State of the Microcredit Summit Campaign Report 2003

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Table of Contents

Introduction

Whenever you are in doubt... apply the first test. Recall the face of the poorest and weakest man (sic) whom you may have seen, and ask yourself if the step you contemplate is going to be any use to him. Will he gain anything from it? Will it restore him to a control over his own life and destiny? True development puts those first that society puts last.

Mahatma Gandhi

By Mahatma Gandhi's definition, international development has done a poor job of putting "those first that society puts last." The global statistics are harrowing—mind-numbing for many. Nearly three times the population of Western Europe—1.2 billion people—live on less than $1 a day. More than 100 million children of primary school age are not in school. More than 29,000 children under five die each and every day from largely preventable malnutrition and disease.

For over six years the Microcredit Summit Campaign has relentlessly pursued 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 2005. The Summit's goal was adopted at the 1997 Microcredit Summit, held in Washington, D.C., and attended by more than 2,900 delegates from 137 countries. The Campaign has maintained a steadfast commitment to the Summit's four core themes: 1) reaching the poorest, 2) reaching and empowering women, 3) building financially self-sufficient institutions, and 4) ensuring a positive measurable impact on the lives of the clients and their families. The Microcredit Summit Campaign is a global effort to put first those whom society has put last—to restore to people control over their own lives and destinies.

As of December 31, 2002, 2,572 microcredit[2] institutions have reported reaching 67,606,080 clients, 41,594,778 of whom were among the poorest when they took their first loan. Of these poorest clients, 79 percent, or 37,677,080, were women. Eight hundred thirteen of these institutions submitted a 2003 Institutional Action Plan outlining their progress. Assuming five persons per family, the 41.6 million poorest clients reached by the end of 2002 affected some 208 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 end of 1997. The growth from 26.8 million poorest clients at the end of 2001 to 41.6 million poorest clients at the end of 2002 represents a 55 percent growth over last year. The Campaign's overall growth of 447 percent between 1997 and 2002 now averages just over 40 percent per year.

This year, the Campaign was able to verify data from 234 institutions, representing 35,837,356 poorest families or 86.2 percent of the total poorest reported. In last year's report we were able to verify the data from institutions representing 81 percent of the poorest families counted. A complete appendix of the institutions verified this year can be found on page 27.

[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 pages 5-15.

[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.

The Faces Behind the Statistics

What does reaching one of the 41.6 million poorest families mean? A look through the lens of Gandhi's question shows how the work of the Microcredit Summit Campaign and our many partners has restored to people much more control over their lives and destinies.

Bilquees Rafeeq's family is one such family. Bilquees lives with her husband and four children in Kahna, Lahore, Pakistan. Four years ago Bilquees' husband was unemployed. Bilquees recalls the bitter days when she would desperately think of ways to arrange the next meal for her children. Often, they had to go to sleep on an empty stomach. Reflecting upon those days Bilquees says, "My children would cry all night and I would be completely helpless." Bilquees and her husband would often argue with each other; domestic life was far from pleasant.

> As of December 31, 2002, 2,572 microcredit institutions have reported reaching 67,606,080 clients, 41,594,778 of whom were among the poorest when they took their first loan.

Her branch manager recalls that in 1999, when Kashf Foundation was forming a group of women to receive a loan, a majority of the members was unwilling to include Bilquees in their group. These women feared that Bilquees was too poor. They worried that she would be unable to repay the loan installments and they would have to pay for her. Bilquees proved them wrong, however, and has repaid all her loan installments on time. "I didn't want to be a burden on anyone," she says. "I knew that I had to take responsibility for my family and had to struggle to improve their lives."

Bilquees has received four loans worth Rs. 4,000 (US$72), Rs. 6,000 (US$108), Rs. 10,000 (US$180) and Rs. 20,000 (US$361) from the Kashf Foundation. Bilquees invested this money by buying huge pots and pans for her pappur business (Poppadam is a light crispy snack that resembles crackers). Once a month her husband goes to Faisalabad to buy pappurs. She fries the pappurs at home and her husband helps her pack them. Bilquees has also hired two women who help her with the packing for two hours every day. Bilquees pays them Rs. 20 (US$.36) per day. Bilquees says that shopkeepers from the adjoining areas come to her house every day to purchase pappurs, which they sell in their shops. According to Bilquees, her monthly profits are Rs. 5000 – 6,000 (US$90-108).

"Kashf Foundation has helped my family to become self-sufficient," Bilquees says. "We no longer have to beg relatives and friends for money. If Kashf had not lent me money, I would have been working long hours as a laborer in some factory."

Bilquees has come a long way. She is grateful that now she can afford to send her children to school and has some savings for emergencies. "I want my children to acquire an education so they can improve their lives," Bilquees says. Currently she and her family live in a single room house for which they pay Rs. 550 (US$10) per month in rent. In the morning this room is used to pack the pappurs and at night mats are laid out on the floor where the six members of Bilquees' family sleep. In February 2003, Bilquees and her husband purchased land in order to build a house of their own. She plans to start building her house by next year.

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

Removing the Barriers

Each year's *State of the Microcredit Summit Campaign Report* has stressed the challenge faced by the Campaign in disproving widely-held myths that present obstacles to our success. The following three myths have been particularly deep-rooted and critical for us to address.

> **Myth one**—institutions cannot reach the poorest because they are too costly to identify and motivate.
>
> **Myth two**—if an institution does reach the poorest, it cannot become financially self-sufficient.
>
> **Myth three**—an institution that somehow reaches the very poor and becomes financially self-sufficient will only add a debt burden to the very poor.

Previous reports have labeled these myths "strongly held conventional wisdoms." But no matter how strongly held an idea is, if it doesn't reflect reality, then it's a myth.

Refuting Myth One: Showing That the Very Poor *Can* Be Reached Cost-Effectively

Most microfinance institutions start with a commitment to alleviating poverty, and take steps to see that the very poor are reached. They might offer very small loans or operate in some of the poorest areas of their country, but frequently these steps are insufficient.

John De Wit is Managing Director of the Small Enterprise Foundation (SEF) in South Africa, the institution that developed Participatory Wealth Ranking (PWR), a cost-effective process for identifying very poor families in a village.[3] De Wit tried to reach the poor by: 1) offering the clients very small loans and 2) operating in one of the poorest areas of South Africa. "But after a few years," De Wit recalled, "we realized that [of] the people we were serving, the majority did not live below the poverty line...."

Previous reports have labeled these myths "strongly held conventional wisdoms." But no matter how strongly held an idea is, if it doesn't reflect reality, then it's a myth.

In retrospect, it was clear to De Wit why people with enough assets came for such small loans. "[They] joined," he says, "because there's no other access to credit there except from loan sharks. They're also desperate for credit, and they have very legitimate needs. But they're coming and taking small, small loans, inappropriate for their own needs, in the hopes that one day you will give them a bigger loan."

He also saw why the poorest don't come forward. "The poorer people see who goes to your program," De Wit realized, "and they just say, 'This program is not for us; it is for those better off people.' And then very often the wealthier people—maybe just the less poor—intimidate the poor, simply by saying, 'This meeting is for serious people. Here we have to be serious about business. Somebody who is only selling a few vegetables is not serious about business.' Poor people already have pretty low self-esteem, but you add a few comments like that, and they leave. So, the presence of the non-poor unfortunately did scare away the poor."

