PERSONAL VIEW

# Finding the world's poorest is half the battle

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The most urgent priority in helping the world's poorest people is to identify who those people are, says the Small Enterprise Foundation (SEF), South Africa's non-governmental microfinance institution.

"How can microfinance benefit the poorest if we don't know who the poorest are?" asks the SEF in the paper it co-authored and presented last month in Abidjan, Ivory Coast, at one of the follow-up meetings of the 1997 Microcredit Summit.

"How can we say we are reaching the poorest if we are not measuring this? How can we identify these families on the ground and encourage their participation in microfinance programmes?

"And how can we measure impact if we don't know where clients start?"

When the Microcredit Summit was first held two years ago, it declared that its goal was to reach "100 million of the world's poorest families, especially the women of those families, with credit for self-employment and other financial and business services by 2005".

This is a bold objective, says SEF, given that most microfinance institutions, still in their infancy, reach the poor but not the poorest. The poorest are defined as those in the bottom 50 percent below the poverty line.

By addressing the questions that microfinance practitioners worldwide regard as the most urgent, SEF takes the first step towards meeting the summit's goal.

This step has been "mostly avoided or forgotten by the clamour to open up programmes that can start disbursing loans and lose no time in reaching financial self-sufficiency," SEF says.

"The reality of microfinance today is that there are few organisations that really concentrate on reaching the poorest."

SEF's recent experiences support this statement. "When we launched our programme (in 1996) to reach the poor we decided to offer a very small loan size because, surely, only the poor would take a small loan size," it says.

"So we went to one of the poorest areas in South Africa, but after a few years (we) realised that of the people we were serving, the majority did not live below the poverty line.

"What we've heard from the literature from all over the world is what we found in our own case, and through hard experience. The poorer people see who goes to your programme and they just say, 'This programme is not for us, it is for those better-off people'.

"And then the better off intimidate the poorest simply by saying, 'This meeting is for serious people: somebody who is only selling a few vegetables is not serious about business'."

This is why SEF believes that a microfinance institution working to alleviate poverty must include activities that are specifically designed for the poorest.

While this undoubtedly increases costs – there are some who resist active poverty targeting on these grounds – there is increasing evidence that client growth and other benefits from targeting generates institutional financial self-sufficiency in the longer term, thus compensating for the higher costs.

The SEF paper looks in depth at poverty-targeting tools from the perspective of meeting the needs of people of different poverty levels, thus allowing for the development of a microfinance institution that can achieve financial self-sufficiency.

The house index developed by Cashpor, a network of Grameen Bank replications in the Asia-Pacific region, is one available poverty-targeting tool that SEF assesses.

This index separates the houses of the poorest from those of the poor and non-poor by allocating points to a house according to its size, structural condition and the quality of its walls and roof.

Field staff walking through villages can index a house in an average of five minutes. Those occupants eligible for financial services are then briefly interviewed about their productive and household assets.

The value of these assets is compared with the locally relevant cut-off value that distinguishes the non-poor, poor and poorest of the region.

Those in the latter two categories are then informed of their eligibility for the financial services on offer. They are motivated to form a group with any four other eligible households in the same village that they trust in money matters.

SEF concludes that the problems and limitations with such a poverty targeting tool, among others that it evaluates, can be solved economically.

Such tools constitute cost-effective, reliable indicators of the poorest people in a given area if properly adapted to local contexts.

This amounts to a strong stand on the current worldwide debate on poverty yardsticks to identify the poorest. It refutes the notion that it is impossibly expensive to design reliable indicators to identify the poorest people in an area.