State of the Microcredit Summit Campaign Report 2004

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Introduction

> *Our purpose as an assembly is to launch a global campaign to reach 100 million of the world's poorest families, especially the women of those families, with credit for self-employment and other financial and business services by the year 2005. We commit to the development of sustainable institutions, which assist very poor women and their families to work their way out of poverty with dignity.*
>
> Microcredit Summit Declaration of Support 1997

These words were endorsed by thousands of delegates at the 1997 Microcredit Summit. Nearly eight years later the Microcredit Summit Campaign remains on track to attain its goal of reaching 100 million of the world's poorest[1] families, especially the women of those families, with credit for self-employment and other financial and business services by the end of 2005. This progress offers much needed hope for achieving the Millennium Development Goals (MDGs), especially the lead goal of cutting absolute poverty in half by 2015.

As of December 31, 2003, 2,931 microcredit[1] institutions have reported reaching 80,868,343 clients, 54,785,433 of whom were among the poorest when they took their first loan. Assuming five persons per family, the 54.8 million poorest clients reached by the end of 2003 affected some 274 million family members.

As of December 31, 2003, 2,931 microcredit[2] institutions have reported reaching 80,868,343 clients, 54,785,433 of whom were among the poorest when they took their first loan. Of these poorest clients, 82.5 percent, or 45.2 million, are women. Seven hundred seventy-nine of these institutions submitted a 2004 Institutional Action Plan outlining their progress. Together these 779 institutions accounted for 90 percent of the poorest clients reported. _Assuming five persons per family, the 54.8 million poorest clients reached by the end of 2003 affected some 274 million family members.

In order to reach 100 million poorest families by 2005, the Campaign requires a 38 percent growth rate per year from its starting point of 7.6 million poorest families at the

[1] The Microcredit Summit Campaign defines "poorest" as those who are in the bottom half of those living below their nation's poverty line, or any of the 1.2 billion who live on less than $1 a day adjusted for purchasing power parity (PPP), when they started with a program. As stated in past reports, the Campaign's greatest challenge lies in bridging the gap between its commitment to reaching the poorest and the lack of a sufficient number of effective poverty measurement tools in use. Therefore, every mention of the term poorest within this report should be read within the context of this dilemma. Our work to expand awareness about and use of cost-effective poverty measurement tools is described on page 25.

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

end of 1997. The Campaign's overall growth of 621 percent between 1997 and 2003 now averages just under 39 percent per year.

This year, the Campaign was able to verify data from 286 institutions, representing 47,458,191 poorest families or 87 percent of the total poorest reported. A complete appendix of the institutions verified this year can be found on our website.

These 54.8 million poorest clients and 274 million family members are equal to the combined populations of the United Kingdom, France, Germany, Italy, Ireland, and Sweden, but their lives are very different from the citizens of those countries.

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The Faces Behind the Statistics

Consider the story of Gonuguntla Mariamma who was born into a poor family in rural Andhra Pradesh, India. Her family's livelihood depended on agricultural labor, which depended on the unpredictable monsoon rains.

Mariamma was the first-born and has a younger brother. When Mariamma was eight years old her mother died due to ill health and an improper diet. Mariamma had to look after the household and couldn't attend school. To make matters worse, she was married off to a relative when she was 10. She had to become a wife and take on added responsibility. Her husband's family was large, consisting of eight members.

They owned two acres of dry land that was not cultivable, so the only option was to work as laborers. Each of them worked in the fields. As her family grew to five children, it became extremely difficult to run the household. She could not educate her children. She married the girls and sent the boys to work in the fields. Mariamma felt there should be some other path for sustenance, so after difficult days in the fields she began to take up sewing. She approached the local Mahila Mandal (Women's Association) in her neighborhood, learned to sew and bought a sewing machine.

At this point, SHARE was conducting its projection meeting in that village. Initially Mariamma was a little hesitant, but knew she had to take this opportunity because all her life she wanted to do something but did not have the chance. Mariamma took intensive training from SHARE on their methodology and loan procedures and she practiced her signature. This was a wonderful experience for her because she had not gone to school or written on a slate.

She took her first loan of $80 and bought a buffalo. She took a seasonal loan of $40 and bought grass and fodder. Mariamma was happy to see money flowing into her household. She gained confidence and the desire to earn more. She dreamed big now. Mariamma knew she could handle more buffaloes. She took her second loan and bought another buffalo. Now she owned two. She took her third loan, bought another buffalo and two goats. Unfortunately one buffalo died. But this did not dishearten her. With the income that she earned from her productive assets, she revived the dry land that her husband possessed and planted oranges.

Today Mariamma is a proud owner of 4 buffaloes, one calf, and 17 goats. She has a telephone and a television. She can sign her name, count money, and read a little. She is thrilled because she was instrumental in reviving her wasteland and has 30 bags of rice for her family. Her future looks bright to her now.

The Microcredit Summit was launched in an effort to multiply stories like this 100 million times, but a number of barriers continue to impede the Campaign's success.

A Revolution in Banking Begets a Revolution in International Development

Over the last 30 years, microcredit practitioners around the world have created a revolution in banking that has succeeded in turning the field upside down. Their innovations have opened doors that had denied financial services to the poor. When banks lent to the rich, these microbanking pioneers lent to the poor. When banks lent to men, they lent to women. When banks made large loans, they made small ones. When banks required collateral, their loans were collateral free. When banks required endless paperwork, their loans were illiterate-friendly. When clients had to come to the bank, the microlenders went to the clients. The microcredit practitioners' willingness to break the rules of traditional banking, and their unparalleled commitment and persistence, have allowed microlending to become a growing success that has the potential to be a major factor in achieving the Millennium Development Goals.

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Now, as we enter 2005, the International Year of Microcredit,[3] pioneers in this field have brought the movement to a second revolution—a revolution in international development. This new revolution addresses one of international development's greatest failures: the failure to reach the very poor, the 1.2 billion people on our planet who live on less than $1 a day. The challenge of reaching the very poor is one that the Microcredit Summit Campaign has been committed to overcoming since its inception. With just 11 years left to achieve the Millennium Development Goals, this revolution comes not a moment too soon.

Who are the people who have been so poorly served by international development?[4] To find the answer to this question we must go behind the news headlines about natural or

[3] For more on the International Year of Microcredit go to: http://www.yearofmicrocredit.org

[4] When we refer to international development we mean both donor agency policy and practice and that of recipient governments too. The World Bank's most recent world development report gives the example of Nepal where 46 percent of funding for education goes to the wealthiest 20 percent and only 11 percent goes to the poorest 20 percent.

man-made disasters—the earthquakes, famines, floods, and civil wars—to what the late-James P. Grant of the United Nations Children's Fund (UNICEF) called a *silent emergency*. This silent emergency, despite its horrific toll, is almost always ignored by television news reports and newspaper headlines. Yet headlines or not, more than 29,000 children under the age of five die each *day* from largely preventable malnutrition and disease. Headlines or not, 1.2 billion people around the world live on less than $1 a day. Headlines or not, more than 104 million children of primary school age are *not* in school. While not in the public consciousness, it is still painfully clear that large segments of the human family live lives of chronic poverty and desperation. What do we hear from experts who acknowledge this failure, not as an impossible barrier, but as a challenge to be overcome?

In last year's report we quoted Davidson Gwatkin, former principal health and poverty specialist at the World Bank. Gwatkin spoke of measles vaccination programs not reaching the poor and his interest in using the tools in the Microcredit Summit's Poverty Measurement Tool Kit to help address this problem. "The measles programs don't get to the poor," Gwatkin remarked. "And yet because it's measles and it's a problem with the poor, we congratulate ourselves as being pro-poor. It's not the case…I've always thought and continue to think [that the Microcredit Summit's poverty measurement tools are] extremely relevant for health…I think there is much that we in health can learn from microcredit."

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> Former Health and Poverty specialist, World Bank

This year we quote two others in the field of health. One is David Oot, chairman of the U.S. Coalition for Child Survival and Director of Health at Save the Children, who in a February 2004 issue of *Monday Developments*, the newsletter of the U.S.-based NGO coalition Inter*Actio*n, wrote of three great challenges in health including the fact that, "Many of the world's poorest children and their mothers have not benefited from earlier child survival successes."

The other is Peter Adamson, who spoke clearly of the challenge 14 years ago. For many years Adamson wrote the *State of the World's Children Reports* with and for Jim Grant of UNICEF. In December 1990 Adamson participated in an international conference call to discuss the latest UNICEF report. The World Summit for Children had been held three months earlier and Adamson was asked which of the seven key goals from the Children's Summit was least likely to be reached. Which would be the hardest to achieve? Would it be the goal to reduce child deaths that would present the most difficulty or would it be goals to cut illiteracy or increase access to clean water and safe sanitation? Adamson's response was stunning in its clarity.

"None of the goals will be hardest to reach," Adamson replied, "it's the bottom 20 percent of the population that is most likely to be missed. It's not a goal that will be hardest to reach, it's a group."

