

**Microfinance Services for Very Poor People:  
Promising Approaches from the Field**

*and*

**The US Law's Mandate to Reach  
Very Poor People: What Strategies are MFIs  
Developing, and What do they Mean for the  
Rest of the Field? -A Practitioner Survey**

**Written by:**

Jan Maes, Friend of SEEP  
Laura Foose, Facilitator  
Poverty Outreach Working Group  
SEEP Network

**July 2006**

## TABLE OF CONTENTS

Introduction and purpose of research.....	1
Definition and status of poverty.....	5
Role of microfinance in serving very poor people.....	6
Challenges in serving very poor people.....	7
Overview of Existing Poverty-focused Microfinance Approaches.....	8
To target or not to target.....	12
Products and services.....	13
Non-financial development interventions.....	16
Organizational Features.....	20
Conclusion.....	21
Annex 1.....	i

## **INTRODUCTION AND PURPOSE OF RESEARCH**

In 2000, the U.S. Congress passed the Microenterprise for Self-Reliance Act,<sup>1</sup> which mandates that one-half of all U.S. Agency for International Development (USAID) microenterprise funds must benefit very poor people. The legislation defines the “very poor” as people living on less than US\$1 a day<sup>2</sup> or those among the bottom 50 percent of people living below a specific country's poverty line. This paper uses the same definition of “very poor,” which essentially implies extreme poverty. The law also requires USAID to develop and certify tools for assessing the poverty level of microenterprise beneficiaries so that the agency can determine whether or not its development partners are achieving the mandate of assisting the very poor. The development of these tools is being carried out by the IRIS Center and USAID.

The U.S. legislation was advanced by pro-poor microfinance advocates who sought transparency concerning who the microfinance industry is really reaching. These advocates, and certain microfinance practitioners, viewed the legislation as necessary because most microenterprise development (MED) practitioners were not reaching very poor people, despite mission statements and promotional materials that identified these people as their target clients. The reality is that many microfinance organizations have no idea of who they are reaching. Most microfinance clients today fall in a band around the poverty line; the extreme poor are rarely reached. It is thus crucial that policymakers, donors and development practitioners have reliable information about the poverty levels of the beneficiaries of development services in order to steer investments and programs toward targeted population segments they want to reach.

---

<sup>1</sup> *Microenterprise for Self-Reliance Act of 2000*, Public Law 106 309. The act was amended in 2003 and 2004. The [Amendment to the Microenterprise for Self Reliance and International Corruption Act](#) in 2003 requires that 50 percent of all USAID microenterprise resources benefit the very poor. The legislation was further amended in 2004 ([Microenterprise Results and Accountability Act of 2004](#)).

<sup>2</sup> Equal to US\$1.08 per day in purchasing power parity (PPP) dollars at 1993 prices.

Although many practitioners and implementers opposed the U.S. legislation as restrictive and costly, it has successfully brought the issue of knowing who your client is, and how best to serve her or him to the forefront of microfinance discussions. Several organizations that have created poverty assessment tools and conducted client analyses over the last two years have come to realize that they are not even close to reaching their intended target market. This has resulted for some in a reexamination of their mission and in some cases a realignment of mission. However, for those organizations that remain committed to serving very poor people, the Poverty Outreach Working Group at the SEEP Network has engaged in research to evaluate programs that do a good job of working with very poor people and to glean good practices to share with other organizations. This paper examines some of the common elements that make such programs successful and recommends areas for further research.

\*\*\*\*\*Additional Research\*\*\*\*\*

In conjunction with this paper, the authors are conducting a survey among MED practitioners to see what changes, if any, have taken place within their organizations in response to the legislation. The results of this survey will be shared during the workshop discussion "**The US Law's Mandate to Reach Very Poor People: What Strategies are MFIs Developing, and What do they Mean for the Rest of the Field?**" at the Microcredit Summit meeting in November 2006 in Halifax. The survey will examine poverty assessment methods as well as any programmatic changes and/or strategies to enhance down reach.

Preliminary research shows that very little new innovation from practitioners has taken place in the development of poverty assessment tools. It is likely that USAID's selection of the IRIS Center to conduct the research and develop the tools is a contributing factor to this. USAID selected IRIS in order to ensure high quality, technical and unbiased research to develop the

poverty assessment tools, but this selection in effect stopped or discouraged practitioners from developing their own tools because the IRIS tools were thought to be the only ones that would be certified. This is in fact not the case, practitioner tools will be considered in the impending certification process, but the general belief was that it was not worth the investment to create a poverty assessment tool if USAID would create one for general use. While the intention was good, the result has been less innovation coming from practitioners and more of a “wait and see” approach to see what IRIS develops. The practitioners in the Poverty Outreach Working Group have nonetheless been working with the IRIS Center to provide input from the ‘practitioner perspective’ along the way.

See Annex 1 for a copy of the survey.

