

OVERCOMING THE OBSTACLES OF IDENTIFYING THE POOREST FAMILIES

Overcoming the Obstacles of Identifying the Poorest Families: Using Participatory Wealth Ranking (PWR), The CASHPOR House Index (CHI), and Other Measurements to Identify and Encourage the Participation of the Poorest Families, Especially the Women of Those Families

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Updated June 2000 by Anton Simanowitz

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EXECUTIVE SUMMARY

Microfinance has proven to be an effective and efficient mechanism in poverty reduction the world over. The 1997 Microcredit Summit¹ declared as its goal to reach “100 million of the world’s poorest² families, especially the women of those families, with credit for self-employment and other financial and business services by 2005.” This is a bold objective, since reaching the poorest families through microfinance is still in its infancy, and most microfinance institutions (MFIs) currently reach the poor, not the poorest.

This paper is about the first step in this objective: identifying the poorest clients. It is a step mostly avoided or forgotten in the clamor to open up programs that can start dispersing loans, and lose no time in reaching financial self-sufficiency. Our question is how can microfinance benefit the poorest if we don’t know who the poorest are? How can we say we are reaching the poorest if we are not measuring this? How can we identify these families on the ground, and encourage their participation in microfinance programs? And how can we measure impact if we don’t know where clients start?

We argue that unless active poverty-targeting is used then we cannot build microfinance services for the poorest. Experience has shown that if better-off people are included, this may well discourage the poorest from joining! Hence, even if our aim is not to exclusively reach the poorest, unless we use active targeting we may well inadvertently miss the poorest altogether.

It is not a question of cost or sustainability (although this has a major impact on how poverty targeting is done). Whether a program is exclusively targeted or not, experience has shown that to reach the poorest we must specifically design a program that caters to their needs. Poverty targeting can assist this process by raising awareness of the different needs of different types of clients and allowing for different products to be effectively targeted.

¹ For the purpose of this document, the 1997 Microcredit Summit, and the Summit’s nine-year fulfillment campaign, any reference to microcredit should be understood to refer 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 defined the poorest as those people in the bottom fifty per cent of the people living below a country’s nationally defined poverty-line (the poor are those living below the poverty line).

Many people argue that it is impossible, or too expensive, to design reliable poverty-targeting tools. However, there are a number of cost-effective screening methods in use. This paper describes three approaches to poverty-targeting that are effective in identifying the very poor, and which have been operationalized and utilized on a large scale with thousands of potential clients.

The CASHPOR House Index (CHI), uses external housing conditions as a proxy for poverty, and can be very effective in conditions where there is a consistent relationship between poverty and housing conditions. Participatory Wealth Ranking (PWR), uses a community's own definitions and perceptions of poverty, and employs rigorous cross-checking methods to ensure consistency and accuracy of results. Both methods aim to build on existing information, collect the minimum data necessary for reliable targeting, and follow-up targeting with a motivation process to encourage the poorest to join the program.

Both methods are context specific. PWR relies on detailed knowledge of a community of itself, and is unlikely to work in contexts where the community is weak, or where there are high levels of conflict or mistrust. Similarly, the CHI relies on there being a strong correlation between housing conditions and poverty. This is not a universal relationship and is very much defined by the context. Where the CHI is adapted to local conditions, perhaps even including other externally visible, non-housing indicators, there is a greater chance of the Index being applicable to a wider range of contexts.

A third tool, we term a "check-list" approach, builds up a list of poverty proxies or indicators, based on a local understanding of poverty. Scores are then assigned to each indicator, or a poverty-line level determined. The poverty level of a household can then be calculated from their total score, or number of qualifying indicators.

These methods must not be applied blindly but adapted to local needs and conditions. A number of choices need to be made which will determine which tool is used.

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Annex 1 on Additional Poverty Measurements Compiled by Robert Gailey, Microcredit Summit Campaign

Updated June 2000 by Anton Simanowitz

...When we launched our program our heart was to reach the poor...and help them to get over the poverty line...we decided that the method we would use is we would offer a very small loan size because, surely, only the poor would take a small loan size. The next thing we did is went to one of the poorest areas in South Africa...and we began to do the loans. But after a few years, we realized that [of] the people we were serving, the majority did not live below the poverty line...

Now the clients that are very much poorer, why don't they come to you in large numbers? And the reason is, they're intimidated by the wealthier clients. What we've heard from the literature from all over the world is what we found in our own case, and through hard experience. The poorer people see who goes to your program, and they just say, 'This program is not for us; it is for those better off people.' And then very often the wealthier – maybe just the less poor – intimidate the poor, simply by saying, 'This meeting is for serious people. Here we have to be serious about business. Somebody who is only selling a few vegetables is not serious about business.' Poor people already have pretty low self-esteem, but you add a few comments like that, and they leave. So, the presence of the non-poor unfortunately did scare away the poor. And that's why we have to go for an exclusive poverty focus.

John de Wit
Managing Director,
Small Enterprise Foundation

INTRODUCTION

Microfinance has proven to be an effective and efficient mechanism in poverty reduction the world over. The 1997 Microcredit Summit³ declared as its goal to reach “100 million of the world’s poorest⁴ families, especially the women of those families, with credit for self-employment and other financial and business services by 2005.” This is a bold objective, since reaching the poorest families through microfinance is still in its infancy, and most microfinance institutions (MFIs) currently reach the poor, not the poorest.

This paper is about the first step in this objective: identifying the poorest clients. It is a step mostly avoided or forgotten in the clamor to open up programs that can start dispersing loans, and lose no time in reaching financial self-sufficiency. Our question is how can microfinance benefit the poorest if we don’t know who the poorest are? How can we say we are reaching the poorest if we are not measuring this? How can we identify these families on the ground, and encourage their participation in microfinance programs? And how can we measure impact if we don’t know where clients start?

Early in the Campaign, it became clear that it would be difficult to track progress towards the Summit’s goal with the current knowledge in the field. Most microfinance practitioners can report on their numbers of clients, and the percentage that are female, but are unable to document how many of their clients were among the “poorest” when they joined the program. Most practitioners simply do not have a simple, low-cost method for assessing the poverty level of their clients.

But poverty-targeting is more than just knowing who we are reaching, ensuring that we reach who we want to reach, and reporting to our stakeholders on this. Can a microfinance program be designed which will attract only the poorest? Or can we succeed in persuading the wealthier people not to join, and attracting a mixture of the poorest plus the poor? Or will we end up designing a program that does not attract the poorest and serves only the poor and the non-poor? We argue that unless active poverty-targeting is used then we cannot build microfinance services for the poorest. Many programs exclusively target women, in part because dominance of men can discourage women’s participation. Similarly, experience has shown that if better-off people are included, this may well discourage the poorest from joining! Hence, even if our aim is not to exclusively reach the poorest, unless we use active targeting we may well inadvertently miss the poorest altogether.

It is not a question of cost or sustainability (although this has a major impact on how poverty targeting is done). For us, if we want to reach the poorest through microfinance, we must specifically design a program that caters to their needs.

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Before we go on to discuss how to target, it is important to address some of the arguments against targeting.

THE “DON’T DO IT” APPROACH TO POVERTY-TARGETING

The most common arguments against active poverty-targeting, are a somewhat fudged mixture between “it costs too much to do” and “it’s not necessary.”

“It Costs Too Much to Do”

The most popular argument against targeting revolves around the issue of costs. Bringing microfinance services to isolated rural villages is costly. The proponents of this view argue that targeting escalates transaction costs, thus undermining institutional financial self-sufficiency (IFS). A focus on the poorest also means a focus on the least profitable clients, who (initially) take the smallest loans.

“At a given point in time [MFIs] can either go for growth and put their resources into underpinning the success of established and rapidly growing institutions, or go for poverty impact...and put their resources into poverty-focused operations with a higher risk of failure and a lower expected return” (Hulme & Mosley, V1, p.206).

