The Link between Microfinance and Social Safety Net Programmes

Sarah Vella

A dissertation submitted in partial fulfilment of the requirements of the Degree of Bachelor of Commerce (Honours) in Banking and Finance Studies at the University of Malta

May 2011

UNIVERSITY OF MALTA
FACULTY/INSTITUTE/CENTRE OF/FOR FEMA

DECLARATION

Student's Code 272387M

Student's Name & Surname SARAH VELLA

Course B.COM BANKING AND FINANCE

Title of Long Essay/Dissertation/Thesis
THE LINK BETWEEN MICROFINANCE AND SOCIAL SAFETY NET PROGRAMMES

I hereby declare that I am the legitimate author of this Long Essay/Dissertation/Thesis.

I further confirm that this work is original and unpublished.

Signature of Student

SARAH VELLA
Name of Student (in Caps)

16/05/2011
Date

ABSTRACT

There have been various debates as to the effectiveness of microfinance in reaching the poorest of the poor. Hence the scope of this research is to assess the effectiveness of microfinance as a means of targeting the destitute poor. What is the result achieved when combining microfinance programmes with social safety net programmes as a means of alleviating poverty?

The research consisted of secondary data mainly compiled from CGAP, MIX, and the World Bank. The study has been conducted over the ten-year period 1999 to 2009 for the five major developing regions; Asia, Europe and Central Asia, Latin America and Caribbean, Middle East and North Africa, and sub-Saharan Africa.

Several indicators were used to analyse both poverty numbers and microfinance outreach level including poverty headcount ratios, gross domestic product, number of institutions and borrowers, and the client poverty level. Each region has seen an overall decline in poverty rates, especially in Asia and Sub-Saharan Africa. Yet both regions still have the highest poverty rates when compared to the other three regions. Although all regions are highly under-developed, their GDP per capita is gradually improving. The state of microfinance in the respective regions has progressed between 1999 and 2009 which is illustrated by the fact that all five regions have increased the number of microfinance institutions. The number of active borrowers per region has also increased albeit one must make allowance for certain externalities such as the financial and economic crisis that resulted in a decline in borrowers during particular years. The client poverty level was finally observed to assess the microfinance outreach level to the destitute poor. This sector has seen great improvements, however, microfinance institutions have to focus on targeting aspects in order to be able to offer their services to those most in need.

The case studies chapter illustrates that with careful planning and constant monitoring, microfinance and social safety net programmes are a step towards reaching the poorest of the poor.

Carlos

With Love and Thanks

ACKNOWLEDGEMENTS

First and foremost I would like to thank my tutor Professor Joseph Falzon whose guidance and dedication made this Dissertation possible.

I thank God for blessing me with my parents John and Angèle, and sister Francesca, whose unconditional love, patience, support and dedication made me who I am today. I owe everything to my family, they have made it possible for me to get this far.

TABLE OF CONTENTS

ABSTRACT I

ACKNOWLEDGEMENTS IV

LIST OF TABLES VII

LIST OF FIGURES VIII

LIST OF MAPS IX

LIST OF APPENDICES X

ACRONYMS XI

CHAPTER 1 1

INTRODUCTION 1

1.1 RATIONALE OF THE DISSERTATION 1
1.2 RESEARCH QUESTION AND AIMS OF THE DISSERTATION 2
1.3 STRUCTURE OF THE DISSERTATION 3

CHAPTER 2 4

LITERATURE REVIEW 4

2.1 INTRODUCTION 4
2.2 WHAT IS POVERTY? 5
2.3 WHAT IS MICROFINANCE? 7
2.3.1 History of Microfinance *9*
2.3.2 Microfinance versus Traditional Banking *10*
2.3.3 Theories of Microfinance *12*
2.3.4 The Shortcomings of Microfinance *13*
2.3.5 What are MFIs? *14*
2.4 SOCIAL SAFETY NET PROGRAMMES 17
2.5 LINKING MICROFINANCE AND SOCIAL SAFETY NET PROGRAMMES 19
2.6 CONCLUSION 23

CHAPTER 3 24

METHODOLOGY 24

3.1 INTRODUCTION 24
3.2 DATA COLLECTION 25
3.3 ETHICAL CONSIDERATIONS 26
3.4 RESEARCH LIMITATIONS 27

CHAPTER 4 28

ANALYSIS AND RESULTS 28

4.1 POVERTY 28
4.1.1 Headcount Index *29*
4.1.2 Poverty Gap Index *34*
4.2 MICROFINANCE OUTREACH 36
4.2.1 Data Sources *36*
4.2.2 Data Set *37*
4.2.3 Analysis *39*
4.2.3.1 GDP per Capita, PPP 40
4.2.3.2 Number of MFIs 43
4.2.3.3 Borrowers 44
4.2.3.4 Gross Loan Portfolio 46
4.2.3.5 Client Poverty Level 47

CHAPTER 5 51

CASE STUDIES 51

5.1 INTRODUCTION 51
5.2 RMP 51
5.3 TSEP 52
5.4 IGVGD PROGRAMME AND CFPR/TUP 53
5.5 CGAP-FORD FOUNDATION GRADUATION PROGRAMME 56
5.6 CONCLUSION 58

CHAPTER 6 59

CONCLUSIONS AND RECOMMENDATIONS 59

6.1 INTRODUCTION 59
6.2 POVERTY AND MICROFINANCE 59
6.3 MICROFINANCE AND SAFETY NET PROGRAMMES 61
6.4 RECOMMENDATIONS 63

REFERENCES 64

BIBLIOGRAPHY 68

LIST OF TABLES

TABLE 2.1: DISTINGUISHING TRAITS OF MICROFINANCE 11
TABLE 2.2: EVOLUTION OF MFIS 15
TABLE 2.3: RISK MANAGEMENT AT MFIS 16
TABLE 5.1: THE DIFFERENCES BETWEEN IGVGD AND TUP 55