[3] With Participatory Wealth Ranking (PWR), villagers map out their entire 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 in 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.

Many practitioners, like SEF, have sought to reach the very poor, but without the proper tools to do so. The Microcredit Summit Campaign was launched at a time when others in the field, particularly specialists within donor agencies, embraced the myth that a program cannot reach the very poor sustainably. Clearly, if the Microcredit Summit was to reach its goal, something had to change.

To help create this change, the Microcredit Summit Campaign has become a leader in identifying and promoting the widespread implementation of cost-effective poverty targeting tools. The 1997 Summit began the process, aiming to reach 100 million of the world's *poorest* families. Core themes included: 1) reaching the poorest and 2) building financially self-sufficient institutions. Following the Summit:

> "[V]ery often the wealthier people—maybe just the less poor—intimidate the poor, simply by saying, 'This meeting is for serious people. Here we have to be serious about business. Somebody who is only selling a few vegetables is not serious about business.' Poor people already have pretty low self-esteem, but you add a few comments like that, and they leave."
>
> John DeWit,
> Small Enterprise Foundation

- The Poverty Measurement Discussion Group was formed to identify cost-effective poverty measurement tools;

- The Poverty Measurement Toolkit was launched in 1998, which includes Participatory Wealth Ranking (PWR) and the CASHPOR House Index (CHI);[4]

- A paper was commissioned in 1999 titled "Overcoming the Obstacles to Identifying the Poorest." There was discussion of the paper in plenary sessions at global and regional meetings in Ivory Coast in 1999, Zimbabwe in 2000, and India and Mexico in 2001;

- A day-long course and a day-long village-based training was offered on PWR and CHI at those meetings;

- Two 25-minute training videos on PWR and CHI were commissioned in 2000 and 2001. The videos were distributed to more than 1,000 practitioners in Asia, Africa, and Latin America;

- Two-hour classroom sessions on PWR and CHI were organized in 2001 and 2002, reaching more than 3,000 practitioners in 75 cities in 32 countries; and

- Four-day trainings have been conducted across Asia in 2003 on the two tools with eight planned before the end of the year.

In the early years, the Microcredit Summit Campaign was scoffed at by many for assisting practitioners in reaching the poorest, for asking practitioners to report the number of poorest clients they were reaching, and for reporting those numbers when the data was weak. But the actions taken above have helped begin a sea change in attitudes and practice around the world.

[4] 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. Both tools have been proven accurate and cost-effective by independent experts.

From Two-Hour Classroom Sessions to Four-Day Trainings

In 2003, the International Fund for Agricultural Development (IFAD) funded the Summit's Asia organizer, Dr. D.S.K. Rao, to lead four-day trainings on PWR and CHI in eight locations across Asia. As part of the first four trainings (CHI in Lucknow, India, and PWR in Yogyakarta, Indonesia, Kathmandu, Nepal, and Ratnapura, Sri Lanka) the 96 trainees were asked a series of questions to help determine each session's impact.

A resounding 94 percent said their program's mission was to reach the very poor. Seventy-six percent of that group said their institutions had a poverty measurement tool, but of those, only 28 percent thought their tool was accurate and reliable and only 27 percent thought the tool their institution used was cost-effective. By contrast, 90 percent of those participating in the trainings said that CHI and PWR were accurate, reliable, and cost-effective and 88 percent of all trainees felt that their institutions should adopt the tool they studied.

Months after the training in Indonesia, Tri Budiardjo, an Indonesian practitioner working for Christian Children's Fund (CCF), wrote Dr. Rao:

> CCF is very keen and serious about PWR as it helps us to be truthful to our mission of reaching the poorest for the well-being of the children. Haryono and I facilitated PWR practice in a number of projects (5 so far), with the view to integrate PWR into our project life cycle and system. If that is successful, we will spread PWR effectively to 30 Districts of 8 Provinces in Indonesia....
>
> It works very well, even in peri-urban and urban slum areas. My intention is to translate the report from the field for you with an expectation that CCF is recognized to be able to conduct training on PWR in Indonesia.

A demand for training-of-trainers courses has emerged from all of the trainings. Mukunda Bahadur Bista, Executive Director of the Center for Sustainable Development (CSD) in Nepal wrote:

> Some of the NGOs/MFIs who participated in the last PWR have informed me that they have already implemented this model for their program and the result has been excellent.
>
> It is exciting to hear about the progress of [organizing a training-of-trainer program on PWR.]....I would request you to include five participants from Nepal including at least two from CSD. I am proposing this because any MFI needs to take a lead to expand this PWR campaign.

> A resounding 94 percent said their program's mission was to reach the very poor. Seventy-six percent of that group said their institutions had a poverty assessment tool, but of those, only 28 percent thought their tool was accurate and reliable and only 27 percent thought the tool their institution used was cost-effective. By contrast, 90 percent of those participating in the trainings said that CHI and PWR were accurate, reliable, and cost-effective.

Response to the CHI training in India was equally strong. CARE India has implemented Credit and Savings for Household Enterprises (CASHE), a microfinance project being implemented in four Indian states through NGO partners. After the initial training, in which two partners and two CARE staff participated, Mr. R. Devaprakash of CARE wrote:

> Quite enthralled by the response from our CASHE participants, wondering whether we can [move] forward on this. This time we may require in-company programs for CASHE partners and staff exclusive[ly]. Looking for at least two such programs in the place of your choice....

Clearly, the very poor *can* be reached cost effectively. The tools exist, their use is spreading, and institutions using them are reaching financial self-sufficiency.

Refuting Myth Two: Showing You *Can* Reach the Poorest and Build Financially Self-Sufficient Institutions

The last two *State of the Microcredit Summit Campaign Reports* quoted Consultative Group to Assist the Poor (CGAP) CEO Elizabeth Littlefield challenging the presumed incompatibility between reaching the poorest and financial self-sufficiency. We quote her again because the 29 donor agencies that make up CGAP's membership could play a key role in stamping out this insidious myth, which, if allowed to persist, could further marginalize hundreds of millions of very poor families over the next two decades.

> We have really exciting new evidence to support the paper's case from the MicroBanking Bulletin....Of the institutions that report...62 of them are financially sustainable. Of those 62, 18 reach the poorest people,[5] ...[and they] are the most profitable, ... and if you dig beneath that—if you look at costs per borrower, and efficiency indicators that neutralize the effect of small loan sizes, you will see that the low-end programs are actually most efficient of all the categories. They are reaching higher efficiency, to a higher productivity with an average of almost 200 client borrowers per staff versus 140 to 70 for the other categories. This is really great support for the paper's case and for debunking the myth that reaching the poorest is not necessarily as cost effective...."

Ten months later, in September 2003, Microfinance Information Exchange (MIX) Director Didier Thys, provided the Summit with an update. The MIX publishes the *MicroBanking Bulletin*.