“It’s Not Necessary”

Active targeting is also viewed by some practitioners and academics as unnecessary. This group contends that the objective of reaching the poorest can be achieved through the design of credit methodology. For example, a program might offer small loans with high transaction costs, in terms of time spent to enter the program and during meetings, in order to deter all but the very poorest from joining. These design features serve to make the product unattractive to better-off people.

Another design choice intended to focus a program on serving the poor and poorest is to work in areas where most of the poor live. Most countries have crude (and some more sophisticated) demographic data that will give a rough idea of where there are higher or lower concentrations of poor people.

Where these approaches are criticized as unreliable, the response is normally that this type of passive screening is the best compromise, given the high costs of more pro-active targeting methods.

It is our assertion that this is not a compromise, but a fundamental flaw in providing financial services for the poorest. Experience in the poverty-focused MFIs demonstrates that active poverty-targeting is a crucial first step in building an effective and efficient institution for poverty reduction.

WHY WE SHOULD ACTIVELY TARGET THE POOR

Achieving Institutional Financial Self-Sufficiency (IFS)

An institution that is working with the poorest and poor must include activities that are specifically designed for these target groups – targeting is just one of these. While this undoubtedly increases transaction costs, there is increasing evidence that client growth and other benefits from targeting lead to a progressive movement towards IFS. Innovation and creativity can strengthen this. For example, targeting can assist in raising awareness and in motivating people to join the program (this is discussed later in the House Index and Participatory Wealth Ranking descriptions). Furthermore, recent innovations in targeting have made it more cost-effective.

Targeting is viewed by many institutions as an essential prerequisite for creating and maintaining good credit discipline, which is crucial for the program to be sustainable. Thus poverty-targeting is not just an issue of reaching the right people, but is a question of creating a functioning structure that will develop into a sustainable institution. Failure to target the poorest and the poor can lead to a lack of focus and a mismatching of services to client needs. This may lead to poor credit discipline, high drop-out rates, and generally create a problematic environment which will eventually undermine sustainability.

Knowing What We Are Doing

There are two clear benefits of having an understanding of who we are reaching with our financial services. The first concerns the MFI and its ability to target its services to desired target clients. Without knowledge of the client poverty-profile it is impossible to know if we are reaching whom we want to reach, and to know whether our products and services meet the target clients' needs.

The second benefit concerns the need for transparency and accountability in microfinance. Where a poverty objective is set, it is not good enough to just assume that it has been reached. MFIs, their funders, and other stakeholders need to have basic information to describe the poverty level of the clients being reached.

Effectiveness in Poverty Alleviation

In this paper we argue that using a poverty-targeting tool is about more than reporting on figures of who is being reached. It is also a fundamental requirement of designing an institution that is focused on the needs of the target group, rather than being pushed by the dominant voice of non-target beneficiaries.

Passive targeting through product design will always be a doubtful method in reaching the poor, and will certainly not separate the poorest from the poor. There are numerous examples of how such loan products have benefited better-off clients who join with the expectation of larger future

loans. The opening quotation in this paper describes the experience of the Small Enterprise Foundation (SEF) in South Africa, where it was found that lack of targeting had pushed the program towards serving better-off clients. Similar experiences have been reported from Asian integrated rural development programs (Kasim, personal experience).

Poverty targeting is the first step in creating a program that is designed to meet the needs of the poorest. The marginalization and social exclusion faced by the poor mean that a “poverty culture” must be created. By choosing the characteristics of the people we wish to target we are also targeting the program’s benefits.

Targeting Women

A focus on the poor usually goes hand-in-hand with a focus on women. There are strong arguments that unless programs are directed at women, the poorest women can easily be bypassed. Women are often targeted because it is believed that this leads to greater impact in terms of poverty-alleviation, as women are more likely to spend surplus income on the needs of their families. In her study of Grameen Bank replications, for example, Helen Todd described significantly greater impact on women and their families, where loans are taken by poor women, rather than by other people.

Women may also be targeted because of their relative marginalization and higher incidence of poverty. A number of studies have examined the role microfinance plays in empowering women, but this is subject to much debate by people who argue that microfinance may contribute to, but does not automatically lead to, women’s empowerment (see Johnston; Johnston and Rogaly; Mayoux).

A third common reason for the targeting of women relates more to the operational benefits than to poverty alleviation. Experience has shown that very poor women perform much better than men in terms of loan utilization and credit discipline. Rutherford (quoted in Johnston and Rogaly, p.14) notes that in Bangladesh women are targeted because they “are seen as more accessible (being at home during working hours); more likely to repay on time; more pliant and patient than men; and cheaper to service.”

SHOULD WE EXCLUSIVELY TARGET THE POOREST?

The Summit’s goal is to reach 100 million of the world’s “poorest” families. The reality of microfinance today is that there are few organizations that really concentrate on reaching the poorest.

The largest factor driving this is financial self-sufficiency. In the discussion above we argue that creating an institution for the poorest does impose additional costs on an MFI, but it also creates benefits that can lead to IFS. We also argue that it is only in squarely facing up to the challenges of building financially sustainable MFI’s for the poorest that we will overcome the cost challenges.

Thus the exclusive targeting debate has at its core the ability of MFIs to reach and serve the poorest. This is a critical question that must be central to the Summit's goal of reaching the poorest.

Benefits of a "Mixed" Program

Pragmatism would tend to favor an approach that accepts that most MFIs will reach a mixture of clients, including some of the poorest and the poor, but perhaps also the non-poor. In this case, poverty-targeting would be mostly a tool for understanding and reporting on who is being reached. Provided that the poorest can be effectively reached in a "mixed" program, increasing scale is likely to lead to significant outreach to the poorest. Programs serving several strata of clients, not just the poor and the poorest, may be able to expand faster and to reach larger numbers than programs exclusively targeted to one stratum. If they do, large numbers of the poor and the poorest are likely to benefit. Moreover, such programs have the possibility of cross-subsidizing their less profitable lending to the poorest from their more profitable lending to the non-poor, and thus potentially achieving IFS more rapidly

Designing a Program for the Poorest

There is no intrinsic problem with a program targeting both the poorest and the poor, and even the non-poor. However, where the needs of the different target groups are very different, it becomes more difficult to meet the needs of the poorest.

Organizations, such as SEF, which have tried to work exclusively with the poorest, have found that, in their context, the poorest cannot be effectively reached in a mixed program. To meet the needs of the poorest, a culture of poverty-focus needs to be created. If there is a dominance of non-poor, or even poor over the poorest, then the stronger, more confident, more vocal people will make their voices heard. An innovative MFI striving for IFS or a loan officer responding to financial incentives for a good loan portfolio will listen to these voices. This will lead to a tendency to develop loan products more suited to the better-off clients. Poorer clients become increasingly marginalized both by the MFI, and in the case of group-based lending, by their fellow group and center members. The very poor, who take small loans, experience problems, are vulnerable and need much support, and are not popular with other clients, loan officers, or branches striving for profitability. At such a point, if the program is still attracting the very poor, it may well lead to negative impact for these clients, and in fact contribute to greater poverty.

Whether a program is exclusively targeted or not, experience has shown that to reach the poorest we must design services to meet their needs. A program can reach different market groups, but must understand their differing needs and treat each group accordingly. Poverty-targeting can assist this process by raising awareness of the needs of different types of clients and allowing for products to be effectively targeted.

We therefore need to target the people who make sense in terms of program design both from the

perspective of providing a service that meets the needs of the poorest, and that allows for the development of an MFI that can achieve IFS. The exact composition of the target group is therefore defined by a combination of recognizable groupings of people at different poverty levels, the extent of the differences in services needed for these different groups, and the practical demands of establishing a viable MFI which can achieve IFS.

COST-EFFECTIVE POVERTY-TARGETING

If we accept that we need to actively target the poorest in order to ensure that they

- join the program,
- stay in the program and are not pushed out by others, and
- create an efficient, effective, and cost-effective institution that is shaped to the needs of the poorest

then we can start to look at how this can be achieved in the most cost-effective manner.

This paper describes three approaches to poverty-targeting that are effective in identifying the very poor, and which have been operationalized and utilized on a large scale with thousands of potential clients. Targeting tools develop simple methods to measure “poverty”, which is complex, subjective and very difficult to measure accurately. Compromises have to be made.