LIST OF FIGURES

FIGURE 2.1: PROPOSED METHOD OF GRADUATION 21
FIGURE 4.1: POVERTY HEADCOUNT RATIO AT US$1.25 A DAY (PPP) (% OF POPULATION) 30
FIGURE 4.2A: POVERTY HEADCOUNT AT US$1.25 A DAY (MILLIONS)..... 33
FIGURE 4.2B: POVERTY HEADCOUNT AT US$1.25 A DAY (MILLIONS): ILLUSTRATING EAP AND SOUTH ASIA 34
FIGURE 4.3: POVERTY GAP AT US$1.25 A DAY (PPP) (% OF POVERTY LINE) 35
FIGURE 4.4: GDP PER CAPITA, PPP 41
FIGURE 4.5: CHANGE IN THE NUMBER OF MFIS BETWEEN 1999 AND 2009 43
FIGURE 4.6: NUMBER OF MFIS PER REGION IN 2009..... 44
FIGURE 4.7: NUMBER OF ACTIVE MICROFINANCE BORROWERS FOR 1999, 2004, AND 2009..... 45
FIGURE 4.9: GROSS LOAN PORTFOLIO (MILLIONS, US$) 47
FIGURE 4.10: GNI PER CAPITA (US$) 49
FIGURE 4.11: AVERAGE OUTSTANDING LOAN BALANCE AS A PERCENTAGE OF PER CAPITA GNI..... 50

LIST OF MAPS

MAP 1: POVERTY HEADCOUNT RATIO AT US$1.25 A DAY (PPP) (% OF POPULATION)..... 31
MAP 2: GDP PER CAPITA (US$)..... 42

LIST OF APPENDICES

APPENDIX A

THE GRADUATION MODEL..... 74

APPENDIX B

INDICATOR DEFINITIONS AND DATA TABLES..... 76

APPENDIX C

AN IGVGD CYCLE 86

ACRONYMS

ABA	Alexandria Business Association
BPR	Bank Perkreditan Rakyat
BRAC	Bangladesh Rural Advancement Committee
BRI	Bank Rakyat Indonesia
CCT	Conditional Cash Transfer
CFPR/TUP	Challenging the Frontiers of Poverty Reduction: Targeting the Ultra Poor
CGAP	Consultative Group to Assist the Poor
ECA	Europe and Central Asia
FI	Financial Institution
IGVGD	Income Generation for Vulnerable Groups Development
GDP	Gross Domestic Product
GNI	Gross National Income
LAC	Latin America and Caribbean
MDGs	Millennium Development Goals
MENA	Middle East and North Africa
MFIs	Microfinance Institutions
NGO	Non-governmental Organisation
OECD	Organisation for Economic Cooperation and Development

PPP	Purchasing Power Parity
RMP	Rural Maintenance Programme
SSA	Sub-Saharan Africa
TSEP	Towards Self-Empowerment Project
US	United States
VO	Village Organisation
WFP	World Food Programme

CHAPTER 1

INTRODUCTION

1.1 Rationale of the Dissertation

Poverty and inequality are two highly debated issues and have been the focus of many people around the world. The Millennium Development Goals declared in 2000, are a worldwide-conscious effort aimed at reducing extreme poverty and inequality, hunger, poor health and lack of shelter, amongst others.

> "The world possesses the resources and knowledge to ensure that even the poorest countries, and others held back by disease, geographic isolation or civil strife, can be empowered to achieve the MDGs."
>
> Ban Ki-moon
>
> Secretary-General, United Nations (2010:3)

Microfinance has been an effective way of reaching the poor through the provision of financial services and is a means of reducing inequality and granting empowerment and hope. This has a ripple effect since as they participate in microfinance programmes, they will be able to improve their health, education and learn how to enhance their livelihood.

There are however, debates as to the effectiveness of microfinance programmes in reaching the poorest of the poor; those living at the very bottom of the international poverty line of US$1.25 a day, as established by the World Bank. Various sources argued that they believe that in order for microfinance to truly reach its aim of reducing

poverty it has to be incorporated with other features such as better communication, further training, and the provision of better terms. A possible solution is the merger of microfinance programmes with social safety net programmes. The belief is that social safety net programmes are a better means of targeting the hardcore poor, and following training and introducing the participants to savings programmes, the participants will eventually be able to graduate into microfinance.

1.2 Research question and aims of the dissertation

This dissertation addresses the following research question;

Has microfinance been an effective means of reaching the destitute poor, and if so to what extent? Is there a link between microfinance and social safety net programmes?

The aim of this dissertation is to establish whether microfinance does actually reach the poorest of the poor. Furthermore, an investigation was carried out to assess whether there is a link between microfinance and social safety net programmes and if it does, whether it is as effective as some sources believe it to be.

This study attempts to raise awareness with respect to poverty and introduces the concept of microfinance which is not so popular in Malta. The study was conducted through secondary data analysis since microfinance is not provided locally. Relying on secondary data poses the problem that the studies which were conducted may not have been for the same purpose as those of this dissertation. Nonetheless, most data required was readily available through CGAP, MIX and the World Bank. The research was conducted for the five regions; Asia, ECA, LAC, MENA, and SSA.

The aim of this dissertation is to;

1. Determine poverty levels in the five developing regions.
2. Investigate the concentration of microfinance and the degree of outreach.
3. Ascertain the link between microfinance and social safety net programmes.

1.3 Structure of the dissertation

This dissertation comprises six chapters. Following chapter one, which briefly introduces the reader to the concept of the research question, is the literature review. Chapter two presents the basic literature with respect to poverty, microfinance, and social safety net programmes. Moreover, a brief introduction with respect to the link between microfinance and social safety net programmes is presented. Chapter three then presents the methodology applied to be able to conduct this research. The following chapter four relating to findings and analysis, presents a discussion of the results obtained following a study of the data collected from reports by CGAP, MIX and the World Bank. Chapter five comprises a case study analysis of success stories which illustrate the link between microfinance and social safety net programmes. The last chapter of this dissertation, chapter six, presents the conclusions generated from the study together with recommendations.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

The first goal out of the eight Millennium Development Goals is to 'Eradicate Extreme Poverty and Hunger'. Estimates released by the World Bank in 2005 show that in developing countries there were 1.4 billion people living in extreme poverty that is, living below the international poverty line of US$1.25 (PPP) at 2005 prices.

> "A key characteristic of poor people all over the world is that they lack assets in the form of education and healthcare, savings and insurance products, as well as physical collateral that can be used to secure loans and household durables."
>
> Adjei, Arun and Hossain (2009:3)

Microfinance has been quite effective in alleviating poverty since it has provided access to micro-loans and other financial services including savings and micro-insurance. Besides empowering clients, especially female ones, microfinance enables poor people to find employment and thus generate income. This has a snowball effect because as the individual sectors such as health and education improve, society benefits on the whole.