**Box 1. Acronyms used in this paper**

ARC	American Refugee Committee
ASA	Activists for Social Alternatives
CFPR/TUP	Challenging the Frontiers of Poverty Reduction/ Targeting the Extreme Poor, a BRAC (Bangladesh) program
CRS	Catholic Relief Services
FFH	Freedom From Hunger
IGVGD	Income Generation for Vulnerable Groups Development, a BRAC (Bangladesh) program
ILO	International Labor Organization
MED	microenterprise development
MFI	microfinance institution
NABARD	National Bank for Agriculture and Rural Development - India's apex bank for rural development
NGO	nongovernmental organization
PPP	purchasing power parity
SEF	Small Enterprise Foundation
SHG	self-help group
TCP	Tshomisano Credit Program, a SEF program
TUP	Trickle Up Program
USAID	U.S. Agency for International Development
WHO	World Health Organization

## **DEFINITION AND STATUS OF POVERTY**

Traditionally, poverty has been conceptualized in terms of income, with the poor defined as those living below a given income level. But poverty has been increasingly recognized as a multidimensional phenomenon that encompasses not simply low income, but also lack of assets, skills, resources, opportunities, services and the power to influence decisions that affect an individual's daily life.<sup>3</sup> Poverty also frequently overlaps with and reinforces other types of social exclusion, such as those based on race, gender or ethnicity. This more comprehensive understanding of poverty also better captures how the poor themselves define their situation.<sup>4</sup>

The complex and multidimensional nature of poverty makes it a challenge to measure. For the sake of simplicity, an income-based measure of poverty is used most widely, as it permits comparisons between regions and countries. The World Bank, for example, defines extreme poverty as an income of less than US\$1 a day, seen as the minimum amount necessary for survival. To calculate extreme poverty in an individual country, the dollar-a-day measure is converted to local currency using the purchasing power parity (PPP) exchange rate, based on relative prices of consumption goods in each country. Based on such calculations, the World Bank estimated that 1.2 billion people were living in extreme poverty in 2003, roughly 23.3 percent of the population of all low- and middle-income countries.<sup>5</sup> While the definition of very poor people used in this paper is based on income, the programs and approaches explored in the following sections address many aspects of extreme poverty, not income levels alone.

---

<sup>3</sup> World Health Organization (WHO), *Reaching the Poor*, 2004.

<sup>4</sup> World Bank, *World Development Report 2000/2001*; and WHO, *Reaching the Poor*, 2004.

<sup>5</sup> World Bank, *Sustainable Development*, 2003.

## **ROLE OF MICROFINANCE IN SERVING VERY POOR PEOPLE**

By providing small loans and savings facilities to people who are excluded from commercial financial services, microfinance has become a strategy for reducing poverty. Access to credit and deposit services is a way to provide the poor with opportunities to take an active role in their respective economies through entrepreneurship, building income, bargaining power and social empowerment among poor women and men.

Although most MFIs aim to reach poor people, it has become increasingly apparent that they rarely serve very poor people. Most MFIs reach the “upper poor” in much greater numbers than the “very poor.”<sup>6</sup> The extent to which microfinance programs are able to reach the poorest of the poor remains an open debate.

Certain practitioners argue that it is important to have permanent operations based on a wider geographic outreach, with quality financial products delivered by competitive, efficient microfinance institutions. This approach to breadth of outreach is based on a long-term view of microfinance services and the belief that, in many cases, there is a limit to depth of outreach. This approach thus accepts a trade-off between sustainability and reaching very poor people. Other practitioners argue that microfinance should make reaching very poor people a priority because credit is a human right in the fight against economic exclusion. This approach requires narrow targeting of very poor people.

Both breadth and depth of services are very important for the microfinance industry. What has become apparent, however, is that very poor people are unlikely to be served by microfinance programs unless these programs are intentionally designed to reach them. In order to design products and

---

<sup>6</sup> Hickson, *Reaching Extreme Poverty: Financial Services for Very Poor People*, 1999.

services for this target market, it is important to better understand the factors that contribute to the dire conditions of very poor people.

### **CHALLENGES IN SERVING VERY POOR PEOPLE**

The challenges of reaching very poor people with microfinance (and microenterprise development services) include physical and economic barriers, self-selection and self-exclusion, as well as sector risks and the deprivation of extreme poverty itself.

**Physical barriers:** In many settings, very poor people live in remote rural areas that have no access to financial services. Reaching very poor people in remote, rural areas means higher transactions costs for MFIs. Such areas are often characterized by poor infrastructure, relatively low population density, low levels of literacy and relatively undiversified economies. Many rural economic activities, moreover, have low profitability and are prone to high risk. Even if microfinance programs are present in rural areas, they often suffer from a lack of well-trained professionals and insufficient support by the head office.