Three key questions face MFIs that want to develop poverty-targeting tools:

- 1) How do we simply measure a complex issue such as poverty?
- 2) How can we be confident about the results that we obtain?
- 3) How can we make sure that the targeting tool is cost effective?

1) Creating a simple tool to measure complex poverty

The first challenge is to simply and cost-effectively identify the poverty level of clients and potential clients. Three approaches are commonly used by MFIs. The first uses community definitions of poverty, the other two are tools for outsiders to gather “objective” information without necessarily involving community members in the process.

- 1) Using community definitions and self-ranking: Tools based on this approach acknowledge the complexity and subjectivity of poverty, and assert that “insiders” are the most knowledgeable, and use communities own definitions of poverty. The design challenge is to find a way of obtaining consistent and honest information from communities. **Participatory Wealth Ranking (PWR)** is the most commonly used example. It uses a community’s own definitions and perceptions of poverty, and employs rigorous cross-checking methods to ensure consistency and accuracy of results.
- 2) Visual indicators of poverty: By understanding local conditions and characteristics of poverty it is possible to select one or more indicators or proxies for poverty that are visible during a short visit to a person’s house. Where a visual indicator has a strong relationship to poverty level, this can be an effective and low cost approach. The **Cashpor House Index**

(CHI) uses external housing conditions as a proxy for poverty, and can be very effective in conditions where there is a consistent relationship between poverty and housing conditions.

- 3) Check-list of indicators: A number of organisations have developed a “check-list” of poverty indicators or proxies (ranging from income/expenditure, land or assets, to health and education or access to water). These tools are based on an understanding of the local poverty context, and may or may not include community definitions of poverty, or visual indicators. They develop a list of indicators that are scored (and sometimes weighted) and thus triangulate each other. The check-list approach may be a powerful targeting tool where sufficient time and resources are put into developing the right mix of indicators. They are generally more time consuming and expensive to implement than community ranking or visual indicators.

2) Creating a rigorous and reliable tool

Once a means has been devised to measure poverty through one of the simple approaches above, the next consideration is the development of procedures to ensure that the tool produces consistently accurate results, that are not open to distortion by staff or clients, or by frequent “exceptional” cases.

A key innovation in most targeting tools is to build in **triangulation**. Information is collected from a number of different perspectives. As each source of information cross-checks that from others, the confidence in its reliability increases.

In community self-ranking methods it is important to ensure that the community representatives are consistent in their application of the criteria they use, and that there is no favoritism or attempts to manipulate the results.

Where visual indicators are used, it is important that a very strong relationship between the visual indicator and poverty is established, and that there are not frequent “exceptional cases”. Good systems for appeal and for monitoring the effectiveness of the system are important, and strong base-line work must test the reliability of the proxy prior to its use.

Similarly, in check-list systems there must be good base-line work and a period of refinement to check which indicators are most sensitive, develop appropriate weighting and effective triangulation.

3) Ensuring cost-effectiveness

Finally, for an assessment tool to be useful it must be inexpensive or cost-effective to use. There are some general principals and approaches that are common to CHI, PWR and other poverty assessment tools used, which help to transform the tools from academic exercises to practical methods that can be used on a day-to-day basis by MFIs.

Optimal Ignorance⁵.

MFI's do not need to be exact in their poverty assessment. They need to know with reasonable confidence the approximate and relative poverty of their clients compared to the rest of the community. No poverty-targeting tool can be 100% effective, and the cost of obtaining the last few percentage points usually outweighs the benefits. In PWR, for example, those last few percent can easily double the costs of the whole exercise! Thus, a tool should be based on the minimum amount of information needed to achieve the minimum level of accuracy desired: "optimal ignorance".

Starting with Existing Information

The first step for poverty targeting is to look at a wider level. A province, district, division, county, village, or other administrative division can be selected according to available data on poverty levels.

Information may be available through national or local government departments, dealing with poverty-related issues such as health, social welfare, education, or agriculture. Non-government organizations working on related issues can be solicited for their knowledge of the location of major concentrations of poor households in a district.

Demographic data, particularly related to income and expenditure, is notoriously sparse, and where available, unreliable, especially in developing countries. This type of data needs to be used very cautiously and only down to the level where it is reliable. Thus, in some countries this may help to identify the province in which to base a program. In other countries it may be possible to target down to the village level using existing data sources.

In CASHPOR's Malaysian experience, national statistics are heavily relied on. Full advantage is taken of existing statistics on the geographical distribution of poor and poorest households. Often these are available from recent censuses or sample surveys and can give the total number of poor and poorest households, or an estimate of them, down to the administrative district/county level. This allows CASHPOR to start working in the district/county with the largest number of poor and poorest households. The next step is to meet well-informed district/county officials to ask in which villages are the largest concentrations of poor and poorest households located.

Once these villages have been identified, targeting on the ground can commence. The task begins with visits to the village with the highest number of poor households first, and then to the village with the second highest concentration down, and so on.

Motivation

Motivation of eligible people to join the program is an essential part of both the CASHPOR and SEF methodologies. Although not explicitly part of the poverty-targeting tool, it is an integral part of their targeting methodologies.

⁵ This is a phase popularized by Robert Chambers (1997) which is particularly relevant to MFIs struggling for cost-effectiveness and sustainability.

Many very poor, especially women, will be too afraid at first to come forward to join, as they will not know nor believe that the services are actually for them. Even when informed, many are likely to feel that it would be too risky for them to borrow. Only patient and persistent motivation work among them, and the convincing demonstration effect from neighboring poor and poorest households that do participate and benefit will encourage them to take advantage of the opportunity.

THE CASHPOR HOUSE INDEX (CHI)

The House Index was developed by CASHPOR, a network of Grameen Bank replications in the Asia-Pacific region, for their members to achieve the twin goals of both increasing and deepening outreach of poor households and achieving IFS.

There are three steps in the methodology:

1. Identifying high-density poverty areas (discussed above).
2. Using the house and sometimes the compound of the household as a crude indicator to eliminate the **obvious** non-poor households.
3. Conducting a more detailed household interview, or Net-Worth test, to determine program eligibility amongst the remaining households.

How Does the House Index Work?

The field staff walk systematically through the villages selected as containing many poor people. The staff look at each house and compound, eliminating those that are large, in good condition, and made from expensive materials; while houses that may or may not contain a poor or poorest household are indexed or scored based on a locally relevant set of points. Two cut-offs are established: (i) between the poor and non-poor and (ii) of those identified as poor, between poorest and moderately poor. On average, it takes field staff five minutes to index a house and determine eligibility scores.

Sometimes it is as easy as looking at the roof. In rural Asia, a temporary, flimsy roof (e.g., straw, leaves, plastic sheets, or cardboard) nearly always indicates a "very poor" household, as distinct from a "poor" one. Replacing the roof, for example, with used galvanized sheets in the Philippines, or locally manufactured, second-hand tiles in South India, does not cost much, but it is still beyond the resources of the "very poor." Once people get some surplus income (i.e., once they are less poor), they tend to replace their roof with at least a semi-permanent one that keeps out the rain and wind and does not have to be constantly repaired.

For the convenience of practitioners, the following classification can be a useful guide. It would, of course, need to be adapted to suit local conditions.