Notwithstanding, a number of sources argue that microfinance reaches only non-poor borrowers and not the core poor living below the international poverty line. Critics state that microfinance alone is not the solution to eradicating poverty; it should be merged

with other programmes. For example, Director of the Microcredit Summit Campaign Sam Daley-Harris (2007) said that:

> "Microfinance is not the solution to global poverty, but neither is health, or education, or economic growth. There is no one single solution to global poverty. The solution must include a broad array of empowering interventions and microfinance, when targeted to the very poor and effectively run, is one powerful tool."
>
> Daley-Harris and Pollin (2007)

Given such debates, the CGAP has brought up the question as to whether microfinance and social safety net programmes can be linked together as a means of reaching those people at the very bottom. This chapter sheds light on poverty and microfinance and assesses the current literature in terms of the possibility of integrating microfinance and social safety net programmes.

2.2 What is Poverty?

"How we define poverty is critical to political, policy and academic debates about the concept" (Lister, 2004:12).

Haughton and Khandker (2009:2) stated that, "poverty is pronounced deprivation in well-being." One aspect of well-being is whether households or individuals have adequate resources to meet their needs. In order to measure deprivation, the most common view is to take the individual's income level and compare it to a predefined limit, below which he or she is deemed to be poor. This is due to the fact that poverty is mostly measured in monetary terms. In fact it is said that people living in poverty are

those living on less than a dollar a day. In 2008 this was revised to US$1.25 a day at 2005 prices (United Nations, 2010:1).

A second facet of well-being is to determine whether an individual is able to attain a specific commodity, such as food, shelter, education, or healthcare. Here one would be measuring nutritional poverty, thus going beyond monetary terms.

Finally, Haughton and Khandker (2009) state that well-being can be seen in terms of the ability to 'function in society'. Therefore when individuals lack the fundamental capabilities, they are believed to be poor. Capabilities refer to lack of adequate income, education, insecurity, and the nonexistence of rights, amongst others. This is a situation of extreme poverty where a sense of powerlessness is prevalent.

Muhammad Yunus also makes reference to the lack of capabilities that poor people have. Yunus (2007:105), sees poverty as follows;

> "Poverty is perhaps the most serious threat to world peace, even more dangerous than terrorism, religious fundamentalism, ethnic hatred, political rivalries, or any of the other forces that are cited as promoting violence and war."

He argued that poverty leads to hopelessness and the creation of economic refugees. Poor people lose hope and may choose to carry out acts as a result of despair, and the need for improving their situation. An example is when poor people resort to violence. Moreover he believes that poverty creates economic refugees. This has the undesired effect of conflicts between countries which, is caused by scarce resources.

"A person is considered poor if his or her income falls below the poverty line, or poverty level." (Lüsted, 2010:8). The poverty line is defined as the minimum amount of money that a person requires in order to meet his or her everyday needs. Absolute poverty (also referred to as extreme or destitute poverty) is life threatening. Individuals do not have access even to the most basic needs such as food and water, clothing and shelter. Lüsted (2010:10) refers to the monetary definition of absolute poverty, where "extreme poverty means earning less than US$1.25 a day" (at 2005 prices). Relative poverty on the other hand is defined as the case when an individual has fewer resources than other individuals within that same society (Lüsted, 2010:10). For the purpose of this dissertation, the former definition assigned to poverty was used.

Hashemi and Tudor (2001) refer to the fact that poor individuals cannot be classified as being homogenous. "Within the ranks of the poor lie groups with lower asset levels, less employment opportunities, greater consumption deficits, and greater vulnerability to periodic economic and social shocks" (Hashemi and Tudor, 2001:1).

2.3 What is Microfinance?

Microfinance involves financial services for the poor and "helps people fight poverty on their own terms, in a sustainable way" (Hashemi and Rosenberg, 2006:1). Through microfinance, "poor people use loans, deposits, and other financial series to reduce their vulnerability, seize opportunities, and increase their earnings" (Hashemi and Rosenberg, 2006:1). By making use of the loans obtained, and participating in programmes, the poor can improve their health, education and moreover, empower women.

"Microfinance has evolved as an economic development approach intended to benefit low-income men and women." (Ledgerwood 2000:1). This involves the provision of

financial services to low-income individuals, and also the self-employed. The services include credit, savings, insurance and payment. Microfinance is a development tool since most MFIs also seek to provide development skills such as "group formation, development of self-confidence, and training in financial literacy and management capabilities among members of a group" (Ledgerwood 2000:1). However, Ledgerwood (2000) says that this social intermediation is not seen as forming part of the microfinance definition.

Koveos and Randhawa (2004) argued that the main idea behind microfinance is to reduce and ultimately eliminate poverty by providing credit to individuals who are too poor to access the formal financial sector.

Hermes and Lensink (2007) said that "microfinance programmes provide credit to the poor, either through joint liability lending or through individual-based lending." The latter is quite similar to traditional banking since it comprises a direct relationship between the individual and the microfinance programme. The former however, involves lending to groups of borrowers. "With joint liability lending the group of borrowers is made responsible for the repayment of the loan, i.e. all group members are jointly liable." (Hermes and Lensink, 2007:F2). Jointly liable implies that if one group member is not able to repay the loan, the rest of the members have to make the payment. If the case be that the group fails to repay the borrowed amounts, all the group members are refused access to the programme in the future. In this way each member has his or her interest in mind with the result that screening and monitoring of each group member is done by the rest of the members. This is because all members want to avoid having to repay loans that other group members had defaulted upon (Hermes and Lensink, 2007).

2.3.1 History of Microfinance

The working poor always had obstacles which prevented them from improving their situation. Formal credit and savings institutions directed towards these people date back to the 1700s when the Irish Loan Fund System was created. By the 1840s, the organisation had up to 300 funds operating in Ireland. During the 1800s larger and more formal savings and credit institutions known as People's Banks, Credit unions, and Savings and Credit Co-Operatives, began operating around Europe. In 1895, the Indonesian People's Credit Banks, BPR, opened and eventually became the largest microfinance system in Indonesia.

In the early 1900s, financial intermediaries owned by the government or by private banks, started operating in Latin America. Their aim was to improve the agricultural system at the time by introducing a modern aspect to agriculture. Despite this, they usually were concerned with two objectives; "increased commercialisation of the rural sector", and "reducing oppressing feudal relations that were enforced through indebtedness." (The History of Microfinance, 2009:2.). Unlike the European banks, they were not owned by the poor and thus had the negative result of inefficiency and in some cases even abuse.

