bangladesh as a reference point (see page 17).

Commercial Banks and Investors

1. Identify and invest in smaller MFIs with the ability to achieve financial self-sufficiency.

Banks will need to recognize the unique aspects of MFIs' balance sheets when making their investment evaluations, including alternatives to traditional equity. For more information see: *Pathways Out of Poverty*, Kumarian Press, 2002.

2. Continue to develop products that attract below-market financing for MFIs as part of the banking customers' socially conscious investment portfolios.

3. Consider retailing microfinance services directly to clients.

The poor have proved themselves bankable, and represent a large potential market almost untouched by commercial banks.

4. Educate peers within the banking community about partnership and investment opportunities with the microcredit industry.

Others

1. Champion sustainable microfinance for the very poor within your organization or sphere of influence.

Educate yourself on what sustainable microfinance for the very poor means, how it is practiced, and then educate others.

2. Support microcredit institutions that are committed to reaching very poor families and helping them work their way out of poverty.

Learn how the MFI(s) you support demonstrate they are reaching the very poor or what changes

they are making within their operations to do so.

3. **Raise funds for the institution(s) and increase public awareness.**
4. **Educate the news media in your area and help them educate the community and the nation.**
Visit programs and bring members of the local media with you.
5. **Educate members of Congress or Parliament about sustainable microfinance for the very poor.**
In industrialized countries, advocate for legislation that will ensure that a portion of foreign assistance funds from your nation will go to sustainable microfinance for the very poor. The use of poverty measurement tools should be a requirement for transparency in poverty outreach.

Looking Back from the Year 2015

The changes described above may not be easy, but they are necessary if we are to move more rapidly toward a world without poverty. Imagine the year 2015, ten years after the scheduled end of the Microcredit Summit Campaign. What will the world look like? What could the world look like if 200 million families have been reached with microcredit; improving the lives of one billion family members. Imagine a \$200 average loan for some 200 million formerly very poor families. That would mean the circulation of some \$40 billion in what were some of the poorest communities in the world.

What could this mean for reaching the Millennium Development Goals? Where could we be in 2015? What follows are the MDGs and some of the possibilities for progress.

1. **Goal: Halve the proportion of people whose income is less than one dollar a day.**
Possibility: Khandker's research of BRAC and Grameen Bank in Bangladesh predicted that five percent of program participants should be able to leave poverty each year. What if that held true for programs around the world and other intervention succeeded as well. *Poverty could be reduced by more than 70 percent in 2015.*
2. **Goal: Halve the proportion of people who suffer from hunger.**
Possibility: In SHARE, "the impact on the poorest was significantly greater than for less poor clients. Eighty-nine percent of very poor clients experienced positive change compared to 76 percent of all clients. Sixty percent had moved from very poor to moderately poor, while 28 percent moved from being very poor to being non-poor," Simanowitz (2002). Imagine this holding true for programs around the world and other interventions succeeding as well. *In 2015, the proportion who suffer from hunger could be reduced by more than 70 percent.*
3. **Goal: Ensure that children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.**
Possibility: Parents were able to enroll their children in school as a result of their microloans. Because of increased incomes, fees for tuition, books, and uniforms are no longer a barrier to entering and staying in school. *Except in the deepest and hardest to reach pockets of poverty, children could be completing primary school by 2012.*

4. **Goal: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015.**

Possibility: By 2015, 80 percent of the 200 million clients are women. Because they placed the education of their children, especially their daughters, as a high priority and because of college scholarship programs that emerged from microfinance programs at the beginning of the century, *the number of girls enrolled in primary, secondary, and postsecondary school could surpass that of boys by 2014.*

5. **Goal: Reduce by two-thirds, the mortality rate for children under-five.**

Possibility: Programs that combined microfinance with education in child survival expanded dramatically beginning in 2004. Because of this and other efforts, under-five mortality rates began to plummet. *By 2015 the under-five mortality rate could be reduced by three quarters.*

6. **Goal: Reduce the maternal mortality rate by three-quarters.**

Possibility: Programs combining microfinance with education in reproductive health grew quickly beginning in 2004 and maternal mortality rates also began to fall. Only in the hardest to reach areas of the world is maternal mortality a problem. *By 2015, maternal mortality could be reduced by ninety percent.*

Microcredit was omitted from the UN Summits of the 1990s as a compelling measurable goal in part because it is a relatively new intervention for poverty reduction in Asia, Africa, and Latin America. In addition, in the early 1990s there was no UN agency that had microcredit as a central part of its mandate like child health is central to UNICEF's mandate, reproductive health is central to UNFPA's mandate and the environment is central to UNEP's mandate.

Sustainable microfinance for the very poor continues to be de-emphasized in the major donor agencies' policy papers on cutting absolute poverty in half by 2015 and sustainable microfinance for the very poor is missing from their practice. Five years ago, most donor agencies weren't able to report how much, if any, of their microfinance funding was reaching very poor families; and they still cannot report those numbers today.

How long will it take before we see the power of sustainable microfinance for the very poor and ensure its full implementation; ten more years, 50 more years, 100 more years?

History shows us that the creation of a life-saving technique does not ensure it will reach those who need it most.

Over the last 250 years, smallpox took millions of lives and caused immeasurable suffering. While a smallpox vaccine had been available since the late 1700s, the disease was not eradicated until 1978. It is an indictment of our time that we are slow to galvanize behind powerful interventions that reduce human suffering.

Four years from now, what could rising wages mean for 100 million microfinance clients, their 400 million family members, and hundreds of millions of others in their communities?

Several years ago, two visitors sat with a group of women at a microbank meeting in South Asia. "What impact has your microbank had," the visitors asked, "on the husbands of non-borrowers. Not on your husbands," the visitors clarified,

“but on the husbands of women who are not with the bank?” The women of the microbank spoke quietly together and then one of them answered. “Before we joined the bank,” the borrower explained, “our husbands were day-laborers, working whenever they could find work on other people’s land. When we took our first loan our husbands stopped being day laborers and joined us in our businesses—growing garlic on leased land, husking rice, driving a bicycle rickshaw. There became a shortage of day-laborers in this area,” she continued. “This caused the wages to go up for the husbands of women who were not with our bank. That was the impact of this microbank on the husbands of the non-borrowers.”

What did rising wages mean for the 40 members of the microbank, their 160 family members, and for perhaps one hundred others in their community? And four years from now, what could rising wages mean for 100 million microfinance clients, their 400 million family members, and hundreds of millions of others in their communities?

It will mean better health, better education, better nutrition, and a better life.