CASHPOR House Index	Adaptation to South India	Adaptation to China
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Size of the house:	Size of the house:	Size of the house:
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Category	Point	Category	Point	Category	Point
Small	0	Small <20 sq. meters	0	Small	0
Medium	2	Medium 20-29 sq. meters	2	Medium	2
Big	6	Big > 29 sq. meters	4	Big	4

CASHPOR House Index Adaptation to South India Adaptation to China

Structural condition:

Category	Point
Dilapidated	0
Average	2
Good	6

Structural condition:

Category	Point
Dilapidated	0
Average	2
Good	6

Quality of walls:

Category	Point
Poor	0
Average	2
Good	6

Height and materials of walls:

Category	Point
< 4 feet mud	0
4 feet mud	2
> 5 feet	6

Quality of walls:

Category	Point
Poor	0
Average	2
Good	6

Quality of roof:

Category	Point
Thatch/Leaves	0
Tin/Iron sheets	2
Permanent roof	6

Quality of roof:

Category	Point
Thatch/Leaves	0
Tin/Iron sheets	2
Tiles and other good materials	6

Quality of roof:

Category	Point
None/Mud	0
Partial stone	2
Cement/Concrete	6

A cut-off score of total points will be established to separate the houses of the poor from those of the non-poor. If there is doubt about what this point should be, the cut-off can be validated against household incomes in a sample study. Then, a cut-off score is established within the poor category to separate the houses of the poorest from those of the poor. Again a sample study can be carried out to validate the cut-off score against household incomes. Houses below the cut-off between poor and non-poor scores are listed and roughly mapped (drawn up in a diagram) as the field staff move through the village.

The following cut-off points can be a suitable guide in determining eligibility:

- i. **3 or less:** Likely to be Very Poor
- ii. **4 to 6:** Poor
- iii. **Greater than 6:** Unlikely To Be Poor

By limiting the cut-off point to a total score of 3 or less, we are more likely to be reaching the poorest households. However, for those with a score of 4 or above, an appeal procedure is developed where the households concerned can go to a more senior staff and bring their case for consideration, freeing the field staff to go about identifying the poorest households.

All houses in the whole village with a total score of 3 or less are marked on a simple map of the village. The number of "eligible looking houses" is then aggregated and the summary is transferred into a district-based listing of estimated very poor households. This can be used to

derive a preliminary estimate of the demand of microfinance services. It will also determine priority in Net-Worth testing. The houses that obviously are not lived in by poor households (i.e., large houses in good condition, made from expensive materials and with large compounds perhaps bounded by fine, sturdy walls) must be ignored.

The Net-Worth Test

Once the list and map of eligible-looking houses has been completed for the village, the field staff will go to the houses on the list to verify the eligibility of the households through a short, 10 to 15 minute interview that focuses on the value of their productive assets. These assets include agricultural land owned and/or operated, farm equipment (including buildings) and machinery, large farm animals, transport vehicles, and stocks of goods for sale, etc. The total value of household assets is estimated, and compared with the locally relevant cut-off that distinguishes non-poor from poor households and the poor from the poorest. Households falling into the latter two categories are informed of their eligibility for the financial services and motivated to form a group with any four other eligible households in the village that they can trust in matters of money.

Key Issues in the Use of the House Index⁶

Verification and quality control

As part of quality control to ensure minimum leakage of program services to non-poor clients, and to verify and monitor field staff, revisiting some houses and checking on the eligibility score and net-worth tests is highly recommended. Among Grameen Bank replications, the above process is termed “**re-interview**,” and is a regular but independent process of random checking of the quality of output of all field staff, normally undertaken by the field-level supervisory staff or internal audit team of the head office.

In new branches re-interview is done in all eligible households. With increasing numbers of staff, the re-interview is reduced to a random sample of five per week per loan officer.

Through this process, field supervisors can be assured that the field staff have not missed important factors that need to be taken into consideration. Feedback to the staff and affected households through re-interviews supports the quality and transparency necessary to ensure public confidence in the MFI's ability to reach and benefit the poorest households. Re-interviews must be carried out if there is any reason to suspect that better-off households are infiltrating the program in any particular area. Only when the field supervisors are convinced that a household is eligible can official confirmation of eligibility be given.

Limitations and challenges

⁶ Adapted from CASHPOR Management Development Training Workshop on Cost-effective Targeting (1998).

The CHI is a cost-effective and powerful tool. However, it is only as good as the relationship between poverty and housing, where it is clear that living in a bad housing structure indicates poverty, and a better structure indicates (relative) wealth. Sometimes, therefore, the CHI may not be effective. For example, where the poor have benefited from public housing programs, as in some Scheduled Caste villages in southern India, it cannot be used to distinguish between the poor and the non-poor.

In some contexts the CHI can be easily adapted to local criteria (see table above). In other contexts, where a housing index is not appropriate, it may be possible to develop other visual indicator poverty tests, using local proxies that show a strong relationship to the poverty level.

However, the CHI and other visual indicators will always be limited by their need for externally visible characteristics, lack of contextualization in terms of changing circumstances over time, and an inability to consider non-physical aspects of poverty. This is partly dealt with in the CHI by an appeal process and a Net-Worth test, but these mechanisms add to the cost of the tool and can only be used for borderline cases.

Comparing CHI to PWR - A Case Study of SEF, South Africa

The Tšhomišano (pronounced “chom-is-ano”) program of SEF adopted a modified House Index as its poverty-targeting tool. Initially an interview similar to the net-worth test was used, but this was later dropped to save time. Reports of problems by field staff raised concerns. These concerns mostly centered on people who had been denied access to the program on the basis of their housing condition, despite obvious signs of poverty and the confirmation of this by members of the community. There were also reports of people joining who the field staff felt were not poor, but who qualified on the basis of the index.

Two studies compared the results of PWR and CHI, as it was applied at SEF (Simanowitz). These demonstrated the inaccuracy of a system based on static, externally judged criteria (House Index), when compared to a local judgement of poverty (PWR). Many instances were cited of people living in poverty while having reasonable housing conditions. For example, there were people living in houses constructed prior to the main income earner dying or deserting the family. In addition, up to one-third of people classified as among the poorest by the House Index were among the top half in the PWR. For example, many people who were living in poor quality housing (while constructing new homes or having the main home elsewhere) were falsely included in the poorest category under the House Index.

This highlights the need to ensure the effectiveness of the proxies used in a visual-indicator system. A visual system is by definition static, and anomalies do arise. These are to be expected in a cost-effective system based on the principal of optimal ignorance. However, it is essential to have an effective appeal system to deal with the anomalies. The case study also demonstrates the need for the second stage in the CHI (i.e., the Net-Worth test), to verify results from the visual assessment. In SEF’s case, this stage was discarded due to the time involved, but this weakened the targeting process.

PARTICIPATORY WEALTH RANKING (PWR)

In contrast to the CASHPOR House Index, PWR aims to draw out local knowledge and criteria on which to judge poverty. The ranking is based on the subjective views of the people in a community, who generate their own criteria with which to rank poverty or wealth. Scoring or ranking is facilitated by field workers, but is performed by members of the community. Visual factors may play a part in the assessment of poverty, but community members are free to choose those criteria that are important to them, which usually includes socio-psychological factors not visible nor easily accessed without a good understanding of the community.

How Does PWR Work?

The ranking takes place in three parts -- mapping, reference groups, and analysis.

Mapping

Step 1. Mapping: A community meeting is set up involving representatives from all areas of the village in which the program will be established. After introductions and explanations, a participatory mapping exercise is facilitated. A village map is drawn either onto the ground with a stick, or on the floor of a building using chalk. If the village is large (over 100 households), it is divided into recognized sections. A household list is generated from the map, with participants writing down the commonly used name for each household (i.e., not necessarily the household head), and these names are written onto cards. There is one card written for each household in the area.

Reference groups

Step 2. Setting up reference groups: Three reference groups are set up for each section that has been mapped, with three to five members of the community in each group. If enough people are not present, those present are asked to invite additional people to the groups.

Step 3. Card Sorting/Wealth Ranking: Each reference group meets separately and sorts the household cards into piles, according to wealth along a continuum of high to low. The number of piles generated is determined by the participants, but at least four piles should be made. During the process of card sorting much information is gained about the participants' perceptions of wealth and poverty, and there is opportunity for discussion.

A staff member facilitates the process and monitors whether the ranking is done openly, with good participation of the group.

Analysis

Step 4. Triangulation: The results of the ranking are triangulated by using a minimum of three

reference groups. The numbers given to each household from each reference group are then totaled. Consistency between the groups verifies the results. If more than 10% are either gross inconsistencies or households with missing data, then an additional reference group is required.