In the 1970s, light was shed on the fact that amongst the obstacles that the working poor combated with was the fact that they actually lacked access to financial services. In 1976, Grameen Bank was established in Bangladesh by Professor Muhammad Yunus. Grameen Bank provided poor women with tiny loans so as to be able to invest in micro-business. The main feature here was that credit was based on solidarity group lending and each member of the group guaranteed repayment of all members. The important element that Professor Yunus emphasized was that the poorest of the poor were reached

through this type of credit. Other institutions such as BancoSol in Bolivia and the *unit de sa* in BRI, followed suit.

2.3.2 Microfinance versus Traditional Banking

"Traditional banking is based on guarantees, reputation, and collateral." (Koveos and Randhawa 2004:73). This implies that traditional bankers are knowledgeable as to market conditions and are able to continuously monitor their borrowers. Moreover, the bankers are guaranteed against loans since in the event of a borrower defaulting, the collateral will be seized.

Microfinance varies from traditional banking due to the "'joint liability concept' where groups of individuals usually women, group together to apply for loans, and hold joint accountability for repayment of the loan" (Westover, 2008:3). However, "banks deem these groups high credit risks" (Koveos and Randhawa 2004:73) due to the fact that their poor condition does not allow them to offer collateral for loans. Thus, traditional banks are not willing to grant poor people access to the formal financial sector due to their poor or very low-income situation and are thus not able to offer collateral.

Table 2.1 illustrates how banks and MFIs tackle the five operational issues; lending, client relationship, security, client base, and administrative costs.

Operational Issue	***Banks***	***MFIs***
Lending	▪ Interest rate main issue for borrowers ▪ Interest rate tied to prime rate	▪ Access to credit is more important than interest rates ▪ High interest rates
Client relationship	▪ Arm's length	▪ Intimate knowledge of the client's business necessary, active collaboration to ensure client's success
Security	▪ Collateral	▪ Collective monitoring, reputation, etc
Client base	▪ Small	▪ Large base necessary for viability
Administrative costs	▪ As proportion of total costs – lower than at MFI	▪ High, reflected in high loan rates

Source: Koveos and Randhawa 2004:73

Table 2.1: Distinguishing Traits of Microfinance

2.3.3 Theories of Microfinance

Koveos and Randhawa (2004) identified four main theories of microfinance; the supply-leading finance theory, the imperfect information paradigm, informal credit markets, and the savings of the poor. The "supply-leading finance theory refers to the provision of loans in advance of the demand for credit, for the purpose of inducing investment and consequently economic growth." (Koveos and Randhawa, 2004:75). This theory was applied most in the agricultural sector, after World War II. At the time it was believed that in order for the economy to grow, productivity within the mentioned sector had to be increased. The supply-leading finance theory was not successful since it was very expensive to carry out and only the richest farmers could afford to adopt such methods.

The imperfect information paradigm is present when the information available between the lenders and borrowers is not equal. The latter form a much larger group and do not necessarily provide all the information they should to the former. Thus it is the responsibility of the lender banks "to differentiate among the mass of informed borrowers to identify the most efficient amongst them." (Koveos and Randhawa, 2004:76). Banks tend to charge high interest rates so as to offset the risks which are caused by imperfect information. This in turn creates a problem due to the fact that the high interest rates are not attractive to safe borrowers and thus they are alienated (Koveos and Randhawa, 2004). Those persons who manage to borrow may have the incentive to be involved in moral hazard and thus take up risky projects. MFIs have managed to work on the problem of asymmetric information through group monitoring, and by providing small, short-term loans.

The informal credit markets were created when the formal financial systems would not operate within developing countries. "Finance obtained in this manner is often cost-

effective as members are well-known to each other, thus reducing screening costs." (Koveos and Randhawa, 2004:76).

With regards to the savings of the poor, it has been found that poor people actually do save (Koveos and Randhawa, 2004). Working with small transactions is too expensive for larger institutions; MFIs on the other hand are able to operate in a cost-effective way by taking on a large amount of small savings. This is because MFIs operate locally and they have access to the required information.

2.3.4 The Shortcomings of Microfinance

An on-going debate is whether microfinance actually does help the poorest of the poor that is, those "at the very bottom of the socioeconomic scale". (Hashemi and Rosenberg, 2006:1). Hashemi and Rosenberg (2006) state that even those MFIs aimed at serving the very poor do not reach those in most need. The implication is that the better-off benefit more than the very poor (Westover, 2008).

Hashemi and Rosenberg (2006) provide three reasons. The first is that poor people would rather not borrow from MFIs because they think debt would worsen their situation rather than improve it. For example, a woman with no reliable source of income is discouraged because she notices that many start-up microbusinesses fail. She also believes that she would not be able to make the periodic payments on the loan. Despite the fact that she may indeed benefit from her own microbusiness, she is disheartened. On the other hand, it may be the case that the poor woman is ready to take up the loan but the rest of the group members are not willing to let her participate in the loan because it increases the risk of default.

The second reason is that poor people face exclusion through MFI policy. Microcredit is not collateralised meaning that MFIs want to keep loan default at a minimum. Most poor people borrowing to set up a micro business, have no other income to support themselves with. Thus, if the business does not flourish they have no other means to pay back the loan.

The third and final reason why poor people do not make use of microfinance is because they usually need non-financial support such as nutrition, shelter, and work amongst others. They would rather achieve these needs prior to making use of microfinance services. Taking the MFIs point of view, they would somewhat prefer focusing solely on the provision of financial services. If they had to offer non-financial services they would opt for setting up another branch dedicated to such services. However this creates problems of efficiency within the MFI, and confusion amongst the clients. "Clients may become confused if the same unit is donating social support to them with one hand whilst insisting on repayment of the loans that it is giving with the other hand." (Hashemi and Rosenberg, 2006:2).

2.3.5 What are MFIs?

Initially MFIs set up in Asia around twenty years ago with the aim of improving the lives of the poor through the provision of a variety of services. They have since spread to numerous regions around the world, including Africa, Latin America, and the United States.

MFIs were in the beginning highly dependent upon the government and foreign aid in order to sustain themselves. This can be seen by the first level in Table II. At this point MFIs were completely dependent on subsidies provided by the government. MFIs

evolved from one level to the next and they have nowadays become self-sufficient and profitable. MFIs have also seen a change in their funding patterns from subsidies and grants to deposits and self-funding through equity (as illustrated in Table 2.2).