> Of the 124 microfinance institutions reporting to the *MicroBanking Bulletin* (MBB), 66 were financially self-sufficient. Of those 66, 18 represented institutions who work with very poor populations, or what the MBB characterizes as the "low end" of the market. These 18 institutions had a higher average financial self-sufficiency, adjusted return on assets, and adjusted return on equity, than the overall averages for the 66 institutions combined. In other words, the low-end institutions out-performed the overall sample of institutions reporting to the bulletin. It is possible to reach the very poor and be financially self-sufficient.
>
> What is also interesting to note, is that these 18 institutions represented only 6 percent of the total assets under management for the 66 financially self-sufficient institutions. With 6 percent of the assets, they were able to reach 24 percent of the total clients for the same group. The same trend also held up when looking at all 124 institutions reporting to the MBB (financially self-sufficient and those who had not reached financial self-sufficiency). With 8 percent of the assets under management, the organizations focused on the low end of the market were serving 33 percent of the total clients.

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The MBB sample suggests that MFIs working with the very poor can not only be financially self-sustaining, but that they can stretch their assets to reach more clients than more broadly oriented or high end oriented institutions.

Didier Thys,
Director, The MIX

[5] It must be noted that the *MicroBanking Bulletin's* definition of institutions reaching the low-end of the population is "measured by an average loan size of less than 20 percent of GNP per capita or less than US$150." These measurements are clearly inferior to the tools described above. For example, the *Bulletin* includes Compartamos of Mexico in the group as reaching the low end of the population, but CGAP's more rigorous Poverty Assessment Tool found that 50 percent of Compartamos' entering clients were in the upper third of the community and 75 percent of entering clients were in the upper two-thirds of the community.

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The Microcredit Summit has been diligent in its commitment to strong financial performance. The Campaign's last five major meetings (1999-2002) and the three on the horizon (2004-2005) offered or will offer day-long courses on building a financially self-sufficient institution. Of the papers discussed in plenary session (1999-2005), the first paper discussed has been and will be the paper that addresses the need for strong financial performance coupled with a clear poverty focus. The Campaign has remained true to its third core theme of building financially self-sufficient institutions.

Refuting Myth Three: Showing That Microfinance *Can* Help the Very Poor Leave Poverty

If very poor families can be reached, and the institutions doing so can become financially self-sufficient, then it is crucial to go the next step and expose the myth that microfinance "only adds a debt burden to the very poor."

Shahidur Khandker of The World Bank has addressed this myth in the most in-depth study ever done on microfinance, spanning the 13 years from 1990-2003. Khandker studied BRAC, Grameen Bank, and RD-12, three MFIs in Bangladesh. His first fieldwork was conducted in 1990-1991 with findings published by Oxford University Press in 1998 followed by more field research in 1998-1999 and draft findings appearing in 2002 and 2003. Khandker found that:

> It cannot be stated any more plainly or urgently than this: When myth three dies, more children will live.

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 also positive for all households, including non-participants, indicating that microfinance programs are helping the poor beyond income redistribution, with income growth. Programs have spillover effects in local economies, thereby increasing local village welfare.

These are not the only such findings, only the most rigorous. It cannot be stated any more plainly or urgently than this: When myth three dies, more children will live.

Missing in Action: Recognizing the Contribution of Sustainable Microfinance for the Very Poor to Achieving the Millennium Development Goals

If the very poor can be reached, if the institutions reaching them can become self-sufficient, and if very poor clients are moving out of poverty, then why is sustainable microfinance for the very poor not more than a footnote in the policies and practices of major development institutions? This is a question that demands an answer, especially with the deadline for achieving the Millennium Development Goals[6] (MDGs) just 12 years away.

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[6] The Millennium Development Goals were agreed to at the United Nations Millennium Summit in 2000 attended by more than 180 heads of state and government. The goals include cutting absolute poverty in half and reducing by two-thirds the mortality rate of children under five by 2015.

At the Microcredit Summit +5, during the plenary discussion of the paper "Ensuring Impact," CGAP's Littlefield said:

> This excellent paper really could not have come at a more crucial time for us. Donor interest in microfinance appears to be suddenly and curiously waning. Perhaps it is just a change in fashion, but we learned in the CGAP donor community that microfinance is increasingly viewed as being kind of a specialized niche off in the corner of the development industry, too micro to be relevant to the broader financial sector reform goals....

We're asking the wrong question. We should *not* be asking "is microfinance relevant to the broader financial sector reform goals," although it can be an important question. Instead, we should be asking "is microfinance relevant to the poverty reduction goals?" If you were to ask World Bank President James D. Wolfensohn or United Nations Development Program (UNDP) Administrator Mark Malloch Brown for the primary objective of their respective institutions, they would answer "poverty reduction." If you were to ask them which of the MDGs is the most important, they would answer "cutting absolute poverty in half by 2015," the first of the MDGs.

If you were to enquire whether sustainable microfinance for the very poor is a priority intervention for The World Bank or UNDP based on the percent of funds spent on the microfinance sector, the answer would have to be no. This is because less than one percent of World Bank and UNDP funds are spent on microfinance. That percentage would be dramatically lower if you were to focus on microfinance spending that reached those who were living on less than $1 a day when they started. Why is this so?

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Breakthrough and Backlash

To answer that question we must look back to August 2003, when CGAP launched a web discussion[7] of the new U.S. law on Third World microenterprise[8] and its implication for other donors. Two months earlier, President Bush had signed into law legislation that would better ensure Congress' long-standing commitment to dedicate half of USAID microenterprise funds to families who are very poor when they start with the program. The legislation, which passed by unanimous consent in both the House of Representatives and Senate, called for new tools to be developed and certified because the measurement currently used, average loan size, was seen as unreliable in determining whether a family started at below $1 a day.

The legislation requires: 1) the Administrator of USAID to work with others to develop, by October 2004, at least two *cost-effective* tools that would determine the number of clients who enter a microenterprise program at below US$1 a day; 2) "with reasonable exceptions" all institutions receiving USAID microenterprise funds to use one of these tools by October 2005; and 3) the Administrator to submit an annual report to Congress beginning in 2006, that outlines the percent of funds going to clients who start at below $1 a day based on use of the newly certified tools.

With the U.S. government and U.S.-based MFIs working overseas engaged in implementing the new law, the CGAP debate posed the question, "Will new government mandates increase the industry's poverty focus or tie its hands?" The first four statements were from CGAP Executive Committee members, all of whom were opposed to the new law and its adoption by other aid agencies. Below is a summary of some of the comments and some reflections

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[7] The entire discussion can be found on CGAP's Microfinance Gateway: http://www.microfinancegateway.org/highlight_usaid.htm

[8] In U.S. law, microfinance and microcredit are referred to as microenterprise.

from the Campaign. Leaders in the discussion are quoted by name in order to promote frank debate and indicate that within our community we need to understand serious concerns and how to answer them.

Some of the statements promulgate the myth refuted above that identifying the poorest is too costly.

David Stanton: David Stanton, the Chief Enterprise Development Advisor for the British Department for International Development (DFID) said, "Poverty impact is essential, and measurement of that impact is important. But formulaic or prescriptive approaches to target the poorest, writ in law, will massively increase service delivery costs."

Microcredit Summit (MCS): The tools being developed are to be cost-effective. How will they "massively increase service delivery costs" if they are truly cost-effective? One also has to ask that if "poverty impact is essential," how will we know the impact if we don't have baseline data with which to compare progress or the lack thereof?