The bottom 20 percent of the population Adamson spoke of are the 1.2 billion people living below $1 a day. That is the group the Microcredit Summit is committed to reaching and the group targeted by the Millennium Development Goals, especially the goal of halving absolute poverty by 2015.

If the very poor are often missed in health and in other areas of development, what is it that stands in the way? Sadly, we find that it is not a simple matter of seeing the problem and addressing it, but a failed analysis and a failed vision for what is possible.

Removing the Most Difficult Barriers and the Most Pernicious Myths

Each year's *State of the Microcredit Summit Campaign Report* has stressed the challenge faced by the Campaign in debunking strongly held myths that have presented obstacles to achieving the Campaign's core themes: 1) reaching the poorest, 2) reaching and empowering women, 3) building financially self-sufficient institutions, and 4) ensuring a positive, measurable impact on the lives of clients and their families. The following three myths have been the most pernicious.

Myth one—microfinance institutions cannot reach the poorest because they are too costly to identify and motivate.

Myth two—if an institution does reach the very poor, it cannot become financially self-sufficient because the added cost of identifying and motivating the very poor and dealing with very small loans is too great.

Myth three—an institution that somehow manages to reach the very poor and become financially self-sufficient will only be adding a debt burden to those families.

All of these myths spring from the belief that for one reason or another it is not possible or not advisable to use microcredit as a tool to facilitate the socio-economic development of the world's poorest families (those living on less than $1 a day per capita).

Some might call this an "academic" or "internal" debate—that reaching families living below $1 a day is too fine a distinction to matter in the real world. But it is not an academic debate for the 1.2 billion people living on less than $1 a day who are denied key opportunities as a result of this analysis. It is not an academic

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debate for those who have committed their lives to ridding the world of severe poverty and using microfinance as a poverty-reduction strategy.

In last year's report we quoted Anton Simanowitz, Program Manager of Imp-Act, a Ford Foundation-funded project involving three universities in the United Kingdom and dozens of microfinance institutions around the world. Simanowitz outlined a number of factors that help exclude the very poor. He pointed to the fact that few MFIs worked in "remote areas, with people who do not make an effort to come forward to join the MFI, or with people without previous business experience." He claimed that even MFIs that make an effort to listen to their clients often "fail to hear the voices of the most marginalized." He reminded us that MFI staff, due to lack of training and other factors, often see better off clients as less problematic and that "many very poor clients exclude themselves due to lack of confidence and have to be actively motivated to participate." If that isn't enough, Simanowitz argues that "in group-based microfinance, better-off clients may not want the perceived 'burden' of including very poor clients."

The question is often asked: "Aren't people living on $3 a day poor?" The answer is, yes, of course, those living on $3 a day are poor, but those living on less than $1 a day are not only poor—they are trapped. If a family in South Asia or Sub-Saharan Africa lives on $3 a day per capita their children are likely to be in school and have access to some health care and basic nutrition. But those living below $1 a day do not have these opportunities, which are key to a sustained pathway out of poverty.

A New Law and New Hope

The revolution in reaching the very poor is most evident in a new U.S. law and the resistance to it by some leaders in international development. The law, which was enacted in June 2003, calls for the U.S. Agency for International Development (USAID) to develop and certify two or more cost-effective poverty measurement tools that measure $1 a day poverty. The new tools are to replace loan size, which is currently used and has proven to be inadequate for poverty measurement. As Freedom from Hunger President Chris Dunford remarked, "The average loan size for entering clients tells you more about the institution making the loan than it does about the poverty level of the person receiving it."

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After the newly mandated tools are certified, institutions receiving microenterprise funds from USAID will be required to use one of them and report the number of entering clients who start below $1 a day. The law is an effort to bring accountability and transparency to the long-standing Congressional commitment to have at least half of

USAID microenterprise funds benefit very poor clients. This new law, particularly if it is adopted by other aid-giving countries and institutions, would have a great impact on the Microcredit Summit's commitment to reaching the very poor and provide tremendous support to the MDG focused on halving the number of families living below $1 a day by 2015.

While the new law demonstrates the revolution that is taking place in microfinance, efforts to expand the revolution have been met with resistance. This resistance comes from major development institutions that have been asked to adopt policies similar to the new U.S. law —The World Bank, the regional development banks, and the United Nations Development Program (UNDP).

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In November 2003 more than 700 parliamentarians from the United States, the United Kingdom, Canada, Japan, Australia, India, and Mexico wrote to the heads of the World Bank, the Asian, African, and Inter-American Development Banks, and UNDP. The parliamentarians lauded the institutions' commitment to achieving the Millennium Development Goals (MDGs) which they said are "crucial to building a safer and more equitable world—and will show our constituents that development programs are truly making a difference."

The parliamentarians continue with a concern that:

> ….sustainable microfinance for the very poor has not received sufficient priority in your policies and practice aimed at cutting absolute poverty in half by 2015, the most crucial—and most difficult—of the MDGs. As important as it is to support well-designed health, education, and good governance programs, these interventions alone will not ensure that some 600 million people move out of poverty.

The parliamentarians ask the heads of these powerful institutions for the following:

- **Increased funding for microenterprise:** We urge you to make substantial increases in the proportion of your institutions' lending and grants that go to microenterprise and actually reach clients. For example, the World Bank estimates that an average of $168 million in funding, less than one percent of Bank resources approved annually, is approved each year for microenterprise. **We believe resources devoted to microenterprise should at least be doubled** (emphasis added).

- **At least 50 percent of funds reaching the poorest:** By December 31, 2004, we would like to see your institutions make the commitment to having at least 50 percent of your microfinance funds reach clients who are below US$1 a day when they start with a program.

- **Use of cost-effective poverty measurement tools to ensure meeting the target:** By December 31, 2005, the microenterprise institutions should be required to use cost-effective poverty measurement tools that can determine which families start below US$1 a day and use the same or similar tools to show which families have moved above US$1 a day.

- **Annual reporting of results:** By December 31, 2006, we would urge your institutions to report, on an annual basis, the amount of funds provided for microenterprise and the percentage of those funds that reach families who begin with a program at below US$1 a day.

In their letter, the parliamentarians discuss the new U.S. law and say, "We believe your institutions should be a vital part of this process and urge you to adopt a similar procedure."

The World Bank and CGAP Respond to the Parliamentarians

In this introduction to the *State of the Microcredit Summit Campaign Report*, rather than presenting a neat, uncontested picture of the field of microcredit seen solely from the Campaign's perspective, we think it useful to listen to the challenges and opposition to what the Campaign and these parliamentarians have championed, coming as it does from some of the most influential institutions in development. In the pages that follow, we invite you to listen in on debates that contrast the views of the World Bank and CGAP with those of industry leaders like BRAC founder Fazle Abed, Grameen Bank founder Muhammad Yunus, and the Microcredit Summit Campaign. What follows are excerpts from the World Bank and CGAP's responses to the 700 parliamentarians, along with reactions from the Microcredit Summit Campaign.

In his response to 188 British Parliamentarians, World Bank President James Wolfensohn wrote, "I very much agree with your observation that microfinance has a demonstrated, powerful impact in improving the livelihood of the poor, and a crucial role in reducing poverty. Access to financial services for the poor is a critical condition for the attainment of the Millennium Development Goals."

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James Wolfensohn, World Bank

This is a tremendous vote of confidence from Mr. Wolfensohn, but if, as Wolfensohn says, "access to financial services for the poor is a critical condition for the attainment of the Millennium Development Goals (MDGs)," then reaching those below $1 a day is also critical. Mr. Wolfensohn acknowledges the poverty goal, which seeks to cut absolute poverty in half by 2015, as the lead MDG. Absolute poverty is measured by those living below $1 a day, adjusted for purchasing power parity. This show of support is important, but the words must be followed by more effective action.

Wolfensohn asked officials from the World Bank and the Consultative Group to Assist the Poor (CGAP), to jointly address the detailed issues raised in the parliamentarians' letter.

World Bank and CGAP officials begin their own response to the parliamentarians on a hopeful note when they write that microfinance forms "…an important strategic element in any broad based effort to reduce poverty," and assert that the World Bank and CGAP "are committed to massively scaling up this access to financial services."

While it is good for the Bank to declare microfinance as an important strategic element in reducing poverty, there is still a disconnect between this assertion and the fact that microfinance constitutes less than one percent of annual Bank spending. Assigning such a low priority to microfinance is neither strategic nor a sign it is viewed as important. There is also a disconnect between the Bank's enviable commitment "to massively scaling up…access to financial services," and the fact that the Bank offers nothing measurable in response to the parliamentarians' request to double spending. It would seem that a massive scale-up would at least equal a doubling from less than one percent to less than two percent.

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World Bank and Consultative Group to Assist the Poor (WB/CGAP) officials continue by saying, **"**While the World Bank Group already provides more microfinance funding than any other agency, we remain committed to doing much more. The fundamental constraint to an exponential increase in the numbers of poor people receiving financial access is, however, a real absence of retail institutional capacity. Building this capacity is an integral part of the financial systems of our client countries and is, therefore, a critical task for the World Bank Group and other agencies."