Level	Financial situation	Funding	Vulnerability
Dependent on subsidy	Programme dependent on continuous cash injections	Subsidy, grant	Sustained only by steady stream of cash inflows/grants
Self-sufficient	Break-even; covers cash expenditures	Equity base; deposits Evolving towards self-funding	To systematic crisis
Sustainable/profitable	Reaps profit enabling steady expansion	Can attract equity; may be deemed regular FI; self-funding	Low, even less than commercial banks
			Source: Koveos and Randhawa 2004:73

Table 2.2: Evolution of MFIs

In addition, "the scope of MFI operations has progressed over time" (Koveos and Randhawa, 2004:72). MFIs now offer a wider range of services to their clients including loans, payment services, deposits, and insurance.

Koveos and Randhawa (2004) point out various risks and challenges which MFIs deal with. Certain risks are more or less the same as those faced by other financial institutions; however the unique nature of MFIs entails other challenges do arise. The following Table 2.3 illustrates the risk management strategies within MFIs.

Risk	**Risk Management Tools**
Financial Risk	• High interest rates • Small loan sizes (often less than US$100) • Short-term loans, with the proviso 'they will be rolled over following full repayment' • Incentives: Payment on time makes borrowers eligible for larger subsequent loans • Mandated savings account • Late payment penalties
Operational Risk	• Group monitoring – allows for early detection of problems • Periodic individual and group meetings • Training in business practices
Managerial Imperatives	• Zero tolerance towards loan default • Need to be sensitive to client needs • Transparency in operations • Pooling of credit information useful risk management tool
	Source: Koveos and Randhawa 2004:88

Table 2.3: Risk Management at MFIs

Apart from the above-mentioned risks, Koveos and Randhawa (2004) also mention other vital challenges that need to be focused upon. First and foremost MFIs need to identify those people who are really in need and moreover they need to ascertain that they repay through "flawless repayment rates" (Koveos and Randhawa, 2004:88). The authors indicate the conflict faced by MFI loan officers; they need to target the highly poor people but at the same time they have to ensure high repayment rates.

It is vital that the MFI views itself as an organisation that needs to sustain itself independently rather than seeing itself as a charity. Otherwise, the MFI incurs cost overruns and low repayment rates, with the result that it becomes unattractive and cannot compete for funds. Primarily, the MFI has to formulate "a clear business plan, clearly enunciated goals, a strategic plan, monitoring procedures, internal checks and balances" (Koveos and Randhawa, 2004:88). Despite relying on subsidised funds at the early stages of operation, eventually MFIs have to build up their resources by implementing savings programmes that will enable them to attract funds individually.

2.4 Social Safety Net Programmes

In most cases social safety nets are thought of as being a form of welfare, especially in the US. In Europe, this is referred to as 'social assistance' (Safety Nets Primer no.30, 2009). Padró (2004:1) says that "a social safety net is there to meet the needs of those who need assistance in one form or another." This implies that even though welfare does form a part of social safety nets, these programmes also concern other factors such as education, labour well-being and workplace conditions, health care, quality of life, amongst others (Padró, 2004).

The World Bank (2010) defines such programmes as being "non-contributory transfer programmes targeted to the poor or those vulnerable to poverty and shocks." The World Bank (2010) also refers to the fact that some people see social safety nets as welfare programmes or as providing social assistance.

When thinking of introducing safety nets in a country or region, one has to carefully assess the true needs of the people there. Each kind of safety net has its own attributes and covers certain aspects better than other programmes. "A good safety net system is more than a collection of well-designed and well-implemented programmes" (Grosh et al, 2008:2). Grosh et al (2008) argue that ideally safety net systems are linked to one another by complimenting both other safety net programmes and social policies within the country.

The World Bank (2010) states that a good social safety net system has to include the following characteristics;

- *Appropriate*. Each safety net programme used should be tailor-made according to the needs of the country. The programme also has to be in line with the public policy within that country.
- *Adequate*. It is important that the safety net programme covers the needs of the various groups of people in need of assistance. Each group of people should benefit from individual programmes.
- *Equitable*. The individuals benefiting from the safety net programmes should all be treated in a fair and equal manner. Equality should be applied at both horizontal (grant the same assistance to individuals in the same situation) and vertical (grant more generous assistance to the poorest) levels.

- *Cost-effective*. By being cost-effective, the people managing the programmes ensure that the target groups are reached. Moreover, the management of the programme has to see to administrative economies where they use the minimum resources necessary whilst meeting the programme requirements, and ensure that no fragmentation occurs at higher levels of the safety net system.
- *Incentive compatible*. "The role of safety nets should be kept to the minimum consistent with adequacy" (World Bank, 2010). This ensures that positive outcomes are derived from the application of the safety net programme.
- *Sustainable*. Social safety net programmes should be both financially and politically sustainable so that once a programme is started, it will not be ended due to lack of funds or political clashes.
- *Dynamic*. An important factor in the management of a safety net programme is to ensure that the programme evolves over time and moves in line with factors influencing it. These include external shocks, such as a crisis or natural disaster, developments in policies, and changes in the economy of that country.

2.5 Linking Microfinance and Social Safety Net Programmes

Microfinance enables poor people to "use loans, deposits, and other financial services to reduce their vulnerability, seize opportunities, and increase their earnings" (Hashemi and Rosenberg, 2006:1). Hashemi and Rosenberg (2006) argue that despite the fact that microfinance serves as an indirect means of improving health and educational circumstances coupled with the empowerment of women, the destitute poor are still not reached[1]. This is because MFIs face certain limitations in their ability to fully outreach the very poor, as discussed earlier.

[1] The destitute poor are defined as those living under US US$1.25 a day (at 2005 PPP) and do not have a reliable source of earnings.

However Hashemi and Rosenberg (2006) do not imply that microfinance is not beneficial. They are merely indicating that microfinance may not be the only way of assisting the poor. The authors introduce the concept of social safety net programmes which have been highly successful in reaching those people who do not qualify or cannot gain access to microfinance. Hashemi and Rosenberg point out that MFIs should avoid providing the safety net service themselves since, such programmes need to be highly subsidised given that their main users are not able to bear the costs. The idea is that MFIs work together with safety net programmes. "This collaboration is based on the premise that many of the destitute can save, start building assets, and eventually gain the resources and confidence to engage in sustainable economic activities" (Hashemi and Rosenberg, 2006:3). Thus the programme provides clients with financial information and training meaning, that clients will eventually be able to connect with MFIs and thus 'graduate' to become microfinance clients.