Nimal Fernando: Nimal Fernando, the Lead Rural Finance Specialist at the Asian Development Bank said, "So the bottom line is….the best way to reach the bottom 50 percent below the poverty line is to allow retail institutions to adopt business models that would enable sustainable growth."

MCS: What is it about business and business models, or development itself, that ensures that the very poor are reached? Don't many assume it is bad business to work with the very poor? Certainly Damian von Stauffenberg does. Von Stauffenberg, the CEO of MicroRate, a microfinance rating agency working with MFIs in Latin America and Africa, was quite clear in his views.

Damian Von Stauffenberg: "…Microfinance isn't at its best when applied to the truly very poor," Von Stauffenberg asserted. "....The truly poor must consume any loan they obtain, otherwise they will starve. Microfinance works above the level of the truly poor. A borrower must be engaged in a productive activity and a loan must be able to significantly boost that activity—otherwise the loan can't be repaid. These conditions prevail a notch above the level of the most grinding poverty."

MCS: But we must remember Khandker's exhaustive research which found that microfinance helps reduce extreme poverty much more than moderate poverty.

Damian Von Stauffenberg: "….MFIs catering to the truly poor, as defined by the law," von Stauffenberg continues, "probably aren't viable."

MCS: But the law defines the truly poor as those living on less than $1 a day. CGAP's research of SHARE India found that 72.5 percent of entering clients lived on less than $1 a day and a rating done by the rating agency M-CRIL found that SHARE was 100 percent financially self-sufficient. In fact, CGAP found that 16 percent of entering clients were in the bottom 10 percent of the community, 16 percent were in the next decile, and 20 percent in the next decile. This means that more than 50 percent of entering clients were in the bottom 30 percent of the community.

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Carlos Labarthe: Another CGAP Executive Committee member in opposition to the new law and its adoption by other donors was Carlos Labarthe, Co-Executive Director of Financiera Compartamos, Mexico. Labarthe said, "…to discriminate the clientele based on levels of poverty would be a mistake. To do so would be akin to opening a store with a maxim of not selling products to those who are too rich."

MCS: But hasn't the reverse been one of development's failures over the years, a practice of assuming the poorest can't be served because they are *too poor*? All too often hospitals have been built instead of health posts, universities instead of primary schools, and better off entrepreneurs have been helped instead rather than the poorest entrepreneurs. This helps explain why 29,000 children die each day from largely preventable malnutrition and disease; why more than 100 million children of primary school age are not in school; and why most of the 1.2 billion people now living on less than $1 a day are not rising out of poverty.

"The legislation was quite explicit in mandating both deep outreach for some (not all) U.S. government-supported microfinance programs and full financial sustainability for all. It is curious that the sustainability mandate, and the means for verifying compliance with it, are not mentioned in the current complaints about burdensome and distorting legislation."

Chris Dunford, Freedom from Hunger

Anton Simanowitz, Program Manager of Imp-Act responded in support of the new law and addressed the question: "How do we place working with the poorest at the center of development?" Simanowitz wrote,

> There are a number of factors that tend towards the exclusion of very poor clients, and mean that it is unlikely that market forces by themselves will lead to effective outreach to the very poor. These factors include:
>
> 1) Institutional: Most [MFIs] tend to work in accessible areas and with easy to reach clients. Few work 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.
>
> 2) Product design: MFIs often 'listen to clients' but fail to hear the voices of the most marginalized. Services are therefore often inappropriate for the very poor.
>
> 3) MFI staff: Better-off clients are often seen as less problematic by staff who are pressured to achieve high outputs of financial performance.
>
> 4) Client self-perception: Many very poor clients exclude themselves due to lack of confidence and have to be actively motivated to participate.
>
> 5) Exclusion by other clients: Particularly in group-based microfinance, better-off clients may not want the perceived 'burden' of including very poor clients.
>
> 6) Client exit: Where services are inappropriate, or staff [or] other clients are hostile, there may be high rates of 'churning' of very poor clients.

Also responding in support of the new law, Chris Dunford, President of Freedom from Hunger wrote, "the legislation was quite explicit in mandating both deep outreach for some (not all) U.S. government-supported microfinance programs and full financial sustainability for all. It is curious that the sustainability mandate, and the means for verifying compliance with it, are not mentioned in the current complaints about burdensome and distorting legislation. The critics of the deep outreach mandate apparently agree with the legislated answers to questions about sustainability."

MIX Director Didier Thys concluded, "Is there a cost to getting to know your clients? Yes. Is investing in that knowledge bad for business? Absolutely not! Any MFI who does not believe that has a range of other investors who will offer different constraints and expectations. That's the nature of the market for sourcing funds (both publicly and privately). If you need subsidy and can provide some informed analysis about the wealth of your clients, go to USAID. If you don't feel knowing the wealth of your clients is worth the effort, go somewhere else. There are plenty of other investors who won't care just as long as you give them a nice client story every once in a while and put a nice picture of a poor person on your website."

This debate goes not only to the question, "Where is microfinance headed?" but also to the question "where is all of development headed?" With the new U.S. law and an initiative described below, political leaders are beginning to take a stand.

> "What prompts us to write is 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."
>
> Letter from more than 600 Parliamentarians to Heads of the World Bank, regional Development Banks and UNDP

Political Support for Reaching the Poorest

Growing political support for reaching the poorest is found in a letter from Parliamentarians in the United Kingdom, Japan, the United States, Canada, Australia, and Mexico to the heads of The World Bank, the Asian, African, and Inter-American Development Banks, and UNDP. As of October 15, 2003, these letters had been signed by 180 British parliamentarians, 111 Japanese Diet Members, 59 U.S. Congresspersons, 62 Canadian Parliamentarians, 105 members of the Australian Parliament, and 95 Mexican Delegates.

Slated for delivery in late October 2003, the parliamentarians begin:

> We are encouraged by the support you have given to the fulfillment of the Millennium Development Goals (MDGs) agreed to by more than 180 heads of state and government at the Millennium Summit in September 2000. We believe that the achievement of these goals, which include empowering women and cutting absolute poverty in half between 1990 and 2015, is crucial to building a safer and more equitable world—and will show our constituents that development programs are truly making a difference.
>
> What prompts us to write is 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 influential institutions for the following:

1) **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.

2) **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.

3) **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.

4) **An 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.

The letter continues:

> There is a very powerful process underway in the United States, which is already creating a positive sea change among U.S.-based microfinance networks. We believe this process can have a profound impact on the items above. ….**We believe your institutions should be a vital part of this process and urge you to adopt a similar procedure."**

Next Steps

There is indeed a powerful process underway because of the new U.S. law. For at least a year, tools have been developed and tested for possible certification by USAID, and the results are hoped to provide a leap forward for the microfinance field, for achievement of the Millennium Development Poverty Goal, and for the very poor themselves. The Microcredit Summit has asked some of those most actively involved in the testing of new tools to provide a short description of their work, reflected below:

Opportunity International is currently developing and field-testing a series of poverty assessment indicators in Asia, Africa, Latin America and Eastern Europe, with emphasis on establishing a common set of indicators that can be used to compare the poverty-targeting performance of partners on a global basis. Some of the key indicators being tested include household income, housing status, access to utilities, education level, and rural vs. urban status. The goal is to determine whether a combination of alternative, low-cost proxies correlate with national poverty line data, as well as how those proxies compare against current poverty measures such as average loan size, average initial loan size and outstanding loan balance. Also, as part of a larger client monitoring initiative, special emphasis is being placed on developing guidelines for management decision-making in response to poverty assessment data.