MCS: The World Bank should provide more microfinance funds than any other agency given that its overall portfolio dwarfs that of all other bilateral and multilateral donor institutions. However, the World Bank does not provide more funding than any agency. USAID surpasses the Bank's total spending in microfinance. In addition, more than one percent of USAID's funds and more than three percent of UNDP funds[5] go to microfinance.

Retail institutional capacity does exist. Some of the global and domestic partners of a number of institutions and networks are either already reaching very poor clients or gearing up to do so as a result of the new U.S. law. These include institutions and

[5] Approximately two percent of USAID funds and three percent of UNDP funds go to microfinance.

networks such as ASA, BRAC, PKSF[6] and Grameen Bank in Bangladesh, NABARD and SIDBI in India, Pro Mujer, Freedom from Hunger, Opportunity International, FINCA, CARE, Save the Children, Catholic Relief Services, World Vision, Katalysis, Grameen Foundation U.S.A., ACCION and World Relief in the U.S., Développement international Desjardins in Canada, members of The Africa Microfinance Network (AFMIN), Sanabel members in the Middle East and North Africa, and members of REDCAMIF and Foro Latinoamericano y del Caribe de Finanzas Rurales in Latin America.

There are scores of institutions around the world that have demonstrated the vision and systems to reach the very poor sustainably. To say there is "a real absence of retail institutional capacity" is to imply that whatever capacity exists has been fully exploited. This is clearly not the case.

PKSF alone estimates that for the six years beginning July 2004 and ending in June 2010, $562 million could be absorbed by its 192 Bangladeshi partner organizations and those to come. This is in just one country.

There are scores of institutions around the world that have demonstrated the vision and systems to reach the very poor sustainably. To say there is "a real absence of retail institutional capacity" is to imply that whatever capacity exists has been fully exploited. This is clearly not the case. The greater problem is the low priority donor agencies place on finding institutions with the vision and systems necessary for expansion to the very poor, not the "absence of retail institutional capacity."

WB/CGAP: We agree with the spirit of your recommendation that at least 50% of World Bank funds should be reaching those living on less than a dollar a day. However, we do not think that earmarking funds would be the best strategic choice for moving the microfinance industry towards sustainably serving much larger numbers of those in absolute poverty. In fact, such directed lending could have an adverse effect on scaling up, through distorting markets. Many MFIs achieve sustainability through increasing outreach to a larger diversified client group. They end up serving much larger absolute numbers of the very poor, even though they may have a smaller percentage of very poor clients in comparison with poverty-focused institutions that are not sustainable. Such MFIs would be penalized through the suggested mandate.

MCS: Institutions that do not exclusively, or even predominantly, target the poorest need not be penalized. The parliamentarians are not asking that all MFIs reach the very poor or that half of an MFI's clients fall below $1 a day when they entered the program. They are asking that, on balance, half of World Bank spending in microfinance go to people who were very poor when they started with the program. Within the World Bank's portfolio there might be a group of institutions that primarily serves better-off clients, another group with a more mixed clientele, and a third group largely serving those starting below $1 a day. Yet institutions such as the World Bank have not provided incentives to reach those below $1 a day. If anything, the Bank and others have

[6] Palli Karma Sahayak Foundation (PKSF) is a Banlgadesh-based autonomous microcredit fund.

discouraged depth of outreach. This is why the parliamentarians believe earmarking is required.

The World Bank/CGAP response leaves the impression, however unintended, that programs reaching very poor clients may be less sustainable, but this is far from current reality. CGAP CEO, Elizabeth Littlefield, backed that up with remarks made at the Asia/Pacific Microcredit Summit held in Dhaka, Bangladesh in February 2004. "There is no evidence of a necessary trade-off between poverty and sustainability," Littlefield said in Dhaka. "….Very recent data from our MicroBanking Bulletin (MBB) and from The Microfinance Information eXchange (The MIX) show us that the best poverty-focused microfinance institutions are breaking right through conventional wisdom. Of the 124 microfinance institutions reporting to the MBB, 66 were fully self-sufficient. Of those, 18 were institutions that work with very poor populations, the poorest. These 18 institutions had higher average sustainability, higher return on assets, and higher return on equity than the overall averages. Sustainable microfinance institutions that serve lower end markets, the poorest, reach, on average, one and a half times as many borrowers as other microfinance [institutions] and they do it with fewer resources. Hence, these institutions do a much better job of stretching their resources to reach more clients. In terms of clients served, they are far more efficient with their human resources, serving each borrower at half the cost, on average, of a sustainable institution serving higher market segments."

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Elizabeth Littlefield, CEO, CGAP

WB/CGAP: We of course agree that conventional microfinance does not automatically push itself deeper to reach poorer clients. In fact, many MFIs do move away from poorer clients to those who are better-off, under the assumption that better-off clients pose lower risks and the larger loans they would be taking would increase institutional profitability and sustainability. We believe, therefore, that there needs to be a sustained effort at trying to reach poorer people. This needs to come from understanding client needs and developing products and services that are useful to them. It needs to come from developing better targeting tools and identifying, encouraging and funding innovations that enable sustainable financial services to the very poor. It needs to come from greater transparency so that information is made available on whether institutions are actually reaching very poor clients. What is required is a set of incentives that promote such activities and ongoing demonstration [that] financial services to the very poor is a feasible and sustainable business.

MCS: What greater incentive is there for promoting outreach to those below $1 a day than for an MFI to know that the World Bank and other donors want them to use a cost-effective poverty measurement tool? Wouldn't this give us "greater transparency so that information is made available on whether institutions are actually reaching very poor clients?"

Advocacy efforts to ensure that donor efforts in microfinance reached the very poor began in 1986. There has never been a greater move to ensure that the very poor are reached than has occurred since the U.S. legislation became law in 2003. This change took 17 years and a Congressional mandate. With the Millennium Development Goals due in just 11 years, another decade of soft incentives is insufficient.

There has never been a greater move to ensure that the very poor are reached than has occurred since the U.S. legislation became law in 2003. This change took 17 years and a Congressional mandate. With the Millennium Development Goals due in just 11 years, another decade of soft incentives is insufficient.

Freedom from Hunger's Chris Dunford argues that we measure what we value and that we value what we measure. It is clear that donor agencies value strong financial performance because they require their clients to measure their financial performance precisely. Except for USAID, other donors still do not demonstrate a similar value on measuring the poverty level of entering clients.

WB/CGAP: Many of the poorest people with no sources of income require grants, employment and other services, rather than microcredit. Donor support for developing models that "graduate" them from welfare-type safety net programs to where they have sufficient incomes to productively use financial services, is far more important than credit per se. Credit is, after all, debt, and under certain circumstances it can make the extremely poor more vulnerable, not less vulnerable.

MCS: "Donor support for developing models that 'graduate' them from welfare-type safety net programs to where they have sufficient incomes to productively use financial services" is important, but which donors are leading in this area and how extensive is that leadership? The impression is given that very poor families should not access microfinance but instead choose the services they need as if these services are readily available. This is a false choice for the very poor when 29,000 of the children of the poorest die each *day* from mostly preventable malnutrition and disease, when 104 million of their primary-school aged children are not in school, and when the services they desperately need are not likely to be available today or in the near future.

World Bank and CGAP officials say that "Credit is, after all, debt, and under certain circumstances it can make the extremely poor more vulnerable, not less vulnerable," but it is the debt that they have taken on from unscrupulous moneylenders that mires hundreds of millions in a life of grinding poverty. As Karen L. McGuinness of Princeton University wrote in a letter for *The New York Times*, "The reality in most poor countries is that the poorest are already saddled with incredible debt at usurious rates from local moneylenders. This is the fundamental predicament that microfinance institutions have effectively addressed for nearly three decades now."

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> Karen L. McGuinness, Princeton University

WB/CGAP: We fully agree that there is a need for cost-effective poverty measurement tools. Much greater transparency is required on whom financial institutions are reaching. CGAP has been very active in developing tools to encourage a deepening of microfinance outreach. It has developed a "Client Poverty Assessment Tool" and a "Poverty Audit of Microfinance Institutions' Pro- Poor Services" for donors to determine whether their funded institutions do indeed try hard and succeed in working with the very poor. Recently, CGAP has also been working with financial institutions to assist them to develop their own simple and cost-effective poverty assessment tools.

MCS: While the work of CGAP is appreciated, it has not created the breakthough in thinking and action that the new U.S. law has forged. Developing new tools can still be a far cry from ensuring their use. Even though CGAP's Poverty Measurement Tool has been available for at least four years, not more than a handful of CGAP's 29 members have ever used it. The slow pace of voluntary implementation is insufficient for ensuring the change necessary for cutting absolute poverty in half by 2015.

WB/CGAP: We are aware of the microfinance legislation passed in 2002 by the U.S. Congress. In fact, at the urging of its bilateral and multilateral donor members, CGAP launched a discussion on its website on whether the approach promoted by such legislation could be more broadly applicable to other donor agencies. A very active discussion followed and the result was that many senior members of the microfinance community were opposed to the extension of such mandates in other donor agencies. (The discussion submissions can be found on the internet under US Poverty Mandate Discussion at www.microfinancegateway.org.)

