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The Power of Poverty Scoring: Lessons for Microfinance

Mark Schreiner, Michal Matul and Sean Kline

Prizma has worked with the MFC under *Imp-Act* to develop a client poverty assessment system intended to meet the Institution's developmental and institutional imperatives. Prizma's poverty scorecard aims to measure poverty without incurring the cost of measuring expenditure, and indeed, a recent external evaluation demonstrates that it is quite powerful in identifying poor clients. The scorecard ranks clients by relative poverty, helping Prizma to assess its effectiveness in targeting the poor, tracking changes in clients' poverty status over time, and more intentionally balance its social and financial performance. Because the scorecard was derived from an expenditure survey, Prizma can also report on clients' absolute poverty status.

Analysis of Prizma's poverty scorecard offers nine broad lessons for microfinance institutions seeking to assess the poverty status of their clients:

1. **Scoring poverty need not be complex or costly.** Ranking clients by relative poverty can be done with yes/no (or low/average/high) indicators that are correlated with poverty. Microfinance institutions that track clients probably already collect several such indicators, and they may have the capacity to collect a few additional indicators without adding to the workload of loan officers and other operational staff or the opportunity cost to clients.
2. **Poverty assessment can serve internal and external stakeholders.** If scorecard indicators appear in national household expenditure surveys, then donors can feel confident that reported poverty rates are based on national or international poverty lines.
3. **Both theory and experience provide support for simple weighting (0/1 or 0/1/2) of ranges for indicators.** For example, if rural households are more likely to be poor than urban households, then the characteristic "location of residence" will contribute one point to the score of rural households and no points to the score of urban households. In general, the quantity and quality of data on clients matters more

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MFC Governance Update

This year, two of MFC Board Member's term finished and two new MFC Board Members were elected by MFC member institutions, while another director was appointed by the MFC Board.
MFC would like to extend special thanks to *Tamar Lebanidze* (Board Member, Constanta Foundation, Georgia) and *Nejira Nalic* (Executive Director, Microcredit Organization "MI-BOSPO" Tuzla, Bosnia & Herzegovina) for their work and commitment as MFC Board Members.
Elections of two new MFC Board Directors were held during the MFC Membership Meeting on 27th May.
MFC Members elected: *Gagik Vardanyan* (Executive Director, Microenterprise Development Fund "KAMURJ", Armenia) and *Kenan Crnkic* (Executive Director, PRIZMA Mikro, Bosnia & Herzegovina).

At the same meeting, *Ken Vander Weele* resigned from the position of MFC Chair. All MFC staff would like to thank him for his great dedication to the work for MFC. Monique Cohen (President, Microfinance Opportunities, USA) was appointed to the MFC Board as "at-large director." *Caroline Tsilikounas* (ICMC and Mercy Corps Technical Advisor to DEMOS Savings and Loan Cooperative, Croatia) was elected a new Chair.

Current MFC Board Composition:
Caroline Tsilikounas
(DEMOS Savings and Loan Cooperative) - Chair
Maria Novak
(ADIE)
Gert van Maanen
(Oikocredit)
Marina Yoveva
(World Vision Middle East and Europe Region)
Gagik Vardanyan
(Microenterprise Development Fund KAMURJ)
Kenan Crknic
(PRIZMA Mikro)
Monique Cohen
(Microfinance Opportunities)

You can read more on MFC governance at www.mfc.org.pl

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The Power of Poverty Scoring: Lessons for Microfinance

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than statistical sophistication. After all, no amount of manipulation can create an unrecorded indicator or squeeze meaning from carelessly recorded data. Collecting good data and monitoring its quality is difficult, but the long-term reward will only increase as scoring—for poverty, repayment behavior, drop-out, and other uncertain future outcomes—becomes more widespread.

