Achieving the Microcredit Summit and Millennium Development Goals of Reducing Extreme Poverty: What Is the Cutting Edge on Cost-Effectively Measuring Movement across the $1/Day Threshold?

By Thierry van Bastelaer and Manfred Zeller

Executive Summary

It is widely acknowledged that the majority of the world's population, mostly people in the developing world who live on less than $1 per day, do not have access to formal financial services. A recent World Bank study concluded that more than half of the poverty level reductions for poor clients in three Bangladeshi microfinance institutions (MFIs) could be directly attributed to microfinance. Its impact was greater on extreme poverty than on moderate poverty.

In early 2005 the Microcredit Summit Campaign reaffirmed its commitment toward fulfilling the Millennium Development Goals—in particular, cutting the proportion of people living in absolute poverty in half by 2015. The campaign was also extended until 2015, with a focus on the following two goals:

• Ensuring that 175 million of the world's poorest families, especially the women of those families, will be receiving credit for self-employment and other financial and business services by the end of 2015
• Ensuring that by the end of 2015, 100 million of the world's poorest families will have sufficiently increased their incomes to exceed US$1 a day, adjusted for purchasing power parity (PPP)

Both goals present a measurement challenge: the need for cost-effective tools that measure (1) whether a household lives on a per-capita income below US$1 a day and (2) whether household incomes move above US$1 a day per capita over time.

Microfinance organizations realize the importance of knowing more about their clients, particularly their poverty level. In parallel, policymakers, advocates, donors, and practitioners consider microfinance an effective step toward reaching the Millenium Development Goals, especially cutting poverty in half by 2015. A number of practitioner organizations have taken up the task of developing tools to assess the poverty level of their clients and to measure their movement out of poverty.

Adding to this momentum, in 2000 the U.S. Congress passed the Microenterprise for Self-Reliance Act, mandating that half of all United States Agency for International Development (USAID) microenterprise funds benefit the very poor. This act was amended in 2003. The lack of widely applicable, low-cost tools for assessing poverty based on absolute income makes it difficult for USAID to determine whether it is meeting these targets. Therefore, the law requires USAID to develop and certify at least two tools for assessing the poverty level of its microenterprise beneficiaries.

This mandate creates a unique opportunity to establish a basis for accurate yet simple quantitative measurements of poverty outreach, building on the accomplishments of microenterprise practitioners in this area. While very detailed and accurate tools—such as the World Bank's Living Standards Measurement Survey (LSMS)—are already available, they are time-consuming and expensive to implement. In addition, they are designed to be used by official statistical agencies over large, country-wide samples, rather than by practitioners interested in knowing the incidence of extreme poverty among their clients. Consequently, the last few years have seen a number of projects aimed at developing the means to accurately and easily measure the poverty outreach of microenterprise programs in relation to an absolute poverty line, such as $1/day. The resulting tools were designed for the specific needs of microenterprise practitioners with limited financial means, statistical expertise, and available staff.

This chapter describes the methodological challenges facing these efforts, how a team based at the IRIS Center at the University of Maryland chose to address these challenges under USAID funding, and what the IRIS findings suggest regarding the promises and obstacles confronting practitioners interested in measuring the poverty status of their clients and its change over time. Hence the chapter does not pretend to describe all possible approaches to measuring absolute poverty and tracking movement across the poverty line, nor to suggest that the IRIS approach is the only promising one. There are several groups currently working on this issue, and all of them face the same challenges. The aim of this chapter is to describe these common challenges and to suggest one possible way to address them.

This material is excerpted from the book *More Pathways Out of Poverty* (Bloomfield, CT: Kumarian Press, 2006). To order go to: www.kpbooks.com.