

MicroSave India Focus Note 96

Poverty Measurement: Challenges and Benefits

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Measuring Poverty: A Complex Topic Made Easier!

Poverty measurement is a complex topic. A relative and dynamic concept, poverty can be interpreted in many ways. Those adjudged poor by others may see themselves as rich, and vice versa. Identification of poor and the not-so-poor is the first challenge. Use of a poverty line that varies across countries has been the practice, but the debate on which line is appropriate to use, (national, regional or international), is a long standing one. And as Martin Ravallion of the World Bank points out, there is no easy definition of poverty.¹ Poverty has multiple dimensions, which lead to variability in poverty measures. Some dimensions are monetary while others are non-monetary and focus on inputs (i.e. the resources required to achieve well-being) or on outcomes (i.e. the final conditions people achieve). Income-based measures of poverty again differ in terms of: the income-concept used (e.g. income before taxes, as in most US analyses, or income after taxes, as in the EU); the unit of analysis (whether you count the number of people who are poor or the number of households or families in this condition); and how to account for differences in needs across households of various characteristics (such as size and presence of dependents).

Going beyond these difficulties, some standardised survey based tools have been designed to define and facilitate outreach to the poor. A few of these include [FCAT](#) of FINCA, [MPAT](#) of IFAD, [Cashpor House Index](#) of Cashpor Microcredit, [PPI](#) of Grameen Foundation² and [PAT](#) of USAID. All of these tools include a set of carefully designed questions which help to assess if the client/household is poor or not. Some tools like PPI and PAT have designed different questions and indicators appropriate for specific countries. This Note is inspired by *MicroSave's* experience with the Social Performance Management Implementation Project (SPM IP),³ which piloted the use of Progress out of Poverty Index™ (PPI) tool of Grameen Foundation, among other instruments, with MFIs in India, Sri Lanka and Bangladesh. This Note highlights the practical challenges in the use of poverty measurement tools, as well as the benefits of their use for MFIs.

Practical Considerations

Having a range of poverty measurement tools to choose from is a good thing. Selecting and adopting an appropriate tool poses some challenges. MFIs with which *MicroSave* has worked with have raised several questions and concerns:

Cost: Using poverty measurement tool/s adds to MFIs' cost of operations. The costs are: printing costs; staff training costs; opportunity cost of field staff who gather and check data; monitoring costs; data entry costs; and data analysis and reporting costs. The costs will also vary depending on the methodology (census or sample) chosen.

Regulations driven by RBI guidelines: All NBFC-MFIs these days must abide by the recent circular⁴ from RBI, which states that MFIs cannot lend to a client who has an outstanding loan amount of more than Rs. 50,000 (or more than 2 loans). Moreover, an eligible client must fall below the income cap of Rs.60,000 and Rs. 120,000 respectively for rural and urban households. These conditions now drive lending criteria for MFIs. Many MFIs have also started to use credit bureaus (such as [High Mark](#), [Equifax](#)) to check the level of debt of their clients. The income amounts suggested by RBI are considered as proxy for poverty by many MFIs. These MFIs no longer see the need to use another poverty measurement tool, thus avoiding more work for the already over-burdened field staff. However, as the introduction to IFAD's MPAT states, "Income (or economic growth) does not provide a reliable proxy measure of poverty. Multidimensional measurement is a more responsible and reliable alternative in most contexts."⁵

Proprietary tools: All of the poverty measurement tools mentioned above are the proprietary property of the organisations that have designed them – and hence customisation is not possible. Since these tools are designed using detailed statistical analysis at the back end, only tool designers can make any changes or updates. This form of control is also put in place to allow benchmarking with other MFIs across geographies. Yet Indian MFIs (as others across the globe) see the need for further customisation. "No one has a sewing machine these days. We think this question does not measure poverty", says a field officer who administered the PPI.⁶ Some MFIs feel that these days most of the households (especially in urban slums) invariably own mobile phones, TV and LPG that are mentioned in the PPI and hence these indicators considered not appropriate for measuring poverty.

One of the MFI CEOs goes to the extent of saying, "We are ready to use PPI as a poverty measurement tool, but not as a

¹ http://papers.ssrn.com/sol3/papers.cfm?abstract_id=636124

² Please visit Grameen Foundation's website <http://progressoutofpoverty.org/>

³ *MicroSave* has run the Social Performance Management Implementation Project (SPM IP) since September 2010. Funded by the Michael & Susan Dell Foundation, Boeing and the Deutsche Bank Foundation, the SPM IP aims to assist microfinance institutions (MFIs) in India and South/Southeast Asia in assessing, refining and implementing monitoring and decision-making systems and procedures that are aligned with the organisations' social missions.