**Economic barriers:** Many microfinance programs use group-lending methodology clients to attend a weekly or monthly meeting to access credit. The cost of transportation to these meetings, together with the opportunity cost of attendance (i.e., lost income due to time away from work) can present a barrier for very poor people to participate in microfinance programs. Alternatively, many individual lending or savings programs require clients to save a certain amount before they can access loans, a practice that often prevents participation by very poor people.

**Self-selection:** It is well known that solidarity groups in Grameen-style microfinance programs and village banks reject very poor members because

they might be unable to repay their loans and would thus jeopardize the creditworthiness of the entire group.

**Self-exclusion:** Even when very poor people are not actively excluded by a community, they often opt out of community-related projects because they are intimidated, believing that the services offered by such projects is not suited to their needs.<sup>7</sup>

**Sector risk:** Very poor people are often dependent on subsistence farming as their main source of livelihood. Given the high risks of agricultural activities and the unique requirements of financing such activities (payback of loans, for instance, can only take place after the production period, which often lasts several months ), MFIs usually shy away from lending to this sector.

**Impact of chronic poverty:** Living in absolute poverty for a prolonged time strongly affects a person's dignity and hope for the future, as well as his or her ability to take initiative and overcome stigma. Moreover, poor health (especially chronic diseases such as malaria and HIV/AIDS) presents a major obstacle for conducting successful microenterprise activities.

## **OVERVIEW OF EXISTING POVERTY-FOCUSED MICROFINANCE APPROACHES**

Despite the high risk, high transaction costs and other challenges described above, a number of microfinance organizations, NGOs and multilateral agencies are already providing microfinance services specifically targeted to very poor people. Other microfinance programs, realizing that they are not reaching the very poor, are interested in finding new approaches that would enable them to do so in a sustainable and cost-effective way. To date, there has been inadequate exploration of financial products and low-cost service

---

<sup>7</sup> Simanowitz, *Ensuring Impact: Reaching the Poorest while Building Financially Self-sufficient Institutions, and Showing Improvement in the Lives of the Poorest Families*, 2002.

delivery mechanisms that would allow MFIs to serve extremely poor households without compromising sustainability objectives.<sup>8</sup> This paper tries to address this by documenting successful experiences in reaching very poor people and recommending promising approaches for further exploration. The findings are based on a number of case studies (see table 1) reported by the implementing organizations themselves. They should be considered preliminary, because they have not been independently verified or evaluated according to a common set of criteria related to impact, poverty outreach and cost. While these examples are only a small sample of poverty-focused initiatives, they represent a broad spectrum of approaches currently being employed by different actors in the microfinance field.

Table 1 below provides a snapshot of key features of selected microfinance programs that explicitly target very poor people. Client poverty descriptions in the case studies are for the most part qualitative and are not based on actual poverty measurements by means of a universal and reasonably reliable poverty tool (whether based on income or expenditures), such as that currently being tested by USAID. On the other hand, several factors (e.g., targeting methodology and the selection of certain vulnerable groups, such as bonded laborers, *dalits* and people living with HIV/AIDS for instance) suggest that most of these initiatives do indeed target very poor people.

The examples of successful downreach highlighted in table 1 include both MFIs that aim for financial sustainability, as well as multidisciplinary organizations other than MFIs. The two MFIs featured in this paper, **Small Enterprise Foundation** (SEF) in South Africa and **Activists for Social Alternatives** (ASA) in India use a Grameen model to provide loans to solidarity groups of poor and very poor women.

---

<sup>8</sup> Hickson, *Reaching Extreme Poverty: Financial Services for Very Poor People*, 1999.