MCS: It is true that many senior members of the microfinance community were opposed. In fact, the first four statements posted were from CGAP Executive Committee members, all of whom were opposed to adoption of the new mandate by other aid agencies. On the other hand, the mandate had the *support* of Fazle Abed, Chairman of BRAC, Shafiqal Haque Choudhury, Managing Director of ASA, Muhammad Yunus, Managing Director of Grameen Bank, Chris Dunford, President of Freedom from Hunger, Anton Simanowitz, Director of ImpAct, Didier Thys, CEO of The MIX, Alex Counts, President of Grameen Foundation U.S.A., and other key players. These are the opinions from leaders of some of the largest and most successful poverty-focused microfinance institutions in the world.

In an opinion editorial published June through August 2004 in newspapers in the U.S., Canada, and Norway, Fazle Abed and Muhammad Yunus wrote in support of the new U.S. law and the parliamentarians' letter:

> Our perspective is formed by nearly three decades of innovation in this field. Our organizations, Grameen Bank and BRAC, currently have a combined total of 7.6 million microcredit clients reaching more than 38 million family members. It is certainly our experience that the very poor benefit from microcredit.
>
> Does microcredit work for everyone? No. Is it a panacea? No. Is it the most powerful tool we have identified to help the very poor, those living below $1 a day, rise above poverty with dignity? Absolutely!
>
> Why is there any debate on whether donor priorities should be sharply on the poorest? Without incentives, the free market doesn't cater to the world's poorest people. Instead they are the first to be left behind.
>
> The recent U.S. law…specifies that half of U.S. foreign assistance designated for microcredit actually reaches those people living on less than $1 a day. We don't understand why anybody would object to this. By all logic of foreign assistance and the Millennium Development Goals, it is the right thing to do.
> ***[For entire text see Box 1.]***

"The recent U.S. law…specifies that half of U.S. foreign assistance designated for microcredit actually reaches those people living on less than $1 a day. We don't understand why anybody would object to this. By all logic of foreign assistance and the Millennium Development Goals, it is the right thing to do."

Muhammad Yunus and Fazle Abed

Box 1

Poverty Matters by Muhammad Yunus and Fazle Abed

Before receiving a $100 microloan to expand her tortilla business, Ana Ruiz of Nicaragua lived in a scrap wood shack with her eight children. She had no furniture except for her worktable and her children never had shoes or attended school. After her second loan she was able to send her four oldest to school and buy eight plastic chairs so the children wouldn't have to sit in the dirt. Before her microloan, her children were malnourished. "The little ones run around now," she says. "They go to sleep early because they are tired from playing around, not because they are weak."

We know of millions of stories like this in Bangladesh and around the world. Our perspective is formed by nearly three decades of innovation in microcredit, the process of providing tiny loans to poor people so that they can start or expand small businesses. Our organizations, Grameen Bank and BRAC currently have a combined total of 7.6 million microcredit clients reaching more than 38 million family members. It is certainly our experience that the very poor benefit from microcredit.

This is why we are extremely hopeful about a new U.S. law requiring that half of all US foreign aid funding for microlending go to the poorest people and a push by more than 70 Members of Congress and more than 600 parliamentarians worldwide urging the UN Development Program, the World Bank, and the regional development banks to do the same. By all logic of foreign assistance, this is the right thing to do. Consequently, we are mystified by the resistance to these efforts by many economists and development specialists.

Does microcredit work for everyone? No. Is it a panacea? No. Is it the most powerful tool we have identified so far to help large numbers of the very poor—those living below $1 a day—rise above poverty with dignity? Absolutely!

We first faced this kind of controversy when we initiated microcredit to address a failure in banking. The poor were not able to access capital from traditional banks. So when banks lent to the rich, we lent to the poor. When banks lent to men, we lent to women. When banks made large loans, we made small ones. When banks required collateral, ours were collateral free. We did so successfully and still the bankers balked.

Now the controversy returns as we address a failure in development—a failure to reach the very poor. You cannot tell us there is no failure in development when more than 29,000 children die each day from largely preventable malnutrition and disease and more than 104 million children of primary school age are not in school. Just as the bankers couldn't see how you could bank with the very poor, too many development specialists have the same misconception.

World-class researchers have studied Grameen Bank and BRAC and the impact of our lending on the very poor. In addition to political and social empowerment of women, studies show a positive impact on health, sanitation, family planning, child mortality, drinking water quality, educational status of children, and housing.

The most in-depth study ever done on microfinance, spanning the 13 years from 1990 to 2003, is by Shahidur Khandker of The World Bank. Khandker studied BRAC, Grameen Bank, and RD-12, three microfinance institutions in Bangladesh. Khandker found that: 1) as much as 5 percent of program-participating households should be able to lift their families out of poverty every year by borrowing from a microcredit program, 2) microfinance helps reduce extreme poverty much more than moderate poverty, and 3) the welfare impact of microfinance is positive for all households, including non-participants. Microfinance programs have spillover effects that boost the local economy and increase overall village welfare.

We constantly seek to reach poorer and poorer clients. Recently BRAC has started a new program for the ultra poor where we are starting with asset transfers (giving cows and goats). After 18 months, 10,000 clients have moved to microcredit. This year Grameen Bank started a program that gives loans to beggars. Already there are more than 9,000 borrowers in this program and the average loan size is $10.

If the experts in New York and Washington lived in Bangladesh, as we have done for more than 50 years, perhaps they too would see what is possible and needed in the lives of the very poor.

Muhammad Yunus is founder and managing director of Grameen Bank. Fazle Abed is founder and Chairman of BRAC, formerly known as the Bangladesh Rural Advancement Committee.

Again, this discussion is not about one U.S. law or one intervention—microfinance. It stands both as a challenge for and as an indictment of the entire field of international development. It is also not just about the World Bank and CGAP. The World Bank and CGAP statements above are similar to those of the regional development banks and the United Nations Development Program (UNDP).

One has to ask, "If the major development institutions are committed to cutting absolute poverty in half by 2015, then why is there such resistance to a mandate that would let them know which of the microfinance clients with whom their partners work start below $1 a day and which of those clients eventually move above $1 a day? Wouldn't managers of institutions committed to cutting absolute poverty in half by 2015 benefit greatly from knowing this information so that, at the very least, corrections could be made if little progress is shown?"

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A Focus that Extends Far Beyond Just Reaching the Poorest

The Microcredit Summit's focus goes well beyond the debate outlined above—well beyond the Campaign's commitment to its first core theme: reaching the poorest. The Campaign has maintained a steadfast commitment to its other core themes as well: 1) reaching and empowering women, 2) building financially self-sufficient institutions, and 3) ensuring a positive measurable impact on the lives of clients and their families.

This year alone, the Campaign has co-organized two regional meetings: The Asia/Pacific Region Microcredit Summit Meeting of Councils held February 16-19, 2004 in Dhaka, Bangladesh co-organized with PKSF and the Middle East/Africa Region Microcredit Summit Meeting of Councils held October 10-13, 2004 in Amman, Jordan co-organized with the AGFUND.[7] A combined total of more than 1,800 delegates from nearly 100 countries attended those meetings.

At the meetings there were 28 workshops, 12 substantive plenary sessions, 10 day-long courses, and six council sessions where Action Plans were presented and discussed. Delegates themselves organized an additional 30 associated sessions on a range of topics. Below are some of the workshops offered this year on the Summit's commitment to strong financial performance:

The more efficiently an institution is run the better value it can bring to its clients in the form of dependable services and reduced interest rates.

[7] The Arab Gulf Program For United Nations Development Organizations (AGFUND) is a Saudi Arabia-based institution promoting sustainable international development that targets the neediest groups in developing countries.

Successful Management Strategies to Reduce Cost and Improve Efficiency: The more efficiently an institution is run the better value it can bring to its clients in the form of dependable services and reduced interest rates. (see: http://www.microcreditsummit.org/enews/index.html)

Designing Internal Control Systems to Minimize Fraud and Irregularities: Sessions such as this have been offered at Microcredit Summit meetings since the original summit in 1997.

Addressing the Challenge of High Dropout Rates: When clients see their lives improve as a result of financial services offered at prices they can afford, dropout rates plummet. Sometimes high repayment rates are accompanied by high dropout rates. This is a crucial issue for the field.

The following are some of the workshops offered that are related to financial performance and accessing funds:

Transformation of Microfinance Operations from NGO to Regulated MFI: One of the challenges for MFIs that become regulated institutions is ensuring the process does not contribute to mission drift, a pull away from serving the poor due to high capital requirements or costly reporting requirements.

Developing Linkages Between MFIs and the Formal Banking Sector: Innovations in this area continue. A presentation on the recent work of ICICI Bank in India were highlighted at the Asia/Pacific meeting. (see: http://www.microcreditsummit.org/enews/2004-06_index.html)

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How Donors Provide Loans and Grants to Microfinance Institutions: This is always a popular session. Seven panelists participated at the October 2004 meeting in Jordan.