Step 5. Scoring: Piles are scored using the formula [100 divided by the number of piles then multiplied by the pile number], so that the poorest pile always scores 100. For example, with four piles the poorest pile would score [100/4 x 4 = 100], the next [100/4 x 3 = 75], the next [100/4 x 2 = 50] and the wealthiest [100/4 x 1 = 25]. With five piles the scores would be 100, 80, 60, 40, 20.

The final score of each household is the average of the ranks it was given by the three reference groups. For example, if it had scored 100, 75, 80 on the three reference groups, its final score would be $[(100+75+80)/3] = 85$.

Step 6. Selecting the poorest: By this time, field staff have collected information about the poverty characteristics of the households in each pile during the reference group sessions. This information is analyzed and compared with a checklist of poverty characteristics drawn up from the information given in a number of rankings.⁷ The ranking score that corresponds to these characteristics is taken as the cut-off point score. The selection of the poor who can be included in the program is done on the basis of this cut-off score.

Benefits and Advantages

PWR is conceptually simple and the results are transparent. Although no attempt is made to generalize the findings beyond the community in which the ranking is conducted, comparisons can be made in an area of similar communities where the ranking criteria tend to be fairly consistent. While the subjectivity of the results may create “anomalies” when compared with accepted “objective” measures of poverty, this is balanced by the increase in the community’s acceptance of programs that work according to their perceived needs, 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 cut-off point should lie, and assists in designing financial products and in measuring impact.

Effectiveness of PWR as a Poverty-Targeting Tool

Evidence as to the effectiveness of the methodology can be demonstrated in four areas.

1. Triangulation of results: Integral to the PWR methodology is the cross-checking of data. With triangulation (having each household scored by a minimum of three reference groups), a high degree of reliability and validity can be achieved, and poor results are easily detected. Thus, while the method may be open to manipulation by participants or

⁷ See Annex 1 for an example of the lists of characteristics one might develop in this process.

staff, the data is highly sensitive to this, and it would be very difficult for this manipulation not to create high levels of inconsistency – leading to the data being rejected and the need for the process to be redone.

2. Feedback from SEF members: SEF has been using the method since 1996. During this period, feedback from communities and field workers has been almost always positive. There are obviously some cases of people being left out, but this is probably below the level of 10% inconsistencies allowed for in the method.

3. Comparison with the House Index: Strong evidence for the effectiveness of PWR comes from its comparison with the House Index (see section above on Comparing CHI to PWR, and Simanowitz, 1999).

4. Scaling up to large communities: Participatory Wealth Ranking and mapping methods are generally used in an intensive way by organizations working in small areas. An ideal-sized community would have less than 100 households, enabling both the mapping and wealth ranking to be carried out in a short period. The scaling-up of this method to be used in very large villages (500 - 1000 households), and to be operationalized over a large area was potentially problematic. SEF's experience, however, has demonstrated that the methods can be successfully used in very large villages, provided that the village is divided into smaller sections, and provided that people are comfortable in discussing the poverty status of their neighbors, and where there is a community where people have good knowledge of one another.

Key Issues in the Use of PWR

Limitations and challenges

The practice is more complicated than the idea, so facilitators need to be skilled and sensitive. If the method is applied without full understanding, flexibility, and sensitivity on the part of the staff, then poor results are obtained and resources are wasted. However, poor results are easily detected due to the rigorous triangulation of information in the method.

Deliberate distortion of results by participants can make the results unusable, although this again is easily detected. Experience has shown that the approach of the facilitator in introducing and facilitating the process is key to gaining the trust and cooperation of the community. Even in situations of conflict common in South African villages, deliberate distortion of the results is very rare, and it is extremely rare for a reference group to have to be discarded.

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.

Problematic contexts

In some situations it may be difficult to obtain full or open participation from a community, or the work involved in creating the trust to do this may make the process prohibitively expensive. For example, problems have been reported when participants are reluctant to exclude fellow villagers from participation in the credit program, leading to high numbers of people being ranked as very poor or poor.

In another example from Mirzapur, Uttar Pradesh, India, it was found that the methodology required a lengthy period (days) of gaining “confidence” from the villagers before they were willing to “open-up” to discuss sensitive issues such as who are poorer and who are better-off. In addition, to get very poor women to sit together with others was itself a major task, as the poorer they are the more secluded they are socially and culturally.

Good facilitation is the key to overcoming most problems, but there may well be contexts where PWR cannot work. However, forms of participatory wealth ranking have been used by development programs throughout the world.⁸ In SEF’s experience it is important to implement PWR through a learning process to develop the most effective ways to approach communities, and to facilitate the ranking process. This approach may well lead to solutions to the sort of problems described above.

Costs of PWR

Time and resource costs

In SEF’s experience the costs of PWR are approximately the same or slightly less than the screening stages of the House Index (i.e., before the Net-Worth test). In addition, the process generates a lot of awareness of the program in the community, and results in far less motivational work being necessary by the field staff in order to generate clients – this saves time and resources.

In a village of 500 households the following would be a typical time allocation for a PWR team of a supervisor plus three facilitators. The participants from the community also contribute time.

Mapping: Three people @ .5 days = 1.5 person-days

Reference groups: One facilitator can complete three reference groups in one day; i.e., each person can complete one section. Five sections would therefore take five person-days (the team would complete this in two days)

Analysis by supervisor: 3 hours

Checking of results by zonal manager: .5 hours

In addition, stationery (e.g., flip charts, pens, chalk, etc.) is also required. Refreshments are normally provided during the mapping exercise as a break between drawing the map and generating the household list.

⁸ Many international development NGOs such as ActionAid, Oxfam, Save the Children Fund, CARE, Concern, and others use wealth ranking as a participatory development tool to identify groups of the poorest people to work with.

The total cost for SEF to rank a typical village in South Africa is therefore approximately R300 (US\$50) plus 7 person-days.

Time is also required for making arrangements to conduct PWR. This includes discussion with the community and making arrangements for the venue. However, this can be done as part of the process of starting a program in a new village, and need not be budgeted for separately.

Achieving cost-effectiveness - Optimal ignorance

A balance needs to be struck between the level of accuracy required in poverty targeting, and the resources required to achieve this. Thus a key question in the operationalization of PWR is to find the point of “optimal ignorance,” thereby reducing the time and resources required to a minimum.

PWR very rapidly builds up consistent results for the vast majority of households. The few remaining inconsistencies, however, require that repeat reference groups be conducted to achieve close to 100% consistency. Practice has demonstrated that there are rarely more than about 10% of households that are not consistently ranked by the three reference groups. Accepting this margin of error – particularly for those who obviously do not rank amongst the poorest, allows the number of reference groups to be kept to three (or four in exceptional circumstances). This reduces the time required for the process, and it is expected that one field worker would complete the process for at least one section of a village in one day.

Staff Requirements

Skill levels

The skill level required for PWR is higher than for the House Index. However, a field worker with an average level of intelligence and education can facilitate PWR; at SEF most field workers have basic levels of higher education. PWR does require thinking by the field worker, but it is their approach, and the way in which the tool is used, that is central to the process.

PWR supervisors should normally be at the Branch Manger level or higher.

Training

To implement PWR on a wide scale, standardization through rigorous training, assessment, and monitoring of facilitators is essential. However, there is a real danger that standardization will lead to the step-by-step process being followed blindly, instead of facilitation through an awareness of the progress of the process. For example, during the card sorting, there is an introductory discussion dealing with concepts of poverty and wealth, which is critical to starting the ranking from a common understanding. At SEF, a form was developed to outline the questions to ask, and which provided space to record the information given. Immediately the process was interpreted by some staff as a questionnaire, rather than a facilitated discussion. Yet,

if the steps are not clearly laid out and understood then staff will omit key elements, and the effectiveness of the process will be undermined.

Staff training is, therefore, key. This training needs to be experiential and ongoing. Staff undertaking PWR are supervised for a period and then formally assessed. Continued spot checks and refresher workshops are advisable.