**Table 1: Examples of Microfinance Approaches serving very poor people**

<b>Organization/ Project Name</b>	<b>Target Group</b>	<b>Targeting Method</b>	<b>Financial Service</b>	<b>Non-Financial Services</b>
<b>ARC, West Africa</b> Three Step IG Program	Very poor refugees, returnees	Vulnerability assessment	Grants followed by loans to solidarity groups	<ul style="list-style-type: none"> <li>- Business skill development</li> <li>- Ongoing business support</li> <li>- Refugee relief services (nutrition, health, education)</li> </ul>
<b>ASA, India</b> Grama Vidiyal Microcredit Program	Poor and very poor women, Dalits	PWR and Housing Index	Group-based microcredit (Grameen replication) Savings, pension and insurance products	<ul style="list-style-type: none"> <li>- Business development services</li> <li>- Gender sensitization</li> <li>- Capacity building</li> <li>- Advocacy and local governance</li> </ul>
<b>BRAC, Bangladesh</b> 1. IGVD 2. CFPR/TUP	Very poor women	Active targeting based on poverty indicators	1. Individual loans 2. Business asset grants	<ul style="list-style-type: none"> <li>- Food grain assistance</li> <li>- Skill training in income generating activities</li> <li>- Healthcare services</li> <li>- Social empowerment</li> </ul>
<b>FFH, Africa, Asia, Latin America</b> Village Banking	Poor and very poor women	Geographic targeting	Linkages with credit unions and rural banks Group-based lending (village banking)	<ul style="list-style-type: none"> <li>- Education: health, nutrition</li> <li>- Self-confidence</li> <li>- Enterprise and financial management</li> </ul>
<b>ILO, South Asia</b> South Asian program against debt bondage	Very poor bonded laborers	Poverty indicators and vulnerability to bondage	Group-based savings and credit	<ul style="list-style-type: none"> <li>- Social empowerment</li> <li>- Functional literacy</li> <li>- Healthcare services</li> <li>- Skill training in income generating activities</li> </ul>
<b>SEF, South Africa</b> Tshomisano Credit Program	Very poor Women	Participatory Wealth Ranking (PWR)	Group-based microcredit (Grameen replication)	<ul style="list-style-type: none"> <li>- Business skill development</li> <li>- Ongoing business support</li> </ul>
<b>TUP, Cambodia</b> W.O.M.E.N.	Very poor people with HIV/AIDS	Active targeting based on poverty indicators	Individual business seed capital grants Savings match	<ul style="list-style-type: none"> <li>- Business skill development / Learning conversations</li> <li>- Healthcare services</li> <li>- Health and sanitation awareness</li> </ul>
<b>PACT, OXFAM, FFH, CARE, CRS, NABARD Asia and Africa</b>	Poor and very poor women	Geographic targeting	Savings-led MF Savings and lending Self-help groups Bank/MFI credit to SHGs	<ul style="list-style-type: none"> <li>- Basic literacy</li> <li>- Business skill development / Learning conversations</li> <li>- Social Empowerment</li> <li>- Gender sensitization</li> </ul>

In order to more effectively reach the very poor, SEF established a separate program, the Tshomisano Credit Program (TCP). This program is designed to reach people living in the bottom 30 percent below the national poverty line. Freedom From Hunger (FFH) uses another group-based lending approach—village banking—which it offers as a new product line to existing rural banks and credit unions, enabling them to reach poorer clients. What sets these three cases apart from “mainstream” microfinance providers is that each program offers non-financial services in addition to its financial products. These additional services include education, skill training and confidence building.

The remaining case studies relate to organizations and projects that typically share a broader mission of poverty alleviation and offer services that include microfinance or microenterprise development among many other activities. Since these organizations use an integrated approach to poverty alleviation—using microfinance as just one of a package of services—their activities are less bound by the rigid financial sustainability criteria that govern most MFIs. BRAC, for example, a large, multifaceted development organization in Bangladesh, operates its broad rural credit program in addition to two microenterprise programs that specifically target very poor people. Its Income Generation for Vulnerable Groups Development (IGVGD) program provides food subsidies and intensive skills training to vulnerable women, as well as a standard package of microcredit, healthcare and social services. BRAC’s more recent program, Challenging the Frontiers of Poverty Reduction / Targeting the Extreme Poor (CFPR/TUP), abandons loans altogether and offers enterprise asset grants instead to the same target group. Trickle Up Program (TUP), an international development organization, also assists very poor people with grants, in this case to start or expand microenterprise activities. The organization also offers business training, relying on local partner agencies to provide other development services, such as education, healthcare and social empowerment.

The South Asian Project against Debt Bondage of the International Labour Organization (ILO) and the American Refugee Committee's (ARC) programs in West Africa both target uniquely vulnerable groups: bonded laborers (ILO) and refugees in the Mano River Basin (ARC). These programs also employ a combination of financial and non-financial services to lift extremely vulnerable people out of poverty through microentrepreneurial activities.

Finally, many organizations worldwide increasingly endorse savings (rather than credit-led microfinance) and the formation of small community groups to promote self-managed microfinance services by the poor and very poor, especially in rural areas. In terms of how many people each of these distinct approaches have reached, without a doubt savings-led microfinance comes ahead of the other approaches. These small savings and lending groups, sometimes known as self-help groups (SHGs), also often serve as an "entry point" for non-financial poverty alleviation programs.

### **TO TARGET OR NOT TO TARGET**

Research studies have shown that most poor people have benefited from microfinance programs, but that narrow targeting is not necessarily a condition for reaching very poor people. Some large-scale, non-targeted schemes have, in fact, proven capable of reaching very poor people.<sup>9</sup> Nevertheless, most initiatives that successfully serve very poor people actively target this segment of the population. At minimum, most such programs tend to concentrate their programs in geographic areas where there is a high incidence of poverty. FFH's introduction of village banking to existing credit unions and rural banks, as well as most savings-led microfinance initiatives, reach very poor people simply by working in poor rural areas. Rather than exclusively reaching very poor people, geographic poverty targeting, which is also employed by ASA, tends to reach both poor and very poor clients.