Other sessions focused on issues related to outreach and impact:

Making Microfinance Work in Remote Mountainous and Rural Areas with Low Population Density: With the recent push to include poorer clients, reaching those in rural areas, especially in Africa and Latin America, becomes critical.

Microcredit and Agriculture: How to Make it Work: Microfinance is often focused on starting or expanding a business with immediate returns. This is not so in crop agriculture and innovations are needed in this area.

How MFIs Can Have a Positive Impact on the Environment: Hundreds of millions of family members have been touched by a microfinance program over the last six years. This can have a positive or negative effect on the environment.

HIV/AIDS and Microfinance: What Are the Links: Institutions around the world, especially in Africa, face the impact of HIV/AIDS on their clients and staff. They ignore this challenge at their peril.

These sessions and many others herald microfinance as both a financial tool and a poverty eradication tool, a combination that is often given only lip service. The Microcredit Summit is committed to financial services for all, and in the statistics below we report all clients reached, in addition to the number of clients who were among the very poor when they started with the program. We realize, however, that when the term “all” is used in development (e.g. health for all or financial services for all), invariably, the poorest are the last to be reached, or they are excluded entirely.

The Microcredit Summit is committed to financial services for all, and in the statistics below we report all clients reached, in addition to the number of clients who were among the very poor when they started with the program. We realize, however, that when the term “all” is used in development (e.g. health for all or financial services for all), invariably, the poorest are the last to be reached, or they are excluded entirely.

Survey Methodology

Each year the Microcredit Summit Campaign goes through a process of data collection and verification leading to publication of the *State of the Microcredit Summit Campaign Report*. The process includes: 1) circulating Institutional Action Plans (IAPs) to thousands of practitioners with a request for submission of most recent data; 2) a phone campaign to the largest institutions in the Campaign to encourage submission; 3) a verification process seeking third-party corroboration of the data submitted by the largest MFIs; 4) data compilation and analysis; and 5) the writing of the report. For seven years now this process has produced the largest primary source collection of data from microfinance institutions available.

In most cases the data presented in this report is from individual institutions. We have tried to avoid collecting and including data from network institutions to prevent double counting. Network institutions have played a valuable role, however, in facilitating data collection from their affiliates. As in years past, we are especially grateful to the following institutions for their active support of this data collection process: Développement international Desjardins, FINCA, CARE, Catholic Relief Services, World Vision International, Grameen Trust, Pride Africa, Red Financiera Rural, Opportunity International, Freedom from Hunger, Katalysis, World Relief, REDCAMIF, Red de Microfinanzas en Chile, Save the Children and AFMIN members. We are also indebted to the dozens of institutions in Asia and Africa that host umbrella meetings with our regional staff. Those meetings play a pivotal role in Action Plan collection.

As of November 9, 2004, 6,321 institutions were members of the Microcredit Summit Campaign's 15 councils. Of that number, 3,844 institutions from 131 countries were members of the Microcredit Summit Council of Practitioners, an increase of more than 212 in the last 12 months. In 2004, 779 practitioner institutions submitted an Action Plan, 274 of whom had previously never done so. The 779 Practitioners that submitted an Action Plan in 2004 had 90 percent of all the poorest clients reported. This means that the data in this report is 90 percent current and the other 10 percent is one year old or more. Since we began collecting Action Plans, the Microcredit Summit Campaign has received plans from 2,931 practitioner institutions.

The 779 Practitioners that submitted an Action Plan in 2004 had 90 percent of all the poorest clients reported. This means that the data in this report is 90 percent current and the other 10 percent is one year old or more.

The Action Plan asks for the following data: 1) total number of active clients (clients with a current loan); 2) total number of active clients who were among the poorest when they received their first loan; 3) what poverty measurement tool was used, if any, to determine the number of poorest clients? 4) percentage of poorest clients who were women; 5) average size of first loan; 6) total number of active savers; 7) average savings per saver; 8) percentage of poorest clients who have crossed the poverty line; 9) what impact measurement tool was used to determine the number of clients who were very poor when they took their first loan and have now crossed the poverty line? 10) financial or business development services offered, if any; and 11) percent financial self-sufficiency an institution has reached.

In the 2004 IAP, on which this report is based, practitioners were asked to provide the above data for December 31, 2002 (actual), December 31, 2003 (actual), December 31, 2004 (proposed) and December 31, 2005 (proposed).

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

Clients Reached

By December 31, 2003, 2,931 microcredit institutions[8] reported reaching 80,868,343 clients with a current loan, 54,785,433 of whom were among the poorest (in the bottom half of those living below their country's poverty line or below $1 a day) when they started with the program. Eighty-nine percent of the poorest families reported are in Asia, a continent that is home to some 67 percent of the world's people living on less than $1 a day.

In the 2000 *State of the Campaign Report*, 78 institutions, representing two-thirds of the poorest clients reported, had their data verified by a third party. This year, we were able to verify the data of 286 institutions, representing 47,458,191 poorest families or 87 percent of the total poorest clients reported. A complete listing of these institutions can be found on page 30.

This year, we were able to verify the data of 286 institutions, representing 47,458,191 poorest families or 87 percent of the total poorest clients reported.

Table 1 shows results of the verification process over the last five years:

Table 1:

Year	Number of Institutions Verified	Number of Poorest Clients Verified	Percent of Total Poorest Clients	Total Number of Poorest Clients Reported
2000	78	9,274,385	67	13,779,872
2001	138	12,752,645	66	19,327,451
2002	211	21,771,448	81	26,878,332
2003	234	35,837,356	86	41,594,778
2004	286	47,458,191	87	54,785,433

The growth from 41.6 million poorest clients at the end of 2002 to 54.8 million poorest clients at the end of 2003 represents just under a 32 percent growth rate over the year. The growth from 7.6 million poorest at the end of 1997 to 54.8 million poorest at the end of 2003 represents a growth of 621 percent during that six-year period. In order to reach 100 million poorest by 2005, the Campaign needs to sustain a growth rate of 38 percent per year. Currently, we average just under 39 percent per year.

Growth Resulting from Institutions Reporting for the First Time and an Expanded Definition of Poorest

Each year the Campaign makes a concerted effort to include institutions that have not yet reported. In 2000, 22 percent of the growth came from institutions reporting for the first time. In 2001, 57.8 percent of the growth came from institutions reporting for the first time, although a significant portion of that growth came from the National Bank for Agriculture and Rural Development (NABARD), which had expanded dramatically over

[8] Of these 2,931 institutions, 779 sent in their 2004 Institutional Action Plans. The 2,152 remaining institutions sent us their data in previous years, and we have included those numbers in this report.

the previous four years.[9] In 2002, 33.8 percent of growth came from institutions reporting for the first time. In this year's data, representing end of 2003 figures, 27.5 percent of the growth is a result of institutions reporting for the first time. [10]

Another factor contributing to growth is an expanded definition of poorest. After extensive deliberation, the Microcredit Summit Campaign Executive Committee agreed to expand the Summit's definition of "poorest," beginning with the Action Plans submitted in 2003. The expanded definition includes the original group (the poorest are the bottom half of those below their nation's poverty line) and also includes any of the 240 million families who comprise the 1.2 billion people living in absolute poverty, on less than $1 a day adjusted for purchasing power parity (PPP).

The practical effect of the expanded definition of the poorest has been to include more families while still focusing on those living in absolute poverty. These are the families in the developing world whose children die at the rate of some 29,000 a day. These are the families whose children comprise the more than 104 million primary school aged children who are not in school.

Of the 50 largest institutions reporting over the last two years, representing 80 percent of the poorest families counted, eight institutions reported additional poorest clients as a result of the expanded definition of poorest. These additional clients account for 16

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9 The National Bank for Agriculture and Rural Development (NABARD) was one of two very large institutions included in the 2001 report for the first time. NABARD is the apex development bank in India for agriculture and rural development. NABARD has played a central role during the last decade in pioneering the Self Help Group (SHG) movement in India, under which poor and poorest women organize themselves into groups. The SHG members save and lend among themselves and also manage the affairs of their groups. The mature SHGs are linked to the formal banking system, which has an extensive branch network throughout the country, to bolster their resources. Although 2001 was the first time NABARD's clients were included in the State of the Microcredit Summit Campaign report, its large number of clients (total and poorest) is the result of dramatic growth within the NABARD program itself.

As of March, year	1997	1998	1999	2000	2001	2002	2003	2004
Total Clients	146,166	243,389	560,915	1,608,965	3,992,331	7,837,000	10,760,400	16,186,365
Poorest Clients	58,613	97,599	224,927	645,195	1,600,925	3,130,000	8,608,300	12,949,092

Some of NABARD's partners (banks and NGOs) are also members of the Microcredit Summit Campaign and submit their Institutional Action Plans. In order to avoid double counting, figures reported by these agencies have been subtracted from the figures of NABARD, in order to arrive at the total clients, poorest clients and poorest women clients. After these calculations, NABARD accounted for 13,758,639 total clients, 11,006,728 of whom were among the poorest when they started with the program.