4. **"Domain knowledge" of the specific country and of microfinance in the specific organization is key.** For example, an indicator for home-ownership may not make sense if most or very few of an institutions' clientele owns their homes. Likewise, religion or ethnicity might be highly correlated with poverty, but difficult to ask without undermining client confidence and rapport. Even within a given institution, a particular scorecard may not be appropriate for all regions, branches, products or segments. In short, knowledge of local context and common sense matters and may suggest that customized scorecards are more appropriate. However, it is worth noting that a single scorecard may be developed to capture poverty status for any segment in an institution—microfinance, BDS or otherwise—if it includes enough or the right indicators to account for any clientele served.
5. **The power of scorecard indicators is not the only performance criterion.** When scorecards are not used by staff, the culprit is usually not a lack of predictive power but lack of an adequate change-management process to help staff become confident in their use of scoring. Staff must see scoring as simple and worthwhile—something that enhances rather than undermines their performance in either social or financial terms. Thus, successful implementation requires intentional training, incentives, quality assurance, culture, and appropriate management signals the importance and method of deploying scoring.
6. **Adopting two scorecards may enable an institution to leverage the benefits of scoring relative poverty internally while providing external stakeholders estimates of absolute poverty using a few benchmarkable indicators.** On the one hand, including non-benchmarked indicators in a relative scorecard gives this slightly larger scorecard greater power and thus greater usefulness for staff to target and track change in status over time. On the other hand, a simpler scorecard that is fully benchmarked to national and international expenditure data can yield measures of the absolute poverty outreach rate (for example, 50% of clients are poor). At some point, adding additional indicators to a simple scorecard provides little additional benefit.
7. **Except for institutions with strong pro-poor targeting, small benchmarked scorecards risk overstating poverty rates.** Very simple scorecards are tempting, not only because they provide higher poverty rates but also because they are simpler and less costly. Indeed, unless an organization uses poverty scoring for managing depth of outreach, it will have weak incentives to collect quality data and build a powerful scorecard. Thus, if external stakeholders want good absolute measures of poverty, they are unlikely to get them unless the poverty-scoring system provides the institution with incentives to get good relative measures of poverty.
8. **Poverty scoring can help resolve the debate over the link between loan size and depth of outreach,** perhaps as simply as by graphing loan size against poverty likelihood from a benchmarked scorecard.
9. **Poverty scoring can support a more intentional and explicit management of poverty outreach in an industry that has long focused on incidental outreach and implicit benefits.** Equipped with poverty scores, managers no longer need guess clients' poverty status nor the change in their status over time. Instead, they can use a standard yardstick to measure, signal, appraise and reward branches and operational staff who attract, serve and retain the mission-defined target group. Lack of evidence about poverty outreach no longer supports business-as-usual. In fact, greater transparency about who institutions are reaching promises to spur innovation, enhance competition, increase strategic positioning, lead to better services, clarify the role and rationale for smart subsidy, and lead to greater accountability for the deployment of public funds.

Expanding Microfinance in Central Asia: New MFC and CGAP Initiative

The Central Asia Microfinance Centre (CAMFC) is a joint effort whose goal is to assist MFC's catalytic role in Central Asia.

MFC and CGAP have, over the years, established a productive relationship and are ideally positioned to make a significant and timely impact on the emerging microfinance industry in Central Asia.

The Central Asia MFC will help meet the rising demand for on-site policy work, local donor coordination, institutional strengthening of the microfinance sector through training and capacity building, improving transparency and information flows, and dissemination of accepted industry standards and best-practice experience through MFC and CGAP publications and web-based media. The project would leverage MFC and CGAP's existing and ongoing work with industry players and regulators. Enhanced MFC and CGAP's involvement in the region can help propel the young Central Asian microfinance industry into higher stages of development and weave it into a fully integrated financial system, thus avoiding many of the delays and detours that the industry has taken in other parts of the greater region.

The work of CAMFC will build on the experience and success of the existing stakeholders: in particular CAMFA, bilateral and multilateral donor agencies, international financial institutions.

MFC will be responsible for the overall management and operations of the Center while CGAP will participate in making key staffing and program decisions. A steering committee comprising stakeholders would be established to ensure proper governance and accountability. The steering committee would also review the annual work plans and monitor progress.

You can contact CAMFC manager Olga Tomilova, olga@mfc.org.pl, for any questions or suggestions regarding the Centre. The CAMFC's office, located in Almaty, Kazakhstan, will become operational in July 2005.

Learn the Basics of Effective Microfinance Policies and Investments in Five Days!

The Consultative Group to Assist the Poor (CGAP) and the United Nations Capital Development Fund (UNCDF) invite you to attend a hands-on training course **Building Financial Systems for the Poor: How Donors Can Make a Difference** organized in cooperation with MFC (Almaty, Kazakhstan, 11 – 15 July 2005).

For further information please see **www.uncdf.org/english/learning/training/CGAP_UNCDF_Donor_Course.php**

MFC MEMBERS CORNER

WV/GEF transforms into CREDO – a microfinance institution supporting micro- and small business in Georgia

WV/GEF was established in 1997 as a program of World Vision. In recent years, WV/GEF has grown significantly and is now a sustainable institution. Beginning in 2005, WV/GEF will transform into a separate, locally registered MFI and continue operations as CREDO. CREDO will ensure the provision of sustainable financial services to Georgian micro- and small businesses, especially for rural activities and those businesses that create income and employment opportunities for the poor.