---

<sup>9</sup> Hickson, *Reaching Extreme Poverty: Financial Services for Very Poor People*, 1999.

Other initiatives utilize a more meticulous targeting method. SEF, for instance, introduced a visual poverty indicator test to identify very poor people, after it realized that its original microcredit program did not effectively include such customers. SEF went on to create *participatory wealth ranking* (PWR), a poverty assessment technique that involves community members in identifying the poorest among them. BRAC went through a similar evolution. Its IGVD program first used a rather passive targeting method, extending services to food-insecure women who were selected by local elected representatives. Its CFPR/TUP program later used geographic targeting, PWR and surveys to identify the extreme poor.

Trickle Up Program employs a poverty assessment tool in the form of a five-question survey, which scores the poverty level of potential program participants according to locally determined criteria. In addition to using this tool, its Cambodian partner agency, W.O.M.E.N, works exclusively with people living with HIV/AIDS in the slums of the capital Phnom Penh, who are extremely vulnerable. Similarly, ILO (South Asia) and ARC (West Africa) also employ active targeting tools to ensure that the poorest of the poor are included in their programs.

## **PRODUCTS AND SERVICES**

When it comes to providing very poor people with relevant and useful services, designing the right product is as important as with any other market segment for the microfinance industry. The case studies show a wide variety of financial services available to very poor people. In some cases, the same products are offered to poor and very poor clients alike. In such cases, an active targeting strategy is often necessary, as SEF learned from experience: only after it began implementing an active targeting method, it managed to reach the poorest sections of the communities it served.

Especially when clients have multiple options to choose from, the loan size,

type of financial service, as well as the delivery system can all affect to some degree the poverty level of the most likely users. SafeSave in Bangladesh for instance manages to attract extremely poor households, by allowing them to deposit very frequently very small and variable sums of cash, which is very relevant to the needs of this section of the population.<sup>10</sup>

Similarly, mandatory group meetings might be a price that only very poor people might find worth paying to access savings or lending services. Both SEF and ASA use a solidarity group lending approach based on the Grameen model. They argue that very poor people can pay back loans just like the better off middle poor. Instead of modifying their core microcredit model for the poorest segment of their client population, both organizations opted for providing very poor people with additional services that are meant to improve their livelihoods as well as their ability to pay back small loans. In fact, all case studies appear to offer, each in a different degree, a range of non-financial services, discussed in more detail in the next section.

Other credit approaches build in repayment flexibility for loans extended to very poor people. Grameen Bank in Bangladesh, for instance, started a zero-interest credit program with flexible repayment schedule for beggars. Repayment rates have not been published yet, but are said to be encouraging. In July 2005, half of the loan capital disbursed to almost 50,000 struggling members (as Grameen Bank prefers to call them instead of beggars) had already been paid back. Almost 1,000 borrowers had quit begging to devote their time to business instead.<sup>11</sup> Taking into account the vulnerability and irregular cash flow of people at risk of debt bondage, the ILO Social Finance Unit strongly promotes savings and in the cases of loans advocates for a flexible repayment mechanism that takes the vulnerability of this target group in account. Repayment remains a strict requirement, but in addition to sticks borrowers are offered carrots to pay back the loan as well,

---

<sup>10</sup> Matin, Rutherford, Maniruzzaman, *Exploring Client Preferences in Microfinance: Some Observations from SafeSave*, 2000.

<sup>11</sup> See <http://www.grameen-info.org/bank/BeggerProgram.html>

including timely repayment refunds, repayment holidays and tailored repayment schedules.<sup>12</sup> Even within a target group as vulnerable and poor as these freed laborers, preliminary (mostly anecdotal) findings showed a positive impact on business income and materialization of long-term projects.

The savings-led approach, promoted at large scale by NABARD, CARE, PACT, OXFAM and others, stipulates that savings services are more important for very poor clients than credit facilities. In their models, members of savings groups pool their individual savings into a group fund, from which individual members can take loans at an interest rate set by group members themselves. Some savings-led models, such as the NABARD-promoted SHG linkage model in India, for example, facilitate access to bank loans for strongly performing groups in order to expand the rather limited funds of such groups.

Finally, organizations like ARC and TUP offer program participants seed capital grants, which, although extended with certain conditions, do not have to be repaid. The outreach of these programs is limited by available funds, but there are strong indications that grant recipients are able to build productive assets and to increase their income through expansion or diversification of income-generating activities.<sup>13</sup> After the initial grant, ARC provides qualifying groups access to loans. TUP does not provide a follow-up stage itself, but the majority of its local partner agencies facilitate savings, while some allow successful TUP grantees to “graduate” to a loan program. In Cambodia, TUP partner agency W.O.M.E.N encourages regular savings after an initial grant by matching the savings of program participants (households living with HIV/AIDS) for one year, up to a maximum of US\$25.