> The parliamentarians ask the heads of these influential institutions for:
>
> 1) Increased funding for microenterprises
> 2) At least 50 percent of funds reaching the poorest
> 3) Use of cost-effective poverty measurement tools to ensure meeting the target
> 4) An annual reporting of results

Over the last two years **FINCA International** has completed poverty assessments in 18 of its 24 country microfinance programs. Data are gathered by summer research interns who use hand-held PDAs to conduct simple 15-minute interviews with a sample of new, current, former, and non-clients. In addition to monitoring daily per-capita expenditures of respondent households, the methodology tracks school attendance, percentage of loan applied to self-employment business, frequency of re-supply, and respondent ranking of their household's food security, health, housing, education, empowerment, social capital, and overall satisfaction with the program. While the PDA-based methodology has heretofore been implemented as a parallel system to FINCA's management information system (MIS) for portfolio monitoring, by year's end we hope to have incorporated a shortened list of the PDA variables into the MIS to permit expanded routine loan cycle tracking of individual clients.

The **ACCION** Poverty Assessment Tool uses household-level income and expenditure data to assess the poverty level of microfinance clients in comparison with national and international poverty lines and the poverty level of the national and regional populations. It relies on data that MFIs collect as part of the standard credit application process and is maintained in its MIS. The tool also contributes to overall market research by allowing institutions to examine the poverty, demographic, and socioeconomic profiles of their borrowers. Finally, the tool allows MFIs to implement client poverty monitoring into a regular report that is automatically generated by the MFI's MIS. Therefore, the tool enables the MFI to incorporate regular poverty monitoring into its management decision-making process in a cost-effective manner and ultimately helps to improve outreach to poorer clients.

Freedom from Hunger…has become aware of the potential to use food security scales to classify microfinance, business development services (BDS) and other development service clients as very poor, better-off poor or not poor in terms of their food insecurity. This United States Department of Agriculture (USDA)-developed method promises to discriminate the very poor (who suffer chronic food insecurity) from the not-so-poor (who are only occasionally, if ever, food insecure). Freedom from Hunger proposes to compare this discriminatory ability with that of the more formal and much more expensive methods for measuring poverty in terms of consumption expenditure (e.g., the Living Standard Measurement Survey or LSMS). In short, will the two methods correlate reasonably well in their classification of people as very poor, better-off poor or not poor? If they do, and in a wide variety of countries, economies and ecologies, then the food security scaling technique would offer a low-cost alternative to LSMS-type surveys for the specific purpose of determining the percentage of a clientele that is very poor vs. better off.

LSMS-type surveys are the method of choice for determining whether people are living above or below the international poverty line (dollar a day PPP). These surveys are also used to determine a person's consumption level in relation to the median for people living below the national poverty line. Either this international or national definition of poverty must be used in USAID-supported measurements of microenterprise development (MED) client poverty levels. The task facing the microfinance community (and the "poverty reduction" community more generally) is to find low-cost methods that approximate the discriminatory ability of the LSMS-type surveys and that can be reasonably used regularly by practitioners themselves. Freedom from Hunger believes that food security scaling is likely to be one of those methods.

Avoiding a Major Step Backward: Making the New Law Matter

The new U.S. law is intended to develop and implement cost-effective ways of bringing greater transparency to Congress' long-standing commitment to dedicating half of U.S. microenterprise assistance to those who start below $1 a day. The impetus for the new law was to replace average loan size, the previous measurement used, which was woefully inaccurate. The research described above is an impressive start. It would be a major step backward were USAID to certify indicators such average loan size, loan size as a percentage of GDP or poverty line, average initial loan size, loan repayment size, and/or outstanding loan balance—indicators that tell you more about the institution making the loan than about the poverty level of the client.

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 six years now this process has produced the most complete 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. This year we are especially grateful to the following institutions for their active support of this data collection process: Development International Desjardin, FINCA, CARE, Catholic Relief Services, World Vision International, Grameen Trust, Pride Africa, Red Financiera Rural, Opportunity International, Freedom from Hunger, Katalysis, World Relief, and Save the Children. 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.

> It would be a major step backward were USAID to certify indicators such as average loan size, loan size as a percentage of GDP or poverty line, average initial loan size, loan repayment size, and/or outsanding loan balance—indicators that tell you more about the institution making the loan than the poverty level of the client.

As of October 1, 2003, 3,632 institutions from 133 countries were members of the Microcredit Summit Council of Practitioners, an increase of more than 428 in the last 12 months. In 2003, 813 practitioner institutions submitted an Action Plan, 386 of whom had previously never done so. Since we began collecting Action Plans, the Microcredit Summit Campaign has received plans from 2,572 practitioner institutions.

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 2003 IAP, on which this report is based, practitioners were asked to provide the above data for December 31, 2001 (actual), December 31, 2002 (actual), December 31, 2003 (proposed) and December 31, 2005 (proposed).

In our report each year, we emphasize that this data is self-reported. Over four of the last five years, however, Microcredit Summit Campaign staff have reviewed all Practitioner IAPs 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 number of poorest clients each institution reported. 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."

In the 2000 State of the Campaign Report, 78 institutions, representing two-thirds of the poorest clients reported, had their data verified by a third party. In 2001, 138 institutions, or two-thirds of the poorest clients reported that year, had their data verified. In the 2002 report 211 institutions, representing 81 percent of the poorest clients reported, had their data verified.

Clients Reached

By December 31, 2002, 2,572 microcredit institutions[9] reported reaching 67,606,080 clients with a current loan, 41,594,778 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. Of these poorest clients, 79 percent, or 32,677,080, were women.

This year, we were able to verify the data of 234 institutions, representing 35,837,356 poorest families or 86.2 percent of the total poorest clients reported. A complete listing of these institutions can be found on page 27.

This year, we were able to verify the data of 234 institutions, representing 35,837,356 poorest families or 86.2 percent of the total poorest clients reported.

The growth from 26.8 million poorest clients at the end of 2001 to 41.6 million poorest clients at the end of 2002 represents a 55 percent growth rate over the year. The growth from 7.6 million poorest at the end of 1997 to 41.6 million poorest at the end of 2002 represents a growth of 447 percent during that five-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 over 40 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 had not yet reported to the Campaign. 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 the previous four years.[10] In this year's report, covering 2002 data, 33.8 percent of growth came from institutions reporting for the first time.

Another factor contributing to growth was 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 now 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 Microcredit Summit adopted the original "bottom half below poverty" definition because it: 1) had already been agreed to by a respected group of leaders in the field of microfinance, CGAP's Policy Advisory Group; 2) allowed an

[9] Of these 2,572 institutions, 813, representing 92 percent of the poorest clients reported, sent in their 2003 Institutional Action Plans. The 1,759 remaining institutions sent us their data in previous years, and we have included those numbers in this report.