10 Comissionerate of Women Empowerment and Self Employment in India was the largest program reporting for the first time this year. They reported 5,016,905 million poorest clients. In order to avoid double counting and overlap with the figures reported by NABARD, we have, as stated by the Commissionarate, included only 58% of the poorest reported by them. After these calculations, Comissionerate of Women Empowerment and Self Employment accounted for 2,909,805 clients who were among the poorest when they started with the program.

percent of the 54.8 million poorest clients reported. Almost all of that increase, more than 97 percent, comes from four very large institutions: NABARD, India (8.8%), National Family Planning Coordinating Board, Indonesia (4%), BRAC, Bangladesh (1.8%), and Vietnam Bank for the Poor (1%).

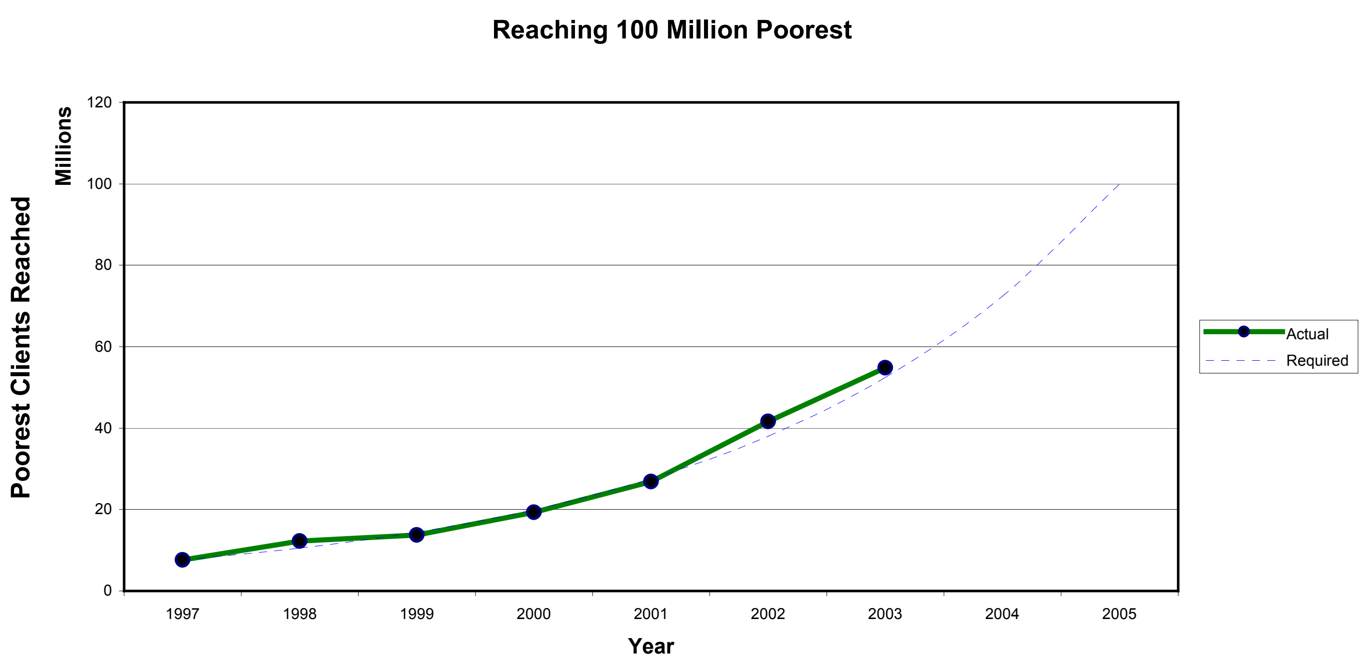
Table 2 shows progress over the last six years:

Table 2:

Year	***Number of Programs Reporting***	***Total Number of clients reached***	***Number of "poorest" clients reported***
12/31/97	*618 institutions*	*13,478,797*	*7,600,000*
12/31/98	*925 institutions*	*20,938,899*	*12,221,918*
12/31/99	*1,065 institutions*	*23,555,689*	*13,779,872*
12/31/00	*1,567 institutions*	*30,681,107*	*19,327,451*
12/31/01	*2,186 institutions*	*54,932,235*	*26,878,332*
12/31/02	*2,572 institutions*	*67,606,080*	*41,594,778*
12/31/03	***2,931 institutions***	***80,868,343***	***54,785,433***

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

Figure 1:



The size of the institutions reporting data varies greatly. Table 3 shows the breakdown in size of the 2,931 institutions reporting.

Table 3:

Size of Institution *(in terms of poorest clients)*	***Number of Institutions***	***Combined Number of Poorest Clients***
1 million or more	*8*	*19,027,342 or 34.7 % of total*
100,000-999,999	*34*	*8,302,482 or 15.2%*
10,000-99,999	*253*	*6,952,768 or 12.7%*
2,500-9,999	*464*	*2,240,032 or 4 %*
Fewer than 2,500	*2,169*	*1,184,729 or 2.2%*
Networks[11]	*3*	*17,078,080 or 31.2%*

Of the 54.8 million poorest clients being served, 27.3 million of them, or 50 percent, are being served by the 42 largest individual institutions reporting, institutions with 100,000 or more poorest clients.

Women Clients Reached

Of the 54.8 million poorest clients reached at the end of 2003, 82.5 percent or 45.2 million are women. The growth in the number of very poor women reached has gone from 10.3 million in 1999, to 45.2 million as of December 31, 2003. This is a 339 percent increase in the number of poorest women reached from December 31, 1999 to December 31, 2003. The increase represents an additional 34.9 million poorest women reported as receiving microloans in the last four years.

Of the 54.8 million poorest clients reached at the end of 2003, 82.5 percent or 45.2 million are women.

The Use of Poverty Measurement Tools

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

Beginning in 2000, the Campaign asked practitioners to indicate what poverty measurement tool they used, if any, to target or identify poorest clients. Of the institutions reporting that year, two-thirds (341 out of 512 institutions submitting an Action Plan in 2000) reported using a tool other than an estimate. Thirty percent of that

[11] The numbers above include data from three large networks: the National Bank for Agriculture and Rural Development (NABARD), see footnote 9, in India; the Association of Asian Confederation of Credit Unions (ACCU), which has 2,506,401 total and poorest clients, and the Bangladesh Rural Development Board (BRDB) which has 3,752,580 total clients and 3,564,951 poorest. These entities are not individual microfinance institutions, but they report the aggregate number of clients served to the Microcredit Summit and are included accordingly in our report, after we have eliminated any double counting.

group (or 104 institutions) told us they were using one of the two tools in the Poverty Measurement Tool Kit: Participatory Wealth Ranking or the CASHPOR House Index.

This year, of the 779 institutions submitting data in 2004, 479, or 61.5 percent, reported using a poverty measurement tool other than an estimate. Of this group, 29 percent (or 137 institutions) told us they are using one of the two tools from the Poverty Measurement Tool Kit.

Regional Data

Of the 2,931 institutions that have reported to us, 919 are in Africa, 1,603 are in Asia, 261 are in Latin America and the Caribbean, 48 are in North America, 70 are in Europe and the Newly Independent States (NIS), and 30 are in the Middle East. The low number of institutions reporting in Latin America is a direct result of the Campaign not yet having placed a Regional Organizer in the region. As a result of a new grant from The Omidyar Network, the Microcredit Summit Campaign will have its first Latin American/Caribbean Organizer beginning in 2005.