The majority of the programs examined by this paper deliver financial services to groups rather than individuals. SEF, for instance, utilizes

---

<sup>12</sup> Churchill and Guérin, *Microfinance-led strategies to eliminate bonded labor*, 2004.

<sup>13</sup> Maes and Basu, *Building Economic Self-Reliance: Trickle Up's Microenterprise Seed Capital for the Extreme Poor in Rural India*, 2005.

Grameen Bank–inspired solidarity groups, while FFH promotes village banking. Most savings-led approaches also facilitate savings services through member-owned groups. Finally, ARC in West Africa offers enterprise grants and loans to groups of varying size, and the ILO project in South Asia delivers a range of financial services to groups of bonded laborers. Trickle UP and BRAC’s IGVD and CFPR/TUP programs on the other hand opt for direct service delivery to individuals. SafeSave in Bangladesh also targets individuals with flexible savings and loan products, based on the belief that clients, no matter how poor they are, usually prefer individual service.<sup>14</sup> Individual service delivery may be more appropriate, moreover, for clients who find it difficult to attend meetings or whose vulnerability makes them subject to too much stress from group pressure. On the other hand, the advantages of a group approach include reduced transaction costs, as well as a certain degree of social pressure that helps manage and allocate funds effectively. The benefits of group membership—including improved self-confidence and negotiation power—can also be extremely important for the most vulnerable community members.

## **NON-FINANCIAL DEVELOPMENT INTERVENTIONS**

Few approaches to assisting very poor people rely on microfinance services alone. In addition to the financial services, most poverty-focused organizations organize, by themselves or through strategic partnership with other institutions, non-financial interventions to strengthen the livelihoods of very poor people. Almost all such organizations seem to believe that this target group lacks the experience to manage a microenterprise and therefore offer some type of entrepreneurial and/or vocational skill development in addition to their core financial service. BRAC, for instance, promotes certain income-generating activities, such as poultry rearing, and teaches members relevant technical skills. Since it promotes certain business activities on a

---

<sup>14</sup> Rutherford, *Helping Mickles Make Muckles*, 2004.

large scale, the IGVGD program also establishes appropriate marketing links for processing or selling products. Such specialized market development services however, are rarely offered by most other microenterprise development programs that target the very poor.

More common than market development services is the provision of a social safety net to very poor people, such as food grain subsidies and basic healthcare services offered by BRAC's IGVGD program. Improved food security is often the most important change in the life of households that manage to increase their incomes. Very poor people also frequently suffer from chronic poor health. BRAC, ARC, the ILO bonded labor project, and Trickle Up partner W.O.M.E.N. all provide healthcare services as an important part of the safety nets through which they assist the poorest members of a community. In the case of sickness of a breadwinner, very poor households risk the rapid loss of assets because they face new expenses and lose part (or all) of their income. Village bank members of Freedom from Hunger's *Credit with Education* program similarly receive not only credit, but also awareness training and education on nutrition, sanitation and health issues. Similar health and nutrition education is often delivered via savings groups and self-help groups, assisted by organizations that promote savings-led microfinance models.

Social safety nets, skill training, healthcare, awareness-raising and empowerment are not common ingredients in minimalist microfinance, which limits service provision strictly to credit and other financial products. The more vulnerable and poor the target group, however, the more such non-financial services seem to take a more prominent place in what Hickson calls a *comprehensive* approach to poverty alleviation.<sup>15</sup> This approach is based on the belief that "very poor households are essentially incapable of effectively managing small businesses and therefore are unable to use financial services

---

<sup>15</sup> See Hickson, *Reaching Extreme Poverty*, 1999.

without first participating in awareness and capacity-building programs.”<sup>16</sup> However, not all microfinance initiatives that target the very poor include comprehensive non-financial services. SafeSave, for example, sticks to financial services only “on the grounds that even extremely poor clients are able to make good use of properly tailored financial services without other support, and that provision of non-financial services is costly and of questionable benefit.”<sup>17</sup>

The issue of how and by whom to deliver non-financial services is as important as the nature of these services. To understand the various poverty alleviation approaches that integrate microfinance into service delivery for the poor, it is important to understand the institutional framework of each organization that deals directly with very poor people. SEF, ASA and BRAC, for example, are all locally established institutions with a strong social mission, broad outreach, solid capacity and good access to donor funding. These organizations are strongly motivated to assist very poor people with an appropriate service package and have the capacity to deliver all aspects of an integrated package by themselves. Freedom from Hunger’s alliance with local financial institutions results in a different task division. FFH partners (rural banks and credit unions) agree to add a new financial product (village banking) and adopt FFH’s *credit with education* approach, which combines financial with non-financial services. Without a social mission or the capacity to provide non-financial services, these banks must create and train a new cadre of field staff and adopt new management systems to effectively do business with very poor women. In some cases, FFH consultants provide assistance with this.