CHECK-LIST POVERTY TOOLS

There are a group of tools used by many organizations that we call “check-list” tools. These are simplified household poverty surveys, and are able to develop a list of a small number of indicators that when combined give a reliable assessment of the poverty level of an individual household. Five tools have been examined for this paper: The Kabalikat para sa Maunlad na Buhay Inc. Means Test (KMBI, Phillipines); Rhunu UNESCO (Sri Lanka); Family Development Fund (FDF, Egypt); International Rescue Committee SEAD Program (IRC, Ivory Coast); and Lift Above Poverty Organization (LAPO, Nigeria). The second stage of the CHI – the NetWorth test – is also an example of a check-list tool.

The innovation in this approach is not the detailed check-list developed by an individual organization, but the processes of:

- 1) developing an accurate and reliable check-list, which produces results which reflect the local reality, and does not produce large numbers of anomalies
- 2) developing a method of applying the check-list which obtains good cooperation by potential clients and their communities
- 3) implementation of the method in a way that is cost-effective and does not require excessive staff time
- 4) developing rigorous quality control to ensure that the results cannot be manipulated by potential clients and staff.

What indicators can be used?

The indicators selected very much depend on the local understanding of poverty, and the identification of key aspects of poverty where there is a simple proxy that can be measured.

These can be divided into four areas:

- 1. Income and Expenditure:** Many organizations ask direct questions about actual household income and expenditure, or income sources, in an attempt to measure economic poverty. The KMBI Means Test asks for current income of the applicant, the spouse and immediate family members. Rhunu looks at income bands, whilst the Family Development Fund defines a poverty-line income level of US\$12 per month, and potential clients are assessed as below or above this line.

Income and expenditure questions are notoriously unreliable. They are very open to under or over reporting according to perceived benefits by the potential clients, and are also open to human error where a client may not know the net profit from a business, or the income from her husband. Generally a proxy indicator for income will be more reliable than a direct question, but income bands may be useful, particularly where there is triangulation from other indicators.

- 2. Indicators of economic status:** Because of the difficulty in directly measuring income and expenditure, most organizations use proxy indicators to give an indication of household

income level. These proxies include household assets such as furniture, television, fridge etc (used by IRC and KMBI); productive assets such as land or business value/equipment (used by FDF KMBI and LAPO); or externally visible assets such as housing (used by Rhunu, IRC, KMBI and LAPO). A small number of organizations attempt to measure more general poverty indicators, such as nutritional and health status (used by Rhunu).

Economic status is an important component of poverty, and where appropriate indicators are developed they can be effective indicators of poverty.

3. Social indicators: Recognizing that poverty is much broader than just economic issues, a check-list system should also include social indicators of poverty. For example, LAPO looks at marital status, whilst FDF includes the category of female headed households as positive criterion for identification of the poor – this includes widows, divorcees, women married to unemployed or disabled men. Level of education also fits into this category and is used by Rhunu, IRC, and LAPO.

4. Indicators of wider poverty factors: The final category relates to broader, often community level factors. These include access to water, health, education and other services, geographical location, and are used by Rhunu and LAPO.

Developing a list of indicators

Household poverty surveys typically include several pages of detailed questions in order to assess poverty. This is too costly for MFIs, and a small number of indicators are used instead. However, check-list tools cannot accurately measure poverty without a demonstrated strong link between the indicators being measured and the poverty they are measuring. It is therefore important for more detailed household surveys or qualitative research to look at poverty in the communities in which the MFI is working/plans to work, and to select key indicators for poverty. Community involvement in this process, for example through a wealth ranking exercise, can increase the reliability of information and lower the costs involved for the MFI.

There is often a tendency to include too much information, and to “just ask one more question”. But each indicator included increases both the cost of developing the tool and its implementation, so the rule of optimal ignorance is vital.

From the examples given above it is clear that although the five tools bear many similarities, they vary significantly in the specific indicators they use and the mix between economic, social and wider poverty factors.

The key is to develop a sound understanding of local poverty characteristics, and to select indicators that bear a strong and consistent relationship to poverty level. This is very much something for each organization to do itself, and the specific indicators cannot be recommended in this paper. “Best” indicators are those that are directly related to poverty level, give reliable results, and can be simply and cheaply measured.

Measurement of indicators

Check-list tools use simple and quick ways of obtaining information. All the tools reviewed include a one-to-one household interview, but this can be simplified by asking for information that is easily answered (e.g. household assets rather than actual income), and by asking information bands rather than exact figures. Visual indicators are also a simple and cost-effective indicator and can be usefully included.

A method is then designed to survey potential clients by way of interview and, in some cases, direct observation, to score them according to a check-list that will rank potential clients according to a predetermined scale. The check-list will typically be implemented by a loans officer who will visit the potential client in their home. She will make observations during this visit, for example of housing condition and household assets, and this will be included as part of the poverty assessment. She will also ask a short questionnaire, lasting perhaps 10 minutes.

Triangulation and weighting of indicators

Check-list tools use a number of indicators that are cross-checked or triangulated against each other. The more indicators used, and the greater the mix of the types of indicators, the more complex is the task of determining a final poverty score and comparing the scores of different people. All the tools reviewed, except for FDF use a point system assigned to each indicator. Rhunu and LAPO weight the points so that each indicator may have a different number of possible points allocated to them. The point-based systems then develop a score sheet, and assign poverty levels to different total point scores.

FDF is simpler in that it uses qualifying indicators, for example if the family has an income below US\$12 per month they qualify as below the poverty-line. Where a person qualifies in a certain number of indicators they are classed as eligible to join the program. This system is simple, but it does not achieve the subtlety and accuracy of results possible from a weighted points system. The main drawback with the weighted points system is that it tends to give results that give an appearance of greater accuracy than they can actually achieve. The indicators are each general estimations of poverty level, not accurate measures. Together they can triangulate each other and give a reasonable estimation of poverty level. The scores are therefore best interpreted as broad bands rather than accurate poverty scores.

Obviously the weighted point system depends on a very thorough understanding of poverty, and the system can only be as good as the relationship between each indicators and the poverty it is measuring. Thus to develop a point system is time consuming and difficult.

How can the system be monitored and made rigorous?

The rigor and accuracy of the check-list system depends on the understanding of poverty developed, and the strength of the individual indicators chosen. Indicators can have a strong link

with poverty, but may also be subject to high occurrence of anomalies, where the person is poorer or better off than the indicator may suggest. Triangulation of a number of indicators will help to control for this problem, but it is essential that:

- 1) there is an effective appeal system for dealing with people who are wrongly classified
- 2) that there is on-going monitoring of the system to check that the indicators maintain a strong link with poverty, and that the number of anomalies does not become unacceptably high.

Inaccuracies may also occur in the information given by the potential client or in observations made by the loan officer. These types of errors can be controlled by including a mix of indicators where information is given through interviews and those where there is direct observation by a loan officer.

Costs and usefulness of Check-list tools

To develop an effective and rigorous check-list tool requires considerable time and resources to research poverty, and choose and test appropriate indicators. Check-list tools are relatively time consuming, requiring detailed interviews with each potential client – this takes up not just the interview time, but the time to travel to each house, and for general greetings and conversation. It is therefore impossible to use the tool to classify all of the members of a community. Rather it can be used to screen applicants to the program to assess whether they qualify to join, or simply to record the poverty level of clients. For organizations such as Cashpor and SEF that seek to identify the poorest people in a community and then motivate them to join the program a check-list tool would be too time consuming and costly on its own. However, where combined with another tool such as a the House Index, a check-list tool can be very effective in accurately classifying those people already identified as most likely to qualify for the program.

HOW TO CHOOSE A POVERTY-TARGETING TOOL

We have outlined three poverty-targeting approaches that are reliable and cost-effective. The choice of which tool to use depends largely on the objectives of using a poverty-targeting tool, and in which context it is to be used.

Where there is a desire to understand local concepts of poverty, to set up a transparent identification process, or where poverty indicators are very variable, PWR may be the preferred tool. In contexts where the sense of community is very weak, there are high levels of conflict, or there are strong barriers to freely talk with women, PWR may be difficult to implement. Similarly, if the skill levels of staff are low, then PWR may be difficult to use.