The graduation process as suggested by Hashemi (2007) is illustrated in the following Figure 2.1. Prior to providing access to microfinance assistance, the 'hardcore poor' are helped move beyond the lower poverty line through the provision of safety net programmes, for example through food assistance. This will now classify the poor as 'moderate poor'. They are then provided with skills training which will enable them to move on to the next level where they are granted microcredit. Consequently, this is another step towards 'graduation' onto a higher level and thus classify for more robust microfinance services.

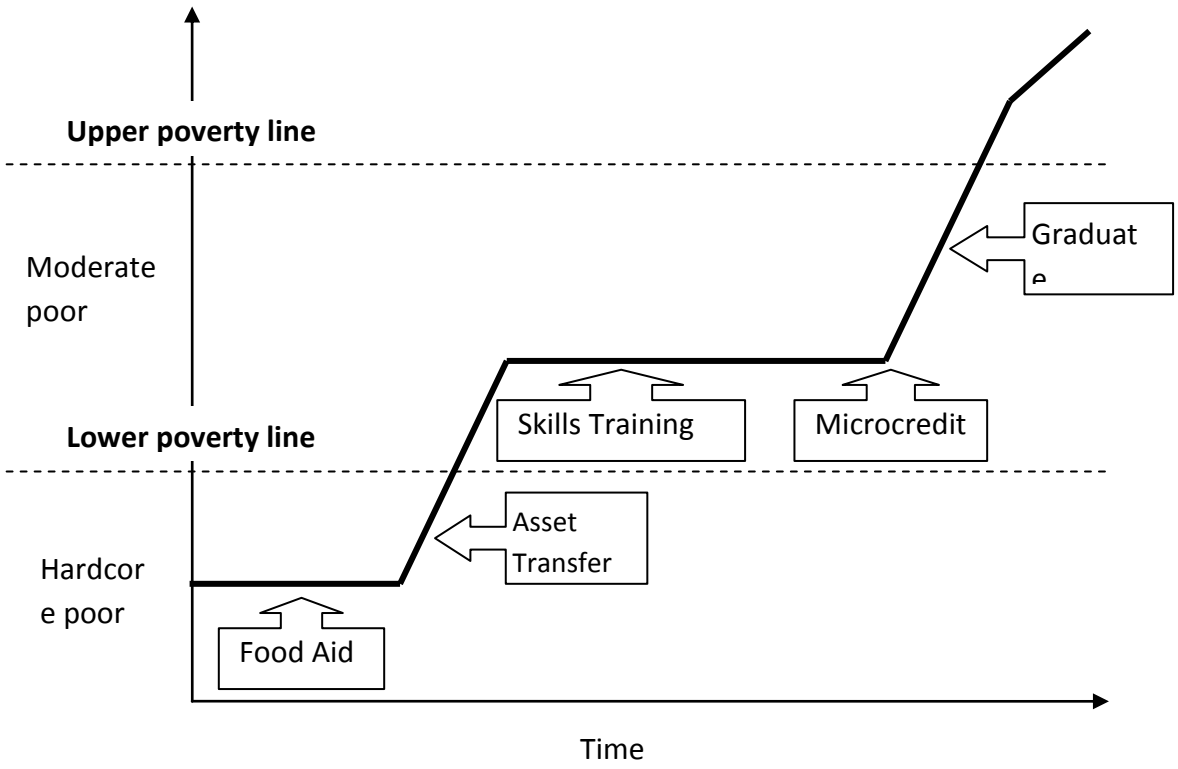


Figure 2.1: Proposed Method of Graduation

(Source: Hashemi 2007:17)

Hashemi and Rosenberg establish two types of links between microfinance and safety net programmes. In the first model the safety net programme develops its set of basic financial services which assists clients to better manage their income. Thus the MFI's involvement is restricted; its role is to recruit successful 'graduates' as its customers.

The second model is one in which the MFI is highly involved. It establishes a subsidiary which works directly with customers enlisted in the safety net programme. The MFI subsidiary also provides non-financial services together with credit or

subsidised savings. The successful customers will then ‘graduate’ to a higher level and are able to gain access to microfinance services provided by the MFI.

Both models have their pros and cons. The MFI operating under the first model benefits from information provided by the safety net programme regarding prospective customers. The information provided regards the savings plans that the participants had and their track record for showing up for work. By having access to such information the MFI is able to determine which clients are more likely to default on loans in the future, and which are the less risky ones. The client also benefits from this system because he or she is more motivated to perform well and so be able to graduate into microfinance.

As opposed to the first model, the second one involves higher costs and risks. It is necessary that the difference between the MFI and its subsidiary is clearly defined. The reason for this is to avoid confusion between one and the other and to not instil the idea that the grants provided under the safety net programme will apply when the clients make use of the MFI’s services. Thus it is equally important to employ different staff at the MFI and the subsidiary. A MFI that decides to adopt this method needs to be a strong well-established organisation “whose core business is operating so solidly and sustainably that it can afford to have its management and staff resources diluted” (Hashemi and Rosenberg, 2006:3).

2.6 Conclusion

This chapter addressed the main issues of poverty, microfinance, and safety net programmes. Microfinance and safety net programmes have been brought together as a means of alleviating poverty. Through data analysis, poverty rates and the level of outreach through microfinance, and the link between microfinance and safety net programmes is analysed in the coming chapters.

CHAPTER 3

METHODOLOGY

3.1 Introduction

Debates regarding the effectiveness of microfinance in reaching the poorest of the poor have all reached the same conclusion. It is essential that microfinance is employed together with other add-ons, as Vijay Mahagan, Managing Director of BASIX, discussed in an interview entitled Microfinance Now with CGAP. He said that such add-ons include technical assistance, training, productivity enhancement, market linkages, and building inclusive organisations so that poor people get better terms.

This leads to the scope of the research question which is to determine whether microfinance has been an effective means of reaching poor people at the very bottom, and if so, to what extent. In addition, the research question examines the effectiveness of combining microfinance with social safety net programmes into one as a means of alleviating poverty.