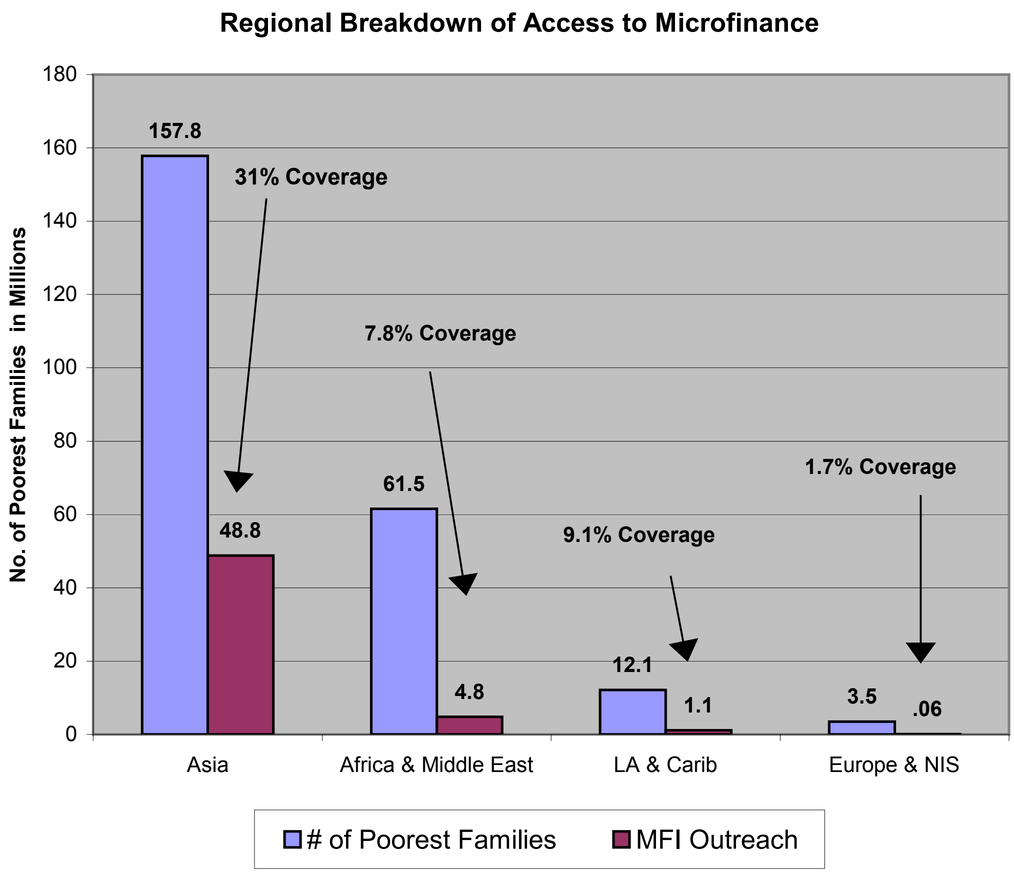
Table 4 shows the regional breakdown of data:

Table 4:

Region	Number of programs reporting	Number of current clients reported 2002	Number of current clients reported 2003	Number of current poorest clients reported 2002	Number of current poorest clients reported 2003	Number of current poorest women clients reported 2002	Number of current poorest women clients reported 2003
Africa	*919*	*5,761,763*	*6,438,587*	*4,202,280*	*4,725,912*	*2,611,650*	*3,180,419*
Asia	*1,603*	*59,632,098*	*71,585,413*	*36,304,269*	*48,797,590*	*29,423,010*	*41,272,188*
Latin America & Caribbean	*261*	*1,942,055*	*2,519,299*	*976,396*	*1,121,324*	*589,405*	*719,191*
Middle East	*30*	*83,047*	*106,464*	*37,600*	*54,039*	*12,282*	*22,785*
Developing World Totals	***2,813***	***67,418,963***	***80,649,763***	***41,520,545***	***54,698,865***	***32,636,347***	***45,194,583***
North America	*48*	*47,017*	*53,147*	*22,469*	*24,817*	*12,450*	*10,782*
Europe & NIS	*70*	*140,100*	*165,433*	*51,764*	*61,751*	*28,283*	*37,360*
Industrialized World Totals	***118***	***187,117***	***218,580***	***74,233***	***86,568***	***40,733***	***48,142***
Global Totals	***2,931***	***67,606,080***	***80,868,343***	***41,594,778***	***54,785,433***	***32,677,080***	***45,242,725***

Figure 2 shows the relationship between the number of families living in absolute poverty in each region (i.e., those living under one dollar a day adjusted for PPP) and the number of poorest families reported reached in each region at the end of 2003.

Figure 2[12]*:*



Should the Microcredit Summit Campaign be Extended to 2015?
Each year, the Microcredit Summit Campaign invests ten months in collecting and verifying the previous year's data. Progress toward the Campaign's goal of reaching 100 million of the world's poorest families by the end of 2005 will therefore be available in November 2006. Those results will be announced at the global Microcredit Summit to be held November 12-15, 2006 in Halifax, Nova Scotia, Canada, an event that was originally to have been the final Microcredit Summit.

In April 2003, however, at a face-to-face meeting of the Microcredit Summit Campaign Executive Committee, there were strong calls for having the Campaign continue to 2015. A number of executive committee members argued that given microcredit's contribution to fulfilling the Millennium Development Goal of cutting absolute poverty in half by

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

2015, it is essential for the Campaign to continue beyond 2005 in order to enhance that contribution.

In order to measure support for this call, we surveyed members of the Campaign throughout 2004. Here are the responses to the question: "Should the Microcredit Summit Campaign continue to 2015?

14:1 in favor: Hundreds of evaluation forms submitted at the Asia/Pacific Microcredit Summit in February 2004.

15:1 in favor: Responses from a group of global Campaign leaders in August, 2004.

9:1 in favor: Scores of evaluation forms submitted at the Middle East/Africa Microcredit Summit in October 2004

14:1 in favor: Scores of responses from a questionnaire sent to all members of the Campaign and tallied in November 2004.

The decision on whether to extend to 2015 will be made by the Microcredit Summit Campaign Executive Committee and the Executive Committee of RESULTS Educational Fund.[13] A final determination is expected in early 2005.

Determining a New Goal If the Campaign Is Extended to 2015
Another question asked of Campaign members was: "If the Microcredit Summit Campaign is extended to 2015, what should the new goal be?

So far, the most exciting response to this question has been a suggestion that there should be two goals for 2015: 1) the total number of poorest families reached (e.g. 150 or 200 million) *and* 2) the number of families who have moved above $1 a day (e.g. 50 million or 100 million very poor families having moved above a dollar a day). The latter goal would be a groundbreaking initiative for the Campaign and create an undeniable link between the Microcredit Summit and the Millennium Development Goal focused on halving absolute poverty by 2015. It would also offer a new challenge in the area of measurement.

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The First Measurement Challenge: Finding Cost-Effective Poverty Measurement Tools
When the Summit was launched in 1997 there were very few cost-effective poverty measurement tools in use. The lack of such tools stood as a critical barrier to achieving

[13] The Microcredit Summit is a project of RESULTS Educational Fund, a U.S.-based non-governmental organization, which has been responsible for this civil-society effort since its inception in 1995.

the Microcredit Summit's poverty-focused goal. The dilemma became clearer immediately after the 1997 Summit as our staff called practitioners around the world urging them to submit their Institutional Action Plans.

"We want to serve our clients, don't we?" Microcredit Summit staff would ask after calls to practitioners. "Some of them are telling us we should drop the Summit's focus on reaching the poorest," our staff would continue.

This was a critical time for the Campaign. It was true that we wanted to serve our clients, the practitioners, but not at the expense of our mission. Our first priority was to serve our mission, reaching 100 million of the world's poorest families. We wanted to bring our clients up to our mission, not weaken our mission to please our clients. Over the ensuing eight years, the Campaign led a sustained effort to identify and disseminate cost-effective poverty measurement tools. Two tools culled from a Poverty Measurement Discussion Group were placed in the Campaign's Poverty Measurement Tool Kit: 1) Participatory Wealth Ranking (PWR)[14] and 2) the CASHPOR House Index (CHI).[15]

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Both tools were tested by CGAP's more rigorous Poverty Assessment Tool. CGAP found that: "Participatory Wealth Ranking…offer[s] a far more reliable method for communities themselves to identify who the poor are…It asserts the primacy of local knowledge over externally determined measurement criteria and lets the community take charge in deciding how rankings are to take place." CGAP also found, "the appeal of [the Housing] index lies in its being simple, observable, and verifiable….Housing can be used as an excellent proxy for ranking households."

After the Tool Kit was established, Campaign staff began leading two-hour classroom sessions on PWR and CHI, reaching more than 3,000 practitioners in 35 countries of Asia and Africa.

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[14] With Participatory Wealth Ranking (PWR), villagers map out their village with the help of a facilitator and three separate groups of villagers rank each household in different categories according to their poverty. PWR, though similar to participatory rural assessment (PRA) and rapid rural appraisal (RRA), is far more accurate and reliable because with this method, each family is ranked by three separate groups of villagers and an average of the three groups is used for ranking a particular family. Then the women from the bottom groups are motivated to join the program.

[15] With the CASHPOR House Index (CHI), staff examine the houses of potential clients and assign a standard score based on the size and structure of the dwelling as well as the material used for the roof and walls. After selecting houses of those who are most likely to be the poorest, an assets test is administered to further verify the results.

A New Measurement Challenge: Finding Tools That Cost-Effectively Measure Movement Above $1 a Day

If the Microcredit Summit Campaign is extended to 2015 with a goal to have 100 million of the world's poorest families move above $1 a day adjusted for PPP, this would create a new challenge: the need for cost-effective tools to measure whether a family moves from below $1 a day to above $1 a day.

A tension is created when a measurable goal is set without ways to determine progress. This, however, is a challenge the Campaign would enthusiastically embrace. One difference between the 1997 challenge and the potential 2006-2015 challenge is that the new U.S. law and its requirement to certify cost-effective poverty measurement tools that measure $1 a day poverty might meet both requirements. The new tools might provide a reasonable assessment of whether a family starts below $1 a day *and* moves above $1 a day. (The goal, of course, is not merely to move families above $1 a day, but to have that move be the beginning of continuous progress in the well-being of those families.)