[10] The National Bank for Agriculture and Rural Development (NABARD) was one of two very large institutions included in last year's report for the first time. NABARD is the apex development bank in India for agriculture and rural development. NABARD has played a central role during the last decade in pioneering the self help group (SHG) movement in India, under which poor and poorest women organize themselves into groups. The SHG members save and lend among themselves and also manage the affairs of their groups. The matured SHGs are linked to the formal banking system, which has an extensive branch network throughout the country, to bolster their resources. Although last year 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
Total Number of Clients	146,166	243,389	560,915	1,608,965	3,992,331	7,837,000	10,760,400
Number Poorest Clients	58,613	97,599	224,927	645,195	1,600,925	3,130,000	8,608,300

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 9,146,340 total clients, 7,317,055 of whom were among the poorest when they started with the program.

institution to measure itself against poverty indicators established within its own country rather than comparing itself with countries on other continents; and 3) included the poorest in relatively well-off countries such as Malaysia and Costa Rica.

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

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

The practical effect of the expanded definition of the poorest 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 100 million primary school aged children who have never been to school. Expanding the definition of poorest and developing these new tools will fully align the Campaign with the global commitment to cut absolute poverty in half by 2015.

Of the 50 largest institutions reporting this year, representing 80 percent of the poorest families counted, seven reported new clients resulting from the expanded definition. These institutions reported 5,244,067 new clients as a result of the expanded definition, or 13 percent of the total 41.6 million poorest clients reported as of December 31, 2002. Twelve percent of the above-mentioned 13 percent comes from NABARD (8.8%), Bank Rakyat Indonesia (BRI) (2.2%), and Vietnam Bank for the Poor (1%). These three institutions reported 4,988,611 new clients as a result of the new below $1 a day definition or 33.8 percent of the growth in poorest clients reported this year.

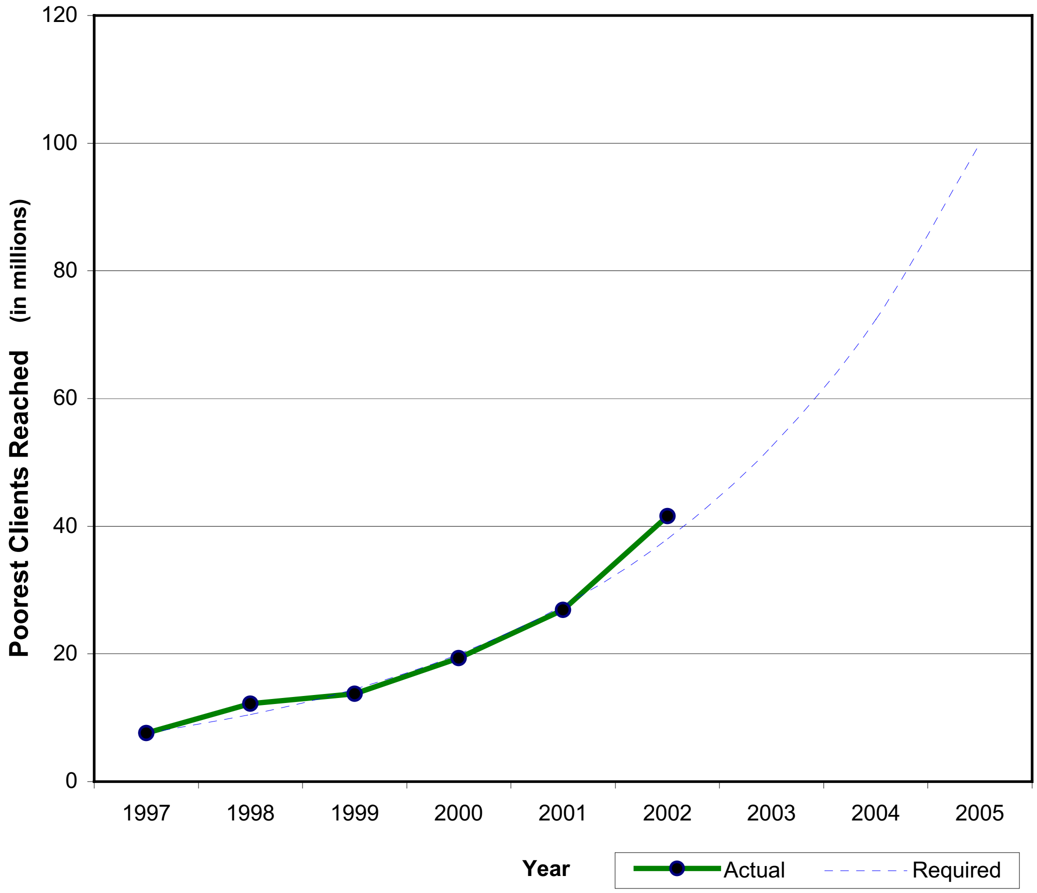
Table 1 shows progress over the last five years.

TABLE 1: FIVE-YEAR PROGRESS TOWARDS THE CAMPAIGN'S GOAL

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**

Figure 1 (facing page) 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: REACHING 100 MILLION POOREST



The size of the institutions reporting data varies greatly. Table 2 shows the breakdown in size of the 2,572 institutions reporting.

TABLE 2: SIZE OF INSTITUTIONS REPORTING

Size of Institution (in terms of poorest clients)	**Number of Institutions**	**Combined Number of Poorest Clients**
1 million or more	8	13,545,168 or 32.6% of total
100,000 - 999,999	25	6,414,155 or 15.4%
10,000 - 99,999	222	5,961,996 or 14.3%
2,500 - 9,999	410	1,958,777 or 4.7%
Fewer than 2,500	1,904	1,003,372 or 2.4%
Networks[11]	3	12,711,310 or 30.6%

[11] The numbers above include data from three large networks: the National Bank for Agriculture and Rural Development (NABARD), see footnote 10, in India; the Association of Asian Confederation of Credit Unions (ACCU), which has 2,104,697 total clients and 1,810,039 poorest clients, and the Bangladesh Rural Development Board (BRDB) which has 3,653,363 total clients and 3,542,123 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.

Of the 41.6 million poorest clients being served, 20 million of them, or 48 percent, are being served by the 33 largest individual institutions reporting, institutions with 100,000 or more poorest clients.

Women Clients Reached

The growth in the number of very poor women reached has gone from 10.3 million in 1999, to 32.7 million as of December 31, 2002. This is a 217 percent increase in the number of poorest women reached from December 31, 1999 to December 31, 2002. This increase represents an additional 22.4 million poorest women reported as receiving microloans in the last three years.

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

Of the 813 institutions submitting data in 2003, 531, or 65 percent, reported using a poverty measurement tool other than an estimate. Of this group, 35 percent (or 184 institutions) told us they are using one of the two tools from the Poverty Measurement Tool Kit.

Regional Data

Of the 2,572 institutions that have reported to us, 811 are in Africa, 1,377 are in Asia, 246 are in Latin America and the Caribbean, 47 are in North America, 68 are in Europe and the Newly Independent States (NIS), and 23 are in the Middle East. The low numbers of institutions reporting in Latin America are a direct result of the Campaign not yet having placed a Regional Organizer in the region.

Table 3 (facing page) shows the regional breakdown of data.