In order to arrive at a reliable and valid data priority, various research methods were considered. After evaluating ways that would best lead to such validity, it was decided that quantitative methodology would be the optimal method of data collection and analysis. Quantitative data is usually gathered in four ways: interviews, questionnaires, tests, and observation (Easterby-Smith et al., 2002). When using this method one would be gathering primary data. However, secondary data collection is also possible through the use of data banks and archives. In this case, the data is readily available since it has been generated by other researchers beforehand.

For the purpose of this dissertation, secondary data has been used with the main data sources being: CGAP, MIX, and the World Bank. There are several advantages when using secondary data. Primarily, it allows for larger data sets to work with than when using primary data. In addition, the data is often collected through a random sample, which allows the user to generalise to the population sample concerned. Finally, secondary data gives the possibility of making comparisons over a time period. This is due to the fact that most of these studies are longitudinal studies that is, the data sources contain observations of the same research area over a period of time.

3.2 Data Collection

The research has been conducted over a ten year period, ranging from 1999 to 2009. It has been spread over a ten year time span to allow for better evaluation and more accurate results. The last year researched is 2009; this is mainly due to the fact that the most recent data available is for 2009 since the data for year ending 2010 is still being generated.

When classifying the World into regions, different sources adopt different categories. For the purpose of this research, I was concerned with developing countries which I classified into regions as follows:

- Asia
- Europe and Central Asia
- Latin America and Caribbean
- Middle East and North Africa
- Sub-Saharan Africa

Asia can be further subdivided into East Asia and Pacific, and South Asia as classified by the World Bank. However, since the majority of the data collected was grouped under Asia, I decided to take both regions as one. Nonetheless, there were cases when data was obtainable under East Asia and Pacific, and South Asia. In such cases, the individual values for the respective regions were added together to obtain one aggregate for Asia.

3.3 Ethical Considerations

Ethical issues are of utmost importance. Given that the research involved secondary data collection, no participants were involved, meaning, that the provisions with respect to participants under the Data Protection Act did not apply. Other ethical considerations were nonetheless observed. Such considerations include respecting the terms of use as stipulated by data sources.

Two World Bank web applications were used; *PovcalNet* which is a tool enabling online poverty analysis and, the *World Bank eAtlas of Global Development* which allows one to envisage and analyse progress on current developmental issues around the World. Both applications allow use of the data available as long as certain conditions are followed. Conditions with regards to usage of data, and licenses and copyright of each application were complied with. Data used from these two sources was referenced as stipulated by the World Bank.

Furthermore, all the data collected was used solely for the purpose of this research project. No data was used in any way that may cause harm to sources directly or indirectly linked to it. The data was not used for purposes other than those stipulated herein.

3.4 Research Limitations

The research posed some limitations which were difficult to eliminate. Extreme poverty is not the case in Malta and thus the research question revolves around a situation found outside the local remit. Hence, data collection had to be carried out through foreign sources. Thus it was important to ensure that the data sources were reliable ones and recent.

It is understood that the data available from the sources accessed, such as the World Bank and the MIX, was presented at face value and may have been generated for purposes other than those required for the scope of this research project. Thus, it was necessary to ascertain certain facts about the data such as who presented the data, when it was presented, for what purpose, and how it was collected. After having obtained such information regarding the data, it was possible to determine whether the data was relevant or not. Moreover, not all the data required was available from one source which meant doing the appropriate research through journals, reports and respective websites, especially when it came to regional data.

In addition, there were instances where data for recent years was not available, or it was not available for all years included in this research. An example of the latter case is the international poverty line; the World Bank establishes its level every three years or so, the most recent one being that for 2005. This meant that a poverty line was available for years 1999, 2002, and 2005. Hence, it was important to see that the source accessed conducted surveys and statistical measure on a frequent basis.

CHAPTER 4

ANALYSIS AND RESULTS

This chapter is concerned with the analysis of the data collected and the results obtained. It is divided into two sections: Poverty, and Microfinance Outreach. The former is an attempt at determining poverty through the application of certain indicators such as the headcount, and the poverty gap indices. The latter part analyses how successful microfinance has been as a tool to reach the poor and better their situation. The source of the data applied in the following analysis is presented in tables in Appendix B.

4.1 Poverty

There is no one single definition of poverty. The most common indicator used to try and establish the poverty level in countries is the poverty line or threshold. This threshold varies from one country to another; the more developed the country, the higher the poverty line within that country.

However, when determining poverty on a global level, one cannot use the countries' individual poverty lines since the purchasing power parity is not the same for any one country. As a result, the World Bank established a universal poverty line, more commonly known as the "US$1 a day". People living at or below this threshold are deemed as being poor. In 2005, this level was revised to match differences in PPP exchange rates across countries and was increased to "US$1.25 a day". The benefit of this indicator is that it enables one to compare poverty rates in different countries or regions.

4.1.1 Headcount Index

In trying to establish poverty rates across the five developing regions, the first approach was to use the headcount index given by the Poverty Headcount Ratio at US$1.25 a day as a percentage of population. This ratio indicates the percentage of population living below US$1.25 a day, as set by the World Bank.

The situation in 2005 is represented in Map 4.1 where one can see that the two poorest regions are SSA and South Asia. The latter has 40 to 50 percent of its population living under US$1.25 a day whilst the former has more than 50 percent. This is further illustrated by looking at Figure 4.1 which represents the percentage poverty headcount calculations for 1999, 2002, and 2005; the years for which data was available through the World Bank's application *eAtlas for Global Development*. One can see that Asia and SSA have the largest poverty headcount ratios. The high ratio in Asia is mainly caused by South Asia's high poverty rates which maintained an average of 42 percent between 1999 and 2005.