For organizations simply wishing to measure the poverty level of clients who join the program, or to screen out potential clients above a certain wealth level, the check-list approach may well be appropriate. This saves resources by not classifying the whole community, and by focussing on actual or potential clients. The check-list approach may also be useful as an impact measurement tool, since it can be applied to any client at any time. However, for those organizations wishing to actively recruit the poorest people in a community the check-list

approach is not sufficient on its own, and needs to be combined with a more general tool such as the House Index. This obviously does raise the costs, and the two stage process is likely to be more time consuming and costly than PWR.

The CHI relies on there being a strong correlation between housing conditions and poverty. This is not a universal relationship, and is very much defined by the context. Where the CHI is adapted to local conditions, perhaps including other externally visible, non-housing indicators, there is a greater chance of the Index being applicable to a wider range of contexts. The CHI effectively combines a general screening of the whole community, which identifies likely clients, with a more detailed check-list tool – the NetWorth Test – that provides more detailed and accurate poverty information. The House Index, and other visual targeting tools are effective in contexts where there is a relatively uniform picture of poverty and there is a strong relationship between a visible characteristic such as housing and poverty.

Thus, in developing and adapting a poverty-targeting tool, a number of choices need to be made that will determine which tool is used. A critical point with any of the approaches is that the tools must not be implemented blindly, but adapted to local conditions. In PWR, the facilitation of the process will need to be developed to suit local norms. In the CHI, there should be careful work to determine the effectiveness of different visual indicators, and to develop a system that is based on the best visual proxies, rather than assuming the housing structure is effective. With the check-list tools considerable effort must be put into developing appropriate poverty indicators.

Relating Poverty-Targeting Tools to National Poverty-Line Measurements and to the Summit's Goal of the Bottom 50% Below the Poverty Line

Neither the CHI, PWR nor the check-list tools reviewed explicitly link their criteria to other “objective” poverty measures. Both are able to define “poorest,” “poor,” and “non-poor” but these categories do not automatically correlate with the income levels defined by the Summit's objectives. Although the CHI Net-Worth test and other check-list tools do provide some more detailed information, PWR explicitly uses local definitions of poverty, which are often not income-based.

Where analysis of income level is a requirement for a poverty tool, either method could be analyzed to provide the necessary data, although this would have cost implications. The CHI (or an adapted visual indicator test) provides a fixed list of characteristics. The Net-Worth test or other check-list tool can then be used to sample qualifying households at different levels against “poverty-line” economic data in order to “calibrate” the index. This could be done in a similar way with PWR, however, the subjectivity of results from each village could make generalization difficult. Alternatively, economic data provided in the PWR process (housing, education, food, income, expenditure, etc.) could be analyzed and numeric values given, so as to approximate income levels. Proxy indicators can also be used to equate the PWR results to economic measurements. In the case of SEF, for example, the position of state pensioners in the ranking, who receive a known income from the government, has proved to be an effective proxy that makes comparison of the PWR to national poverty-line figures possible.

CONCLUSIONS

In this paper we have demonstrated the central role poverty-targeting must play in any poverty-focused microfinance institution, not just in terms of knowing and reporting on who we are reaching, but as a fundamental basis for building a sustainable program, which is designed around and which meets the needs of the poorest.

Reliable and cost-effective poverty-targeting is being achieved in practice, and has been operationalized into the day-to-day operations of many MFIs. The obstacles that, in the past, led MFIs to avoid targeting and create programs that did not reach the poorest, as well as claim they could not report on who they were reaching, have now been overcome.

SEF has been using PWR as the starting point in new villages for about one and a half years. During this period, ranking has taken place for over 20,000 households. SEF targets the poorest people as defined by communities themselves, but has demonstrated that this approximates to the Summit's goal of the bottom 50% of households living below the poverty line. There is obviously some leakage, but this is mostly at the borderline between the poorest and the poor. Field staff and community members report that the program is effectively reaching the poorest, and that the vast majority of clients are in SEF's target group.

The CHI has been implemented widely in Asia and the Pacific, and a recent evaluation concluded that 97% of clients are within their target group of the poor and very poor.

It is hoped that this paper, and the methods outlined, will bring a new awareness, understanding, and commitment within the international development community to reaching the poorest families. We urge practitioners to take up the challenge of reaching the poorest, and adapting and implementing targeting methods that make sense in their own contexts.

ANNEX 1. SOME EXAMPLES OF CHECK-LIST TOOLS

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

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.

The means test is fairly simple, because even though it asks more than ten questions it is restricted to one page and is more succinct than similar tools used. This simplicity means that it can be built in as a routine function of field staff screening of clients. Its cost is fairly similar to that of the CHI and PWR, requiring less than 40 minutes per client to complete. Its point system does a good job of discriminating among the very poor, poor, and nonpoor. It also produces high quality data because of the precoded checklist system of answers, which has built-in cross checks, although the process is open to abuse, and requires an effective system of spot-checking by a supervisor.

It is interesting to note that KMBI also uses the information collected in the Means Test as a baseline for subsequent impact evaluations.

**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		%
Spouse		
Immediate Family Members		
TOTAL INCOME:		%

II. HOUSING INDEX:

	4	3	2	1	0	POINTS
Size of House (In. 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 cement/coco lumber, rough concrete	old GI sheets/wack	
Floor			tiles	concrete	soil/wood supported by columns submerged in water	

III. ASSET INDEX:

	4	3	2	1	0	POINTS
Land/Lot	owned with title		inherited with title	lease/allotment certificate	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/Karaoke		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:						

SCORES 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:					

141296

RHUNU UNESCO, Mr. C.A. Samaradivakara

At Rhunu Unesco in Sri Lanka, a card is completed for each beneficiary family with information gathered from a survey done of the family's circumstances. Points are determined for certain levels within each category, although unlike other tools, there is no weighting for the points from different indicators. Points (0-10) are awarded for each indicator; the lower the overall score, the poorer the family. Families scoring 30 points or less are considered living below the poverty line in Sri Lanka, whereas families scoring 20 points or less are considered in the bottom half of those living below the poverty line. The survey includes:

- 1) Monthly income for a family: (US\$50 = 10 points / \$40 = 8 points / \$30 = 6 points / \$20 = 4 points / \$10 = 2 points)
- 2) Quality of housing: (Permanent = 10 points / Semi-permanent = 5 points / Temporary = 0 points)
- 3) Health:
 - a. Access to pure water within 100 yards (Owns or has access to pure water source = 2.5 points / No access to pure water source = 0 points)
 - b. Access to proper toilet facilities within 100 yards (Permanent water-sealed toilet = 2.5 points / Water-sealed toilet needing improvement = 1 point / No toilet facilities = 0 points)
 - c. Nutritional level of the children (as evidenced by a Child Development card maintained by the government = up to 2.5 points)
 - d. Immunization of children (as evidenced by a Child Development card maintained by the government = up to 2.5 points)
- 4) Number of school-going children: (Full score = 10 points / 2 points deducted for every child ages 6 - 18 that is not attending school)
- 4) Availability: (Electricity = 10 points / No electricity = 0 points)

FAMILY DEVELOPMENT FUND, UNICEF

The Family Development Fund (FDF) in Egypt uses a tool that targets some of the poorest villages of Upper Egypt, and their target population is very poor women. Female high school graduates from the community are selected as loan officers and trained to do assessments. The tool is very simple, using a small number of indicators and no point system. This would be very weak on its own, but FDF combines the check-list tool with a final verification by a community-based loan committee. Information is not available for the functioning of these committees, but if they are effective then this would be a very low cost tool.

Criteria for selection include the following:

- 1) Female-headed households (widows, divorcees, women married to unemployed men, women married to disabled men)
- 2) Per capita income of the family members is not more than Egyptian Pound 40.00/US\$12 per month (based on interviews with the women regarding their sources and amount of income)
- 3) Land owned or leased should not be more than 4 Kerats (total 0.17 acres)

4) Women eligible for the Sadat Pension Scheme and receive social security from the Ministry of Social Affairs

Priority for loans is given to those who meet more than three items of the above criteria.