SEF International received a license from the Central Bank to carry out full-range credit activities

SEF International was established by World Vision in 1998 and at present is the only micro credit organization in Armenia that successfully obtained a Central Bank license to carry out full-rage credit activities.

As a part of World Vision Holistic Ministry, SEF combats poverty and unemployment in Armenia: 12,300 jobs have been created and sustained; more than 16,300 dependent children supported, 5,700 entrepreneurs have benefited from business skills training, $6.5 million has been provided to small and micro businesses in both rural and urban areas, and more than half of the current portfolio and clients are in the poorest rural communities.

Oikocredit and ING form alliance for microcredit

Agreement of cooperation signed Amsterdam, the Netherlands, 27 October 2004 - In preparation of the United Nation's Year of Microfinance 2005, Oikocredit and the Dutch bank ING signed a remarkable agreement of cooperation. In order to contribute to poverty reduction, ING Netherlands is offering its employees' expertise in regard to particular Oikocredit activities. In addition, ING Netherlands will encourage its employees to take part in the Oikocredit Netherlands Fund. Oikocredit expects this arrangement to further increase its responsiveness to the growing demands. for credit to small entrepreneurs in developing countries.

"EMN exchange programme"

From November 15-17, the first "EMN exchange program" took place in Paris, France. The host organization was Adie (Association pour le droit ŕ l'initiative économique) created in 1989. Today, Adie has 22 regional branches all over the country. Twenty participants from 13 MFIs from 10 European countries (Spain, Belgium, Norway, Croatia, Romania, Albania, Bulgaria, Poland, Macedonia and Ukraine) attended the event, which was a big success and an excellent occasion to share among practitioners from Eastern and Western Europe. For EMN, the exchange program facilitates the joining of practitioners all around Europe. The program highlights the positive impact of a mutual learning session in sharing experiences and helping the dissemination of microfinance good practices. Next year, the second edition of the "EMN exchange program" will be organized in the United Kingdom.

Partner and BosVita – Microfinance Organizations from Bosnia & Herzegovina have merged

The merger will allow:

- Better market coverage
- Increased competitive advantage
- Easier access to institutional funds

NEW MFC MEMBERS

MFC comprises 94 members – microfinance institutions from 27 countries located in the Balkans, Central and Eastern Europe, Caucasus, Central Asia, Russia, Ukraine and Belarus – and reaches more than 400,000 low-income people.

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Crystal Fund

Is the Georgian non-banking microfinance institution supporting the development of a micro, small and medium business sector in the country.

Mission of the Crystal Fund is to sustain and develop micro, small and medium business sector in Georgia through provision of demanddriven financial services for sustainable grassroots economic development in the manner, which ensures balance between financial and social objectives.

Crystal Fund, as a pure micro finance institution, is a spin-off of the CHCA - national non-profit organization working for internally displaced and other vulnerable groups in Georgia since 1995. Crystal. Fund has been formally established in April 2004; however the microlending activities have been managed by CHCA back since 1998.

The International Charity Public Organization *Jovid*

Is a charitable, non-commercial and non-governmental organization founded for the purposes of:

- Rendering humanitarian assistance;
- Rendering assistance in emergencies at accidents, catastrophes, conflicts, disasters and their consequences;
- Performing consulting assistance to farmers, conducting trainings, giving credits in-kind and in-cash;
- Overcoming problems of poverty;
- Contributing to raising the living standards of socially unprotected sectors, particularly in rural populations.

NGO *Jovid* succeeds the DWHH/ German Agro Action agriculture program in Tajikistan and is its main partner.

NEW MFC MEMBERS

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CredAgro is a Non-Banking Credit Organization that provides financial services to rural entrepreneurs and business in Azerbaijan. CredAgro's goal is to improve the economic opportunities and living standards of its clients and consequently the entire community in which they live. Since 2000, CredAgro has operated through a network of representative offices and sub-offices that cover about 20 regions throughout Azerbaijan. At present CredAgro has more than 1,050 active clients with an outstanding portfolio of more than $4 million. The total number of clients exceeds 3,000 and the total amount of disbursed loans is $15 million. During all this period, the portfolio at risk more than 30 days was maintained at around 1%.
CredAgro developed a five-year strategic plan with a specific goal to raise its total asset base from the current $4 million to at least $10 million by the end of 2009, if not sooner.