TABLE 3: REGIONAL BREAKDOWN OF DATA

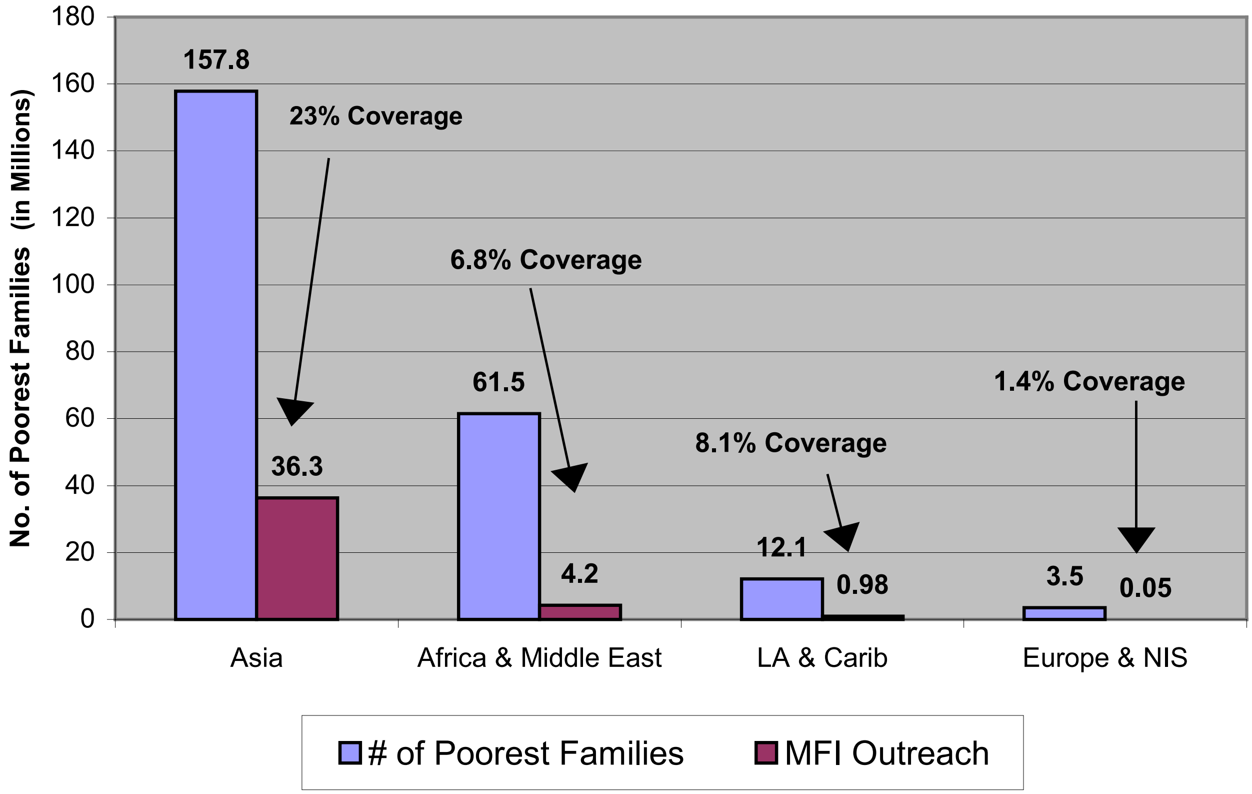
Region	Number of Programs Reporting	Number of Current Clients Reported, 2001	Number of Current Clients Reported, 2002	Number of Current Poorest Clients Reported, 2001	Number of Current Poorest Clients Reported, 2002	Number of Current Poorest Women Clients Reported, 2001	Number of Current Poorest Women Clients Reported, 2002
Africa	811	4,608,407[12]	5,761,763	3,461,632	4,202,280	2,362,172	2,611,650
Asia	1,377	47,891,977	59,632,098	22,340,073	36,304,269	18,098,695	29,423,010
Latin America & Caribbean	246	1,973,352	1,942,055	927,830	976,396	643,547	589,405
Middle East	23	67,770	83,047	36,293	37,600	17,324	12,282
Developing World Totals	**2,457**	**54,541,506**	**67,418,963**	**26,765,828**	**41,520,545**	**21,121,738**	**32,636,347**
North America	47	263,395	47,017[13]	31,517	22,469	16,628	12,450
Europe & NIS	68	127,334	140,100	80,987	51,764	31,388	28,283
Industrialized World Totals	**115**	**390,729**	**187,117**	**112,504**	**74,233**	**48,016**	**40,733**
Global Totals	**2,572**	**54,932,235**	**67,606,080**	**26,878,332**	**41,594,778**	**21,169,754**	**32,677,080**

[12] All numbers for Africa in 2001 (total, poorest, and poorest women) reflect the inclusion of clients reached by Zakoura Foundation in Morocco that were erroneously included under Middle East in the *State of the Microcredit Summit Campaign Report 2002.*

[13] The decrease in the number of current and poorest clients reported in North America in 2002 reflects the elimination of various network institutions whose clients were erroneously included in last year's report, but are not based in this region.

Figure 2 shows the relationship between the number of families living in absolute poverty in each region (i.e., those living under one dollar a day PPP) and the number of poorest families reported reached in each region at the end of 2002.

FIGURE 2[14]: REGIONAL BREAKDOWN OF ACCESS TO MICROFINANCE



Expanding Impact: The Campaign's Relevance in Other Areas of Development

Does the work of the Microcredit Summit Campaign and its focus on the very poor only have relevance for the microfinance field or does it have relevance elsewhere in development? Listen to Davidson Gwatkin, who until recently was the principal health and poverty specialist at The World Bank. Earlier this year he participated in a panel focusing on the question, "How can we be sure that achieving the Millennium Development Goals brings about the maximum possible benefit for the poor?" He responded:

> Those of us in the health field are still caught up in the thinking of the 1960s and 1970s of improving overall average conditions. If you look at the way the Millennium Development Goals are formulated [in health]….they are still stated in national averages. And it is possible to make improvements in those national averages without having significant benefits flow to poor groups by focusing primarily on upper income groups….If we continue to focus only on national averages as we in the health field continue to do, whether in the Millennium Development Goals, the UNICEF program, the World Bank activities or whatever, then the majority of benefits will not get to the people we are most concerned about….

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

Gwatkin goes on to give the example of measles, a disease far more prominent among poor children than among those who are better off. He describes the call for a measles program and the assumption that it is automatically "pro-poor."

> Then you look at measles immunization rates and they are two or three times as high in the upper income groups as they are in the poor. The programs don't get to the poor….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….Immunization programs are regressive as they currently exist.

Gwatkin then pointed to the importance of tools like Participatory Wealth Ranking and the CASHPOR House Index.

> I've always thought and continue to think [that these kind of tools are] extremely relevant for health. But we do not have it in health. So one of the things I've been working on in recent months is finding some way to take various versions of that same methodology and working on applying it to health….I think there is much that we in health can learn from microcredit….