INTERNATIONAL RESCUE COMMITTEE SEAD PROGRAM, Sunimal Alles

The International Rescue Committee's SEAD program in the Ivory Coast works primarily with Liberian refugees in the Ivory Coast. Staff carry out baseline surveys and document findings before any assistance is provided. The loan staff observe for themselves, as well as interview participants and their neighbors, concerning several items differentiated by the titles very poor, not so poor, non poor.

The tool is simple and has well thought out indicators which relate well to local poverty conditions. It uses proxies for income and expenditure, rather than trying to get direct answers - all the indicators can be either observed or information gathered with a simple question, and this should not therefore be a time-consuming process. There is also a good mixture of proxies that can be directly observed and those that are asked - this helps to save time, and also ensures triangulation of information.

Although the tool achieves simplicity, it is not very effective in accurately distinguishing between different levels of poverty, using only three categories: Very Poor (VP), Not So Poor (NSP), Non Poor (NP)

- 1) Cooking Utensils: (VP = Leaking, damaged, limited quantity / NSP = Better pots, 1 set of dishes / NP = Better quality, more than 1 set)
- 2) Sleeping condition: (VP = Floor or mat / NSP = Mattress / NP = Bed)
- 3) Clothes: (VP = Torn or dirty / NSP = Patched / NP = Good clothes)
- 4) Slippers: (VP = No footwear, different models, damaged / NSP = Repaired and second hand / NP = Better/new shoes and slippers)
- 5) Food: (VP = Dry rice, 1 meal a day / NSP = Rice with soup, 2 meals a day / NP = Rice with meat/fish, 3 meals a day)
- 6) Health condition: (VP = Skin rash, infected eyes, sore feet, cough, running nose, diarrhea / NSP = Some of the same as for the very poor, but better health, buys medicines from street vendors / NP = Visits to the doctor, medicines from pharmacy)
- 7) Schooling: (VP = No children in school / NSP = Boys in school / NP = All children in school)
- 8) Housing: (VP = Leaking house, no door, cloth to cover entrance / NSP = 1 front door, 1 room cemented / NP = Cemented house floor, 2 doors, good roof, 4 windows, flowers in yard)
- 9) Furniture: (VP = No chairs, some benches / NSP = 2 chairs or stools / NP = Sufficient furniture)
- 10) Utilities: (VP = No toilet, 1 or no lantern, uses fire for light / NSP = Shallow pit latrine, 2 lanterns, well for water / NP = Covered well for water pump, flushing toilet)
- 11) Domestic employees: (VP = none / NSP = none / NP = 1 employee)
- 12) Transportation: (VP = Walking / NSP = Paying for taxi / NP = Bicycle or motorbike)

- 13) Radio: (VP = None / NSP = Old or damaged / NP = Good or new)
- 14) Ice box: (VP = None / NSP = Clay pot to cool water and drinks / NP = Refrigerator)
- 15) Animals: (VP = None / NSP = Sheep, chickens / NP = Cows, sheep)
- 16) Business income: (VP = No income or working as laborer / NSP = Part time / NP =Regular employment)
- 17) Economic activities: (VP = Gathering and selling palm nuts and wood / NSP = Buying and selling wood, table market / NP = Larger table market, store, cosmetic shop)

LIFT ABOVE POVERTY ORGANIZATION (LAPO), Uwa Izeke

The Lift Above Poverty Organization in Nigeria developed their poverty measurement tool after visiting Grameen Bank in 1990. Their tool provides a scoring system between 25 and 100, with the higher scores indicating greater poverty. People are eligible for a loan from LAPO if they score 50 points or above, as their economic situation would correspond similarly with people living below Nigeria's official poverty line. LAPO staff have indicated that people scoring 70 points or above would have economic situations that correspond similarly with the Summit's target group, the bottom half of the population living below the Nigerian poverty line. The questions take five minutes to complete per client. This is used as an initial cut-off to determine eligibility. Before a client receives a loan, there are five more meetings with loan officers who can use these meetings to verify the accuracy of the information provided in the first interview.

The LAPO tool is similar in some respects to that of the IRC, however it importantly does not attempt to ask actual figures for monthly income and business worth. The main strength of this tool is that the indicators are weighted, however, it is not clear whether the indicators are rigorous enough to be used effectively in this type of weighted system.

The list of criteria include:

1) Personal:

a. Level of formal education: (None = 12 points / Half primary = 8 points / Full primary = 6 points

/ Half secondary = 4 points / Full secondary = 2 points)

b. Number of dependants under 20 years of age: (Above 9 = 10 points / Between 6 and 9 = 8 points / Between 3 and 5 = 5 points / Between 1 and 2 = 3 points / None = 2 points)

c. Marital status: (Widow = 10 points / Separated or divorced = 6 points / Married = 5 points / Single = 4 points)

2) Household:

d. Building: (Rented = 12 points / Inherited = 6 points / Own = 3 points)

e. Size of dwelling place: (1 room = 7 points / 2 rooms = 5 points / 3 rooms = 3 points / Flat/Bungalow = 2 points)

f. Highest form of entertainment owned: (None = 12 points / Radio = 6 points / T.V. = 1 point)

3) Business/Occupation

g1. Worth of business [in Naira US\$1 = 88 NGN]: (No business/1000-5000 = 15 points / 6000 10000 = 10 points / 11000-20000 = 8 points / 21000-50000 = 5 points / 5100 and above = 3

points)

OR

g2. Size of farm: (Small = 15 points / Medium / 9 points / Large = 3 points)

h. Monthly income: (Below national minimum wage = 12 points / Above national minimum wage = 5 points)

4) Location:

i. Location: (Rural = 10 points / Semi-urban or Local Government Headquarters = 6 points / Urban or State capital = 3 points)

SCORE SHEET

(Maximum, Minimum)

1) Level of formal education	(12 points, 2 points)
2) Number of dependants under 20 years of age	(10 points, 2 points)
3) Marital status	(10 points, 4 points)
4) Building - house	(12 points, 3 points)
5) Size of dwelling place	(7 points, 2 points)
6) Highest form of entertainment owned	(12 points, 1 points)
7) Worth or business OR Size of farm	(15 points, 3 points)
8) Monthly income	(12 points, 5 points)
9) Location	(10 points, 3 points)

TOTAL (Maximum = 100 points / Minimum = 25 points)

ANNEX 2. CASE-STUDY: PWR IN BUNGENI, SOUTH AFRICA

Characteristics of Different Wealth Groups in Bungeni

Poorest:

- * single parent unemployed, or two parents both unemployed
- * many children
- * being unmarried and having no family to assist
- * dependent on temporary jobs
- * no means of provision except by begging
- * widows with many children
- * insufficient and poor quality food – often have to beg food
- * no proper place to sleep – poor quality housing
- * orphans with no parents
- * inability to educate children
- * few clothes – almost never buy
- * no assets
- * no self-respect or respect from others

Poor:

- * temporary jobs (e.g., farm laborers)
- * have some food, but struggle
- * working widows and pensioners with many children
- * parents dependent on working children who also have their own families in the same household sharing resources
- * working on agriculture scheme
- * many children
- * no pension/pensioners with many children
- * unmarried
- * have some house (though not good) – some made of mud bricks, with cracks
- * can provide something from their temporary jobs
- * children attend school irregularly

Quite poor:

- * earns enough to cope daily – mostly temporary work/ self-employed
- * those with smaller number of children to look after
- * pensioners with fewer children
- * widows with pensions from late husbands
- * have sleeping place
- * unmarried
- * pay-outs from old jobs
- * children complete primary school
- * able to buy enough food

OK:

- * pensioners with only themselves to look after
- * few children
- * good supply of food – varied diet
- * families where at least one parent has a permanent job
- * children attend school regularly
- * good house

Wealthy:

- * professionals and business owners
- * good money to adequately supply their family
- * children attend school properly
- * electricity in the house
- * own a television
- * smaller families
- * own a car/gun
- * eat bread with margarine
- * children nicely clothed
- * children attending tertiary education
- * company pensions
- * food in abundance
- * excellent housing
- * drink tea every day

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