If this is so, it will likely have two results: 1) provide much needed impetus to the MDG on cutting absolute poverty in half by 2015 and 2) upset impact purists who would argue that more rigorous and costly impact measurement tools are required to establish causality. "Just because a family starts below $1 a day adjusted for PPP," they might argue, "doesn't mean their progress above $1 a day is a result of their involvement in a microfinance program. A low-cost tool will not be able to determine causality."

> A team of researchers has tested over 700 basic indicators against the more rigorous Living Standards Measurement Study (LSMS), the more costly tool used by the World Bank and others to determine $1 a day poverty, to see which of the low-cost indicators correlate most closely with the more rigorous tool… Interestingly, in the first sets of data from Bangladesh, loan size, which previously was the standard measurement used, was not identified as an indicator that had a high level of accuracy.

This has always been the pull. The trade-off is between having a sense of both the poverty level of entering clients and their progress provided by a less rigorous, cost-effective tool or having no sense at all unless a government agency has paid for the more costly impact assessment. For many years this trade-off left many practitioners not knowing these answers beyond anecdotal evidence.

The good news is that USAID has commissioned the Center for Institutional Reform and the Informal Sector (IRIS) at the University of Maryland to undertake a process to develop accurate yet cost-effective poverty measurement tools in response to the new U.S. law. A team of researchers has tested over 700 basic indicators against the more rigorous Living Standards Measurement Study (LSMS), the more costly tool used by the World Bank and others to determine $1 a day poverty, to see which of the low-cost indicators correlate most closely with the more rigorous tool. In this first phase, the accuracy phase, the researchers are identifying several groups of 5, 10 and 15 indicators that have an acceptable accuracy rate. Interestingly, in the first sets of data from Bangladesh, loan size, which previously was the standard measurement used, was not identified as an indicator that had a high level of accuracy. The accuracy phase of testing will be followed by a practicality phase during which microfinance practitioners will apply the selected tools. These practitioners will provide information about a variety of criteria including the cost-effectiveness of the tools. More information on the project is available at www.povertytools.org or on the USAID Microenterprise Division's website www.microlinks.org.

Deepening Microfinance's Impact on Other Millennium Development Goals

The Microcredit Summit Campaign has begun to build on its groundbreaking work of bringing cost-effective poverty targeting tools to practitioners in Asia and Africa with its recent launch of classroom sessions, and three- and five-day trainings on cost-effectively integrating microfinance with education in child survival, reproductive health, and HIV/AIDS prevention. This initiative is made possible by support from the United Nations Foundation, the United Nations Population Fund (UNFPA), and Johnson & Johnson. More than 1,220 practitioners in 16 countries of Asia and Africa have participated in the two-hour classrooms and 137 practitioners from India, The Philippines, Ghana, Uganda, and Ethiopia have participated in the three-day training. The Campaign is clear that financial services are crucial to progress out of poverty, but that they can be insufficient in and of themselves. Linking financial services with health education can improve the well-being of clients and their families, increase their productivity, and reduce dropout rates.

Microcredit Summit Regional and Global Meetings 2005-2006

The Microcredit Summit will conclude its most recent series of regional meetings with the Latin America/Caribbean Region Microcredit Summit Meeting of Councils (LACRMS) to be held April 19-22, 2005 in Santiago, Chile. The Global Microcredit Summit will be held in Halifax, Nova Scotia, Canada, November 12-15, 2006 and links to both the Santiago regional meeting and the Halifax Global Summit will be posted at http://www.microcreditsummit.org.

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Conclusion

The Microcredit Summit was established to reach 100 million of the world's poorest families, especially the women of those families, with credit for self-employment and other financial and business services by the end of 2005.

Over the last eight years, a debate has raged about whether those below $1 a day could make use of a microloan. More and more people are embracing the concept of loans and other financial services to those below $1 a day, but balk at the notion that someone who is destitute, earning only pennies a day, could benefit. This latter issue has yet to be resolved, but members of the Campaign have taken on the challenge.

We close this report with the story of Sufia Begum, a former beggar from Mothbaria in the district of Feni in Bangladesh. Sufia married Bachhu Mia before she was 13 years old. They had three children, but her husband married again and abandoned her and the children, whom Sufia had great difficulty feeding. Many times they had to starve along with her. The children didn't attend school and the family slept on the ground.

With no other way to survive, Sufia Begum resorted to begging. "There's nothing in my stomach," she would tell a passerby. "For God's sake, would you please give me some food?"

One day Sufia met Monwara, president of Basanti Landless Women's Group, members of ASA Bangladesh. Monwara told Sufia about the loan program for the hard-core poor. Sufia worried that she would not be able to pay back a loan. Monwara encouraged her and Sufia took a loan of about $40, which she used to purchase dry fish, biscuits, nuts, chocolate, and other foods.

From her town in the Feni district, Sufia traveled to small, rural villages to sell her goods. Instead of begging Sufia began to say, "Do you need churi, shanka, dry fish, or chocolate?" Gradually the villagers began to see her as a regular trader and became routine customers. Sufia carried the food in a basket that rested atop her head.

By June of 2004, Sufia had repaid her loan and took another loan of about $80, so that she could expand her business. With the profits she has generated, Sufia bought a cot for her children to sleep on and put a tin roof on her family's house.

When the Campaign was launched in 1997, there were 7.6 million clients like Sufia, Mariamma and Ana, the women whose lives are described in this report. In 1997 these 7.6 million very poor clients included 38 million family members. By the end of 2003, 54.8 million very poor clients and some 274 million family members were reached by microfinance institutions. By and large these are stories of hope and courage.

The work of the microcredit practitioners and those who support them is an expression of dedicated service. For many, this service brings rewards that go very deep. This kind of service allows one to experience the wholeness in the clients being served and in themselves. This kind if service allows one to go beyond a feeling of satisfaction to something far deeper, a feeling of gratitude. At a lecture a decade ago, author Rachel Naomi Remen expressed the depth of this kind of work. Here is part of what she said:

> Service is very hard to define and, again, I find it helpful to sneak up on it, to look at what it isn't, in order to get a sense of what it is. And service, there are things that are very close to it, that are often used synonymously with it, but are very different things indeed. Service is different from helping. When you help, you

use your strength to help those of lesser strength. My experience when I am helping, if I am very attentive to what is going on inside of me, is that I am helping the weak. I'm always helping someone who is not as strong as I am, and when I help, I'm very aware of my own strength. But you know, we don't serve with our strength. We serve with our wholeness. Our limitations serve, our wounds serve, even our darkness can serve and we don't serve the weak. The wholeness in us serves the wholeness in others and serves the wholeness in life.

Many of us have this experience when we visit with microcredit clients. We are moved by their courage, moved by their deep commitment to the well being of their children, and in the process, we experience their wholeness as well as our own. Remen continued:

> Helping incurs debt, when you help someone they owe you one, you know ... that kind of thinking. But serving, like healing, is mutual; there is no debt. I am as served as the person I am serving. When I help, I gain a feeling of satisfaction. When I serve, I gain a feeling of gratitude, a very different thing.
>
> Serving is also different than fixing. Fixing is a form of judgment….When I fix something I perceive them as broken. When I fix a situation I perceive it as broken and it requires me to act on it....Fixing is an experience of mastery and expertise. Service is an experience of mystery and surrender. A fixer has the illusion that they are causal. A server knows that they are being used and has a willingness to be used by larger unknown purposes. Fixing and helping are very personal. They are very particular. They are concrete. They are specific. We fix and help many different things in our lifetime, but we are always serving the same thing. Everyone who serves, serves the same thing. Everyone who has ever served, through the history of time, serves the same thing. We are servers of the wholeness and mystery of life….I think I would go so far as to say fixing and helping are the work of the ego and service is the work of the soul.

The Microcredit Summit Campaign seeks to serve 100 million of the world's poorest families, affecting half a billion family members, by the end of 2005. The Campaign may be extended to 2015 with the goal expanded dramatically. But no matter what the outcome, the goal has always been to unleash the dreams and potential of those the world has ignored or considered to be the hopeless cases. Each day, tens of millions of clients and hundreds of thousands of microcredit staff, demonstrate the clients' abilities to build lives of

…the goal has always been to unleash the dreams and potential of those the world has ignored or considered to be the hopeless cases. Each day, tens of millions of clients and hundreds of thousands of microcredit staff, demonstrate the clients' abilities to build lives of dignity and meaning for themselves and their families. They do this in a field that seeks to serve the wholeness of life and they do this through work that truly is the work of the soul.

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Acknowledgements

The *State of the Microcredit Summit Campaign Report* is a nearly year-long effort that has many contributors and we are indebted to each and every one of them. Nearly 800 practitioners submitted their Action Plans in 2004 and they, along with non-practitioners who have submitted their Action Plans, are listed in Annex III . Without these individuals and institutions, especially the practitioners, there would be no report.

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More than 220 people have taken time to respond to our request for verification and they are listed in Appendix II. Without them, there would be no verified institutions.

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Sam Daley-Harris
Washington, DC
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