⁴ <http://www.microfinancefocus.com/sites/default/files/RBI%20Circular%20on%20NBFC-MFIs%20-%20Dec%202nd.pdf>

⁵ <http://www.ifad.org/mpat/resources/book.pdf>

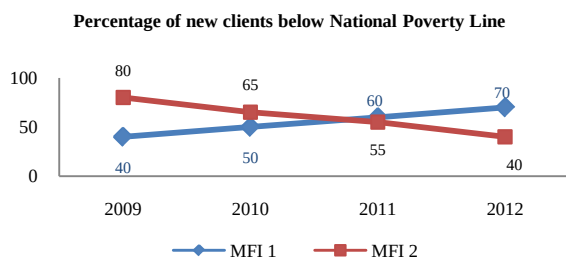
⁶ While people have raised concerns about specific PPI questions, the PPI questionnaire needs to be viewed in entirety

client targeting tool. Based on the results it gives, we will decide on further course of action".⁷

Benefits from Poverty Measurement

Amidst the challenges, resistance and cost considerations, many MFIs across the globe have recognised the many benefits from poverty measurement. Among these benefits include:

Check against mission drift through monitoring of poverty levels: MFIs with poverty alleviation missions can use the results of the poverty measurement to check if they are on the right track to reach out to the poor. Poverty measurement tools can focus on depth of outreach and thus alignment to the mission. The periodic assessment of the results of the poverty measurement tool can help the MFI to monitor the poverty levels of their clients. As an example, the graph below shows hypothetical poverty assessment scores from the PPI scorecard.



For MFI 1, the likelihood of its new client base of falling below the poverty level (assume NPL)⁸ was 40% in 2009. This likelihood has gone up to 70% over 4 years which means that the MFI 1 is really making efforts to reach the bottom of the pyramid. The results for MFI 2 show otherwise. Hence the scores can be used as a monitoring tool for the MFI – to explore whether or not they are targeting the right segment.⁹

Benchmarking: The scores from the survey can be used to benchmark the MFI against the poverty levels of states and its country of operations. Further it can be used to compare between branches and areas of operations. Hence it can be used as an effective management tool and guide strategic decisions designed to improve outreach to the excluded. The table below compares the different poverty lines (PPI scorecard based) used by MFI A in the SPM IP against its respective national and state benchmarks for rural and urban operations.

Poverty lines	MFI A (for \$ 2)	National benchmark (for \$ 2)	Assam benchmark (for \$ 2)
Rural	65%	84%	90%
Urban	49%	49%	37%

Source: SPM IP Data

MFI A's rural clientele of 65% is below the national and state poverty lines at 84% and 90%, respectively.

This is an indicator for MFI A to look to reach out to more poor clients in rural areas. In contrast, poverty outreach in the urban areas is better (49% penetration vs Assam's average of 37%).

Product development: A systematic understanding of the poverty situation of the clients will help identify the unique service needs of these clients. This further helps institutions to move away from a supply-driven approach to a demand-driven one.¹⁰ One of the organisations that *MicroSave* has worked with was assisted by Grameen Foundation to use PPI as starting point to understand the level of savings of the poor. Such analysis helped them to analyse if poor clients (the ones with lower PPI scores) save any less compared to other clients (the ones with higher PPI scores). Such analysis can give insights for product development or refinement.

Client segmentation for better decision making: Poverty data from these measurement tools can help MFIs conduct a more detailed analysis of client behaviour. One MFI has used poverty data to assess repayment records. With better understanding of client behaviour, this MFI went on to refine its guidelines on delinquency management.

Client selection: Poverty measurement tools can give MFIs a mission-driven basis for targeted client selection. Where selecting clients on the basis of income levels is challenging, these tools can provide a good proxy. For instance, a large MFI in North India uses both Cashpor Housing Index and PPI scorecard to target clients in line with its mission. However, *MicroSave* and others have critiqued this approach on many dimensions.¹¹

The acceptability and use of these tools has been slowly increasing in India. The PPI tool is used by 17 Indian MFIs, mainly for decision making and business assessment. At least two MFIs use this tool to screening/ target its clients.

Conclusion

Poverty is multifaceted and highly complex. If meaningful interventions are to be made to improve the lives of poor clients, it is essential that we collect relevant information. The poverty measurement tools available may not be perfect, but they provide a fairly good understanding of the client base. To overcome the challenges and some resistance of MFIs, organisations that developed the tools and supporting technical service providers as well as funders/lenders/investors, need to make coordinated efforts.¹² The starting point of such efforts could be awareness creation and demonstration (from the existing examples) of the benefits of using such tools vis-a-vis the costs. This can help MFIs make informed decisions about choosing and using a tool. While quantitative poverty tools may be useful when used correctly, *MicroSave* believes qualitative research techniques such as focus group discussions and participatory rapid appraisal tools are essential to capture deeper insights for better understanding of clients.

⁷ GF does not make it mandatory for MFIs to use the PPI as a targeting tool. While PPI may show skewed scores at individual household level (due to exceptional circumstances), it holds true at an aggregate level.

⁸ National Poverty Line

⁹ Other interpretations to this graph are also possible.

¹⁰ See [Poverty Assessment by Microfinance Institutions](#) by John K. Hatch and Laura Frederick, FINCA International

¹¹ See [MicroSave Briefing Note # 7 "Are You Poor Enough? Client Selection by MicroFinance Institutions"](#)

¹² Like that of Grameen Foundation with *MicroSave* and other service providers in India