The majority of organizations in the remaining cases studies are relatively small, local non-governmental agencies that generally use an integrated approach to development in small-scale projects. Typically, they rely on

---

<sup>16</sup> Ibid.

<sup>17</sup> Ibid.

partnerships with international organizations or national donors, who only rarely provide them with the support required to provide an integrated package of financial and social services to their most vulnerable target groups. TUP, for instance, provides its partner agency W.O.M.E.N. with funds for seed capital grants, savings matches and overhead, while W.O.M.E.N. relies on another donor to fund its home healthcare and education programs. Similarly, most savings-promoting agencies tend to focus primarily on building sustainable savings and loans groups, while counting on local partner organizations to deliver essential services that very poor people need to take full advantage of financial programs.

All initiatives examined in the study indicate that very poor people often lack confidence to engage in microenterprises or to cope with the responsibilities that come with a loan. Lack of self-confidence is often the reason why very poor people exclude themselves from microfinance programs in the first place. Even when there is no loan to be repaid, many poor people, especially women, are often initially afraid of the new responsibilities and new activities that are expected from them. Participating in group meetings, leaving one's house to sell a product, negotiating prices or managing cash flows can be very intimidating to anyone who has never run a business.

Confidence building and women's empowerment are therefore high on the agenda of microfinance projects that have a strong poverty focus. The staff of the TCP program at SEF, for example, empowers and motivates the poorest community members to join the project, trains and supports them (many have no business experience) throughout the business cycle and facilitate group learning rather than "teach." When FFH and CRS jointly developed Learning Conversations, they likewise sought to provide groups a problem-solving process rather than ready-made solutions. Learning Conversations are simple 30-minute group discussions about a story or activity that resembles real issues faced by group members. Such

conversations enable people to identify issues themselves, reflect on causes and consequences, consider solutions and commit to action.

The ILO bonded labor prevention projects, as well as other microfinance initiatives with a strong poverty focus, often educate their clients about human and labor rights. Self-help groups in India typically discuss issues of family planning, women's rights and domestic violence and often take joint action to improve their situation. In ASA, the group meetings facilitate discussions among members to share their issues and find solutions. Several organizations offer functional literacy and numeracy classes that enable women to understand and sign their own savings and loan passbooks. For example, PACT's original Women's Empowerment Program in Nepal (later improved and replicated in other countries as the WORTH program), concentrates on savings and literacy as the most important ways to empower women and help them build sustainable, self-managed savings groups.

### **ORGANIZATIONAL FEATURES**

Involving very poor people in microfinance programs requires visionary leadership and a commitment of substantial resources. Each of the initiatives featured in this paper resulted from a strong social mission and a willingness on the part of upper management to innovate. While buy-in from top management is essential, this commitment needs to be accompanied by an institutional culture dedicated to providing continued microfinance services to very poor people. In order to reach very poor people and provide them high-quality financial services in a cost-effective way, an organization needs different employee performance incentive systems than those that currently guide loan officers for example. Instead of focusing primarily on repayment rates, incentive schemes should also take outreach and impact into account.

In addition to monitoring financial performance, several microfinance organizations with a social mission have begun to monitor their social

performance as well. Social performance management for microfinance organizations that seek to serve very poor people includes monitoring poverty outreach, impact and cost-effectiveness. SEF in South Africa and ASA in India both have management information systems (MIS) that track financial and social impact, including client poverty, food, housing and education levels. The information obtained from their monitoring systems is then used, among other purposes, to make operational adjustments and improve financial products for very poor people.<sup>18</sup> Both ASA and SEF report that at one time, their impact monitoring systems alerted them to the fact that they were not reaching very poor people to the extent intended and consequently adjusted their programs.

Finally, while financial sustainability might not always be attainable, several examples have already demonstrated that reaching the very poor with microfinance services does not preclude an approach from becoming financially self-sufficient. In case of ASA and SEF for example, cross-subsidization through higher profits from lending to a less poor market segment enables outreach to a less profitable, very poor market segment. Other organizations, notably BRAC, TUP and ARC, cannot achieve financial sustainability as they rely to varying degrees on grants or asset transfers. But these organizations are increasingly expected to justify their higher costs by demonstrating deeper poverty outreach and/or higher impact on the lives of those they serve. Just like financially self-sustainable institutions, they too will need to continuously improve their cost-efficiency through technological innovations and improved delivery methods.

## **CONCLUSION**

The case studies examined in this paper are testimony to the fact that very poor people can be reached successfully, if microfinance providers make a deliberate attempt to target them and offer services that suit their distinctive

---

<sup>18</sup> SEF Summary Sheet, [http://www.ids.ac.uk/impact/africa/sef\\_case\\_study.html](http://www.ids.ac.uk/impact/africa/sef_case_study.html).

needs. The degree to which these approaches have been successful in assisting the very poor to move out of poverty is unclear, because the majority of these case studies still lack convincing impact results. Moreover, there is no agreement on the role that MED should play in assisting the very poor: should it have a protectional (focus on expenditure smoothing, asset protection and risk management) or promotional function (focus on income generation, asset building, and creating viable microenterprises)?