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Davidson Gwatkin

Looking Forward

United Nations International Year of Microcredit—2005 On December 15, 1998, the General Assembly of the United Nations adopted Resolution 53/197 declaring 2005 as the International Year of Microcredit. The resolution designates 2005 as a special occasion for giving impetus to microcredit programs throughout the world and invites Governments, the United Nations system, all concerned non-governmental organizations, other actors of civil society, the private sector, and the media to highlight and give enhanced recognition to the role of microcredit in the eradication of poverty. On July 23, 2003 the Secretary-General delivered a report to the General Assembly outlining proposed activities for the International Year of Microcredit.[15]

The year 2005 is when the new U.S. law requires all institutions receiving USAID microenterprise funds to begin using cost-effective poverty measurement tools to better ensure that at least 50 percent of USAID's microenterprise funds are reaching families starting below US$1 a day. The same would be true for The World Bank, the African, Asian, and Inter-American Development Banks, and UNDP if those institutions were to adopt the request found in the letter currently signed by more than 600 parliamentarians from leading industrialized countries. If the funding requests found in the letters were also agreed to, spending for microfinance from these institutions would double from more than $500 million a year to more than $1 billion a year with half of that amount, $500 million *per year,* going to families starting below US$1 a day. Now that would be a year to remember!

Building Better Lives Over the next three years the Microcredit Summit Campaign intends to build on its groundbreaking work bringing cost-effective poverty targeting tools to practitioners in Asia, Africa, and eventually Latin America. The Campaign also plans to include classroom sessions and trainings on cost-effectively integrating microfinance with education in child survival, reproductive health, and HIV/AIDS prevention. With support from the United Nations Population Fund (UNFPA), the two-hour classroom sessions have already begun. More than 290 practitioners in six countries have participated. We've taken up these challenges because they are vital to fulfilling our core themes— reaching the poorest, reaching and empowering women, building financially self-

[15] The Secretary-General's report can be found here: http://www.uncdf.org/english/microfinance/year/GAresolutions/A58-179_english.pdf (see pages 9-19).

If the funding requests found in the letters were also agreed to, spending for microfinance from these institutions would double from more than $500 million a year to more than $1 billion a year with half of that amount, $500 million *per year,* going to families starting below US$1 a day. Now that would be a year to remember!

sufficient institutions, and ensuring a positive, measurable impact on the lives of clients and their families. We've taken them on because no other institution with a global reach had.

Microcredit Summit Regional Meetings 2004-2005 The Microcredit Summit will begin a series of regional meetings with the upcoming Asia/Pacific Microcredit Summit Meeting of Councils scheduled for February 16-19, 2004 in Dhaka, Bangladesh.[16] We are very close to finalizing plans to hold the Africa/Middle East meeting in Amman, Jordan in late 2004 followed by the Latin America/Caribbean meeting in 2005. The final Microcredit Summit will be held in late 2006, when we will be able to announce end of 2005 figures. Preliminary discussion has begun as to whether the Campaign should set a new target for the number of poorest families to be reached by 2015. This would help ensure the full contribution of this work to achieving the Millennium Development Goals.

Conclusion

Shahidur Khandker, in his extensive World Bank research in Bangladesh of BRAC, Grameen Bank and RD-12 said in his findings published in 1998, "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." Together BRAC and Grameen report reaching 4.2 million families who were very poor when they started or some 21 million family members. This would mean that more than one million family members should be able to move out of poverty each year as a result of borrowing from these two programs or more than some 87,000 people per month.

All institutions reporting to the Summit from Bangladesh have reached a combined total of 10.5 million poorest or some 52.5 million family members. If the statistics for Grameen and BRAC were to hold true for these institutions and family members, that would mean that 2.6 million Bangladeshis should be moving out of poverty each year or some 219,000 people per month.

This year's State of the Microcredit Summit Campaign Report shows that 41.6 million very poor families were being reached at the end of 2002 or some 208 million family members. Again, if Khandker's findings were to hold for all the programs reporting worldwide, that would mean that 10.4 million people should be leaving poverty each year or more than 866,000 people each month.

These statistics do not show up in national macroeconomic data because such surveys do not count the activities of these people. The very poor who have moved above $1 a day are not engaged in large-scale agriculture in rural areas, nor are they engaged in large-scale manufacturing in the rural areas. They are not on the radar screens of the macro economists, but their lives are changing. They are eating better. Their children are beginning to enroll in school and receive better health care. They are improving their homes and their access to clean water and safe sanitation. Millions of women are achieving higher levels of autonomy and self-respect.

We need truth in advertising in development. In microfinance, we often use code words when we want to avoid talking about poverty. We say "outreach" or "depth of outreach" when we want to avoid direct reference to poverty. We say pro-poor but don't define it, or we define it, but we don't measure it. Human progress can best be measured by how we have found wrongs and corrected them, and how we have found injustices and made them right.

[16] For information see: http://www.pksf-bd.org/aprm_summit_brochure.htm.

Several weeks before this report was completed I had a very direct experience of how deeply this need for justice runs. Each evening, I bathe my five-year-old son and two year-old daughter while my wife reads to one or the other. Recently, my wife read the book *Martin's Big Words,* about Dr. Martin Luther King, Jr., to our five-year-old. The book explained the struggle for civil rights in the United States and efforts to make fair what was unfair. It told of "whites only" signs, about King's death, and about how people have worked to make his dream reality.

After he reads a book or has one read to him, my son writes the name of the book in his own little journal. This particular evening it was clear that he was struggling even to write the first letter. His mother asked whether there was something wrong.

He looked up from his journal with a face expressing great sadness. He pointed to his throat indicating that he couldn't speak. He started to cry, and then came the flood of questions. "Will it ever get unfair again?" he asked. We assured him that it would not. "What did they do with the signs?" he wanted to know. We told him that the signs had been thrown away, but that a few had been put in museums so that we could remember that terrible time. "Will the signs ever come back?" he asked. We assured him that they would not.

This year's State of the Microcredit Summit Campaign Report shows that 41.6 million very poor families were being reached at the end of 2002 or some 208 million family members. Again, if Khandker's findings were to hold for all the programs reporting worldwide, that would mean that 10.4 million people should be leaving poverty each year or more than 866,000 people each month.

Our five-year-old reminded us of how deeply the human need for fairness runs and our need to keep past unfairnesses in the museums, where they belong. We did not think it was time to discuss with him how scandalously unfair it is that more than 100 million primary school aged children are not enrolled in school. We did not think it was time to discuss with him how scandalously unfair it is that 29,000 children his age or younger die each *day* from largely preventable malnutrition and disease. But we will have that discussion soon enough and will continue our work to make sure that some day, his children will have to visit a museum if they want to see global poverty and the unfairness it represents.

This report is a testament to the hundreds of thousands of practitioners who toil in more than 130 countries in order to bring financial services, empowerment, and a better life to their clients. But more than anything, this report is a testament to the tens of millions of poorest clients, for it is they who are working hardest of all to bring a better life to their families. This report is also a testament to the hundreds of millions of family members who are beginning to see positive changes in their lives, changes that the macroeconomic studies do not see.

We end with a plea to those who are able, to advocate for the policies and resources that will bring the 58.4 million poorest families and nearly 300 million families members—yet to be reached—into this movement by the end of 2005. Then we will truly be answering Gandhi's call: "True development puts those first that society puts last." Then we will be able to look at fulfillment of the Millennium Development Goal of cutting absolute poverty in half by 2015 and hear the words of Dr. Martin Luther King: "How long? Not long."