JSC „«SUGDAGROSERV" (SAS) started operations in the Republic of Tajikistan in 2002 with the assistance of the International Financial Corporation (IFC) and the Swiss SECO Fund. The project's main mission has been to eradicate poverty in Tajikistan.
The company was established by 365 physical entities - dekhans (peasants) from 14 dekhan farms (DF) in the Spitamen and Zafarabad regions, which met all the criteria of the Company. The purpose of the Company is to generate a profit by providing financial services in the agricultural sector. In December 2004 with the help of donors, the company expanded: Its number of shareholders reached 1,020 people from 126 DF in 6 regions. As of April 1, there are 201 active DF loans with a portfolio volume of $1,049,330

Chemonics Georgia – GMSE Project 's mission is to promote the sustainable development of the microfinance sector in Georgia through technical assistance, training and grants. The organization was established in 2003, implementing USAID-funded Georgia Microfinance Stabilization and Enhancement Activity.

FV MARD was established in 2002 in Uzbekistan, as a project implemented by ACDI/VOCA, funded by USAID. FV MARD's mission is to support microentrepreneurs in Uzbekistan. The organization aims at increasing of microentrepreneurs prosperity and the businesses development by providing them with technical and financial assistance. FV MARD has over 3 thousand of active clients.

Klera Consulting is a Romanian organization involved in negotiation, conflict resolution and microfinance, established in 2004. In microfinance field Klera Consulting has expertise in: project design, project evaluation, organizational appraisal, rating and MIS. Its clients are donors and MFIs active in C&EE. Klera is "dedicated to making an outstanding contribution to organizations and individuals around the world, through excellence in *training*, that immediately makes a difference and *consultancy* that creates innovative solutions, to increase their profits while delighting their customers."

CAPA Finance S.A. is a Romanian microfinance institution offering credits of $ 1,500 - $20,000. CAPA has almost 4 thousand of active clients and $ 10.5 million gross loan portfolio.
CAPA exists so that every family and micro business have access to affordable and readily available financial services, enabling clients to make a positive impact on their economic, social and natural environment.

«The microcredit agency „Center-Credit-Business" was established as three entities at the end of 2003. An MFC member since March 2005, its assets top $600,000. At present, MCA has nine employees and 100 total borrowers (as of January 1, 2005). For its first 18 months, MCA operating using its own assets only. At the end of 2004 FRONTIERS became a donor. MCA works with other international organizations such as GTZ and CAMFA. In general, MCA borrowers use their loans in trade activities. »
MCA is responsible for creating more than 2,000 jobs.

Mercy Corps is a U.S./U.K.-based international NGO established in 1979. Mercy Corps exists to alleviate suffering, poverty and oppression by helping people build secure, productive and just communities. Since 1979, Mercy Corps has provided more than $830 million in assistance to people in 80 nations. The organization's 2,000 staff worldwide currently reach 6 million people in more than 35 countries. Mercy Corps allocates more than 91 percent of its resources to programs that assist people in need.
Within microenterprise and economic development (MED), Mercy Corps operates programs or partners with local organizations to offer the following financial products: group and individual loans, consumer loans, agriculture loans, mortgages, and savings. From these 13 programs/partners, Mercy Corps has $60 million in loans outstanding to 92,000 clients as of December 31, 2004.

Socio-Economic Development Center "SABR" is a public NGO, established in 1996. The center's micro-finance program started in 2001 with the support of NOVIB.
The program aims to improve socio-economic situations and develop the civil and business activity of the lower income level of the active population in the rural area of Samarkand oblast through educational programs on business and the basic delivery of market programs and micro loans disbursement.
The program's method is based on a "group guarantee loan." The main principles of the given methodology are the following: group guarantee loan -- the clients should be formed independently on a mutual trust basis, in groups of 3-7 people each, with group members bearing collective responsibility. The total number of clients (cumulative) – 1,573. The total number of active clients – 620. USD value of active portfolio – $103,290.40. The total number of loans disbursed – 5,035.

AMFOK was established in 2004 by an initiative of six leading microfinance organizations in Kazakhstan, as well as under the support of the World Bank and Central Asian Micro Finance Alliance (CAMFA). AMFOK's mission is the "prosperity of society through the development of a microfinance system." AMFOK aims at the "development of infrastructure and the quality of microcredits in the Republic of Kazakhstan on par with international standards." As part of its activities, the association is directed by the democratic principles of management – electivity of the managing organs; reporting of all to all; collegiality of decision making; and solidarity in decision making. In its first three months, AMFOK's members increased from 6 to 16, demonstrating the association's success, and importance of its goals and tasks.
As of April 1, 2005 AMFOK had 22 microfinance organizations in the Republic of Kazakhstan.

The Association of Scientific and Technical Intelligentsia (ASTI) was established as a non-governmental organization in Tajikistan in 1995.
ASTI provides microfinance services for the poor rural people, offering group loans for trades and agricultural activities. Loans are $60-$200 per client for 3-11 months.