Similarly, the poverty levels of the target groups described in these case studies are often unknown, especially according to universally comparable indicators, as those in poverty tools currently being developed by USAID. Moreover, outreach and cost-efficiency data are currently also unavailable for a majority of the featured approaches. In order to evaluate the variety of microenterprise development services targeting the very poor, to extract good practices, and to make recommendations for future research into innovative approaches, it is imperative that promising case studies are analyzed in more depth and data about outreach (depth and breadth), impact and cost are verified in the field.

Despite this current shortage of 'hard' data, which will be necessary, some common elements are beginning to emerge. First, most microfinance practitioners seem to agree that financial services alone are not sufficient—in fact, they are often counterproductive—to lift very poor people out of poverty. However, there is less agreement on what kinds of complementary services should be offered to this target group in addition to financial services. Second, in order to successfully serve the very poor, they need to be explicitly targeted in most cases and assisted with products and services specifically tailored to their needs. Market research therefore needs to understand the needs of microfinance clients and relate these to their different poverty levels. A majority of practitioners seem to agree that savings services respond better to the needs of the very poor, and that credit, if offered, should be made flexible enough to take into account the

higher vulnerability of the very poor. But more evidence is needed on how effective such pro-poor financial services are not only at reaching the very poor but also at responding to their needs. Thirdly, almost all cases studies mention that building confidence and social capital among the very poor is as important as providing access to financial capital to take advantage of enterprise and market opportunities. Finally, providing effective and sustainable MED services to the very poor is not an easy challenge. It requires persistence, visionary leadership and a strong commitment across the entire organization through staff incentives, performance measurement and a willingness to change and adapt.

ANNEX 1

**\*\*PRACTITIONER SURVEY\*\***

**The US Law's Mandate to Reach  
Very Poor People:  
What Strategies are MFIs Developing in  
Response to the US Legislation?**

In 2000, the U.S. Congress passed the Microenterprise for Self-Reliance Act,<sup>19</sup> which mandates that one-half of all U.S. Agency for International Development (USAID) microenterprise funds must benefit very poor people. The legislation requires an absolute, not relative, measure of poverty and defines the "very poor" as people living on less than US\$1 a day<sup>20</sup> or those among the bottom 50 percent of people living below a specific country's poverty line.

**Name of person filling out this survey:**

---

**Organization:**

---

**Contact information:**

---

**1. Is it the mission of your organization, in whole or in part, to serve very poor people as defined by the legislation?**

\_\_\_\_\_ **yes**

\_\_\_\_\_ **no**

**2. Does your organization serve very poor people as defined by the legislation?**

\_\_\_\_\_ **yes**

---

<sup>19</sup> *Microenterprise for Self-Reliance Act of 2000*, Public Law 106 309. The act was amended in 2003 and 2004. The [Amendment to the Microenterprise for Self-Reliance and International Corruption Act](#) in 2003 requires that 50 percent of all USAID microenterprise resources benefit the very poor. The legislation was further amended in 2004 ([Microenterprise Results and Accountability Act of 2004](#)).

<sup>20</sup> Equal to US\$1.08 per day in purchasing power parity (PPP) dollars at 1993 prices.

\_\_\_\_\_ no

**3. Do you know what percentage of your clients is very poor?**

\_\_\_\_\_ yes, \_\_\_\_\_ what percentage?

\_\_\_\_\_ no

**If so, how do you know? How do you measure the poverty levels of your clients?**

**--or--**

**If not, what prevents you from finding out what the poverty levels are of your clients?**

---

---

---

---

---

---

**4. What, if any, changes/strategies has your organization made/implemented in response to the US legislation?**

\_\_\_\_\_ Do not plan to make changes

\_\_\_\_\_ Waiting for the IRIS/USAID certified poverty assessment tools before making changes

\_\_\_\_\_ Created a tool to assess absolute poverty levels of clients

\_\_\_\_\_ Adapted tool to assess absolute poverty levels of clients

\_\_\_\_\_ Developed or Adapted products/services to work with very poor people

\_\_\_\_\_ No changes have been made but in the process of developing a strategy

**Please elaborate on any of the above responses:**

---

---

---

---

---

---

---

---

**Please email Laura Foose with your response:**

**[lfoose@alternative-credit.com](mailto:lfoose@alternative-credit.com)**

**Thank you for participating in this survey. The combined results will be summarized and discussed at the Microcredit Summit meeting in Halifax in November 2006, and will be available upon request from the Poverty Outreach Working Group at the SEEP Network – [lfoose@alternative-credit.com](mailto:lfoose@alternative-credit.com)**