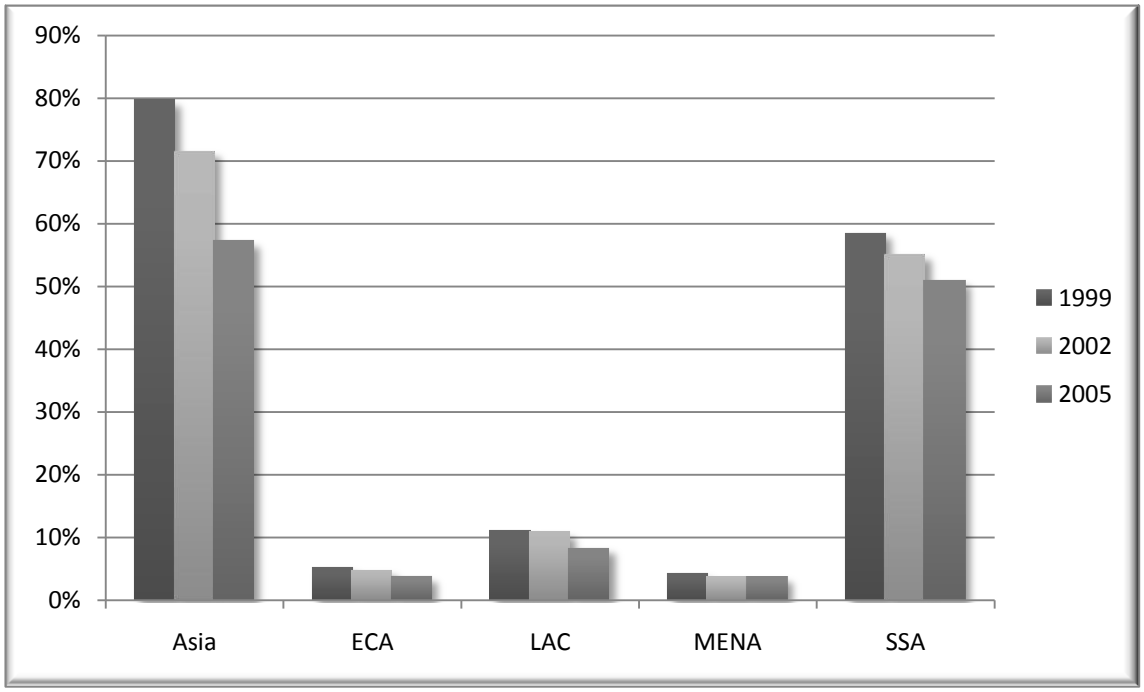
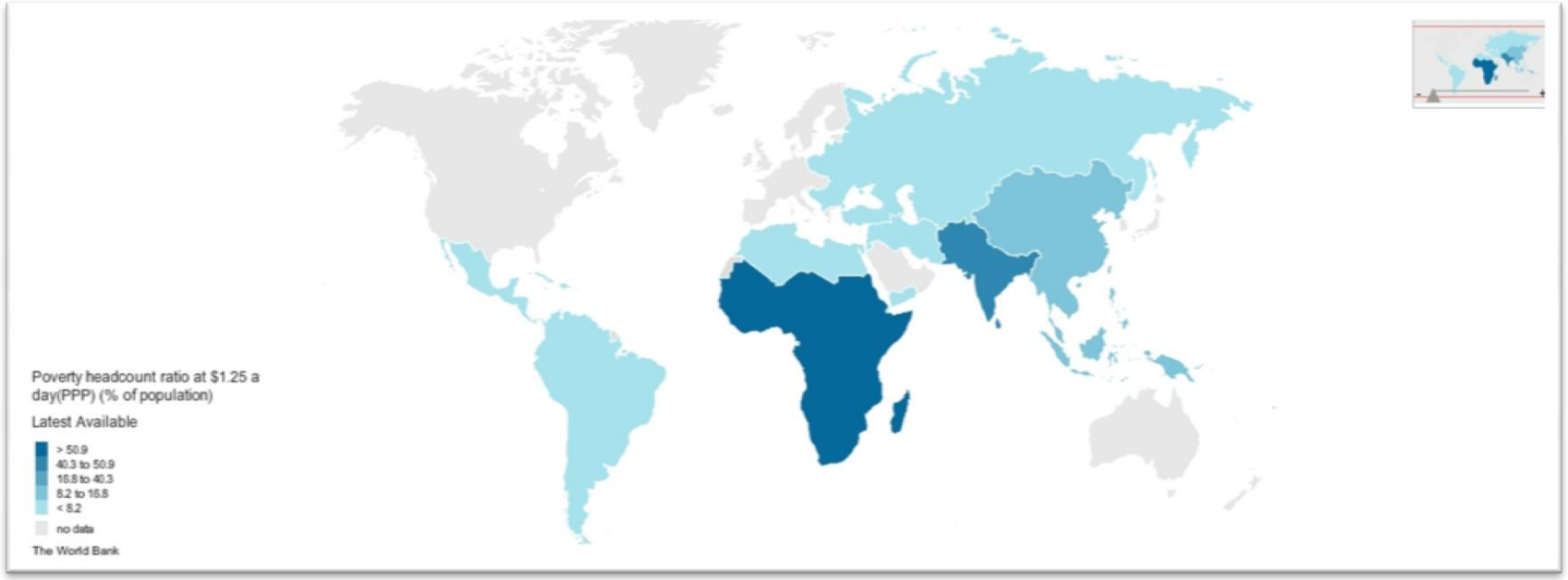


Figure 4.1: Poverty headcount ratio at US$1.25 a day (PPP) (% of population)

Despite the fact that Asia's headcount ratio fell by approximately 20 percent between 1999 and 2005, one must note that this was mostly due to EAP whose ratio decreased by more than half. South Asia on the other hand, still had 40 percent of its population living under extreme poverty conditions, in 2005.

Over the six-year period, all five regions have seen a decline in their poverty headcount ratio but at a slow pace. ECA and MENA, despite having very low percentage ratios in 1999, registered only a small change by 2005.



Map 1: Poverty Headcount Ratio at US$1.25 a day (PPP) (% of Population)

Source: The World Bank eAtlas of Global Development (Statistical Mapping Module copyright Collins Bartholomew Ltd; text and data copyright The World Bank Group).

The headcount index can be applied to the total population figures (derived from the World Bank web application *eAtlas of Global Development*) in an attempt to estimate the number of poor people in each year 1999, 2002, and 2005. The figures are also obtainable from *PovcalNet*. For a more consistent data set, the latter data source was used.

Figure 4.2a illustrates the poverty headcount ratio at US$1.25 a day in millions (also referred to as the number of poor people living at or below US$1.25 a day). It is clearly visible that Asia has the largest number of people living under extreme poor conditions. Asia saw a reduction in the number of people living in extreme poverty which was mostly attributable to EAP. This is illustrated in Figure 4.2b where in 1999 both South Asia, and EAP had approximately 600 million people living under US$1.25 a day. By 2005 the number was reduced approximately by half in EAP, however the situation in South Asia remained practically unchanged.

The situation in the other four regions remained more or less the same between 1999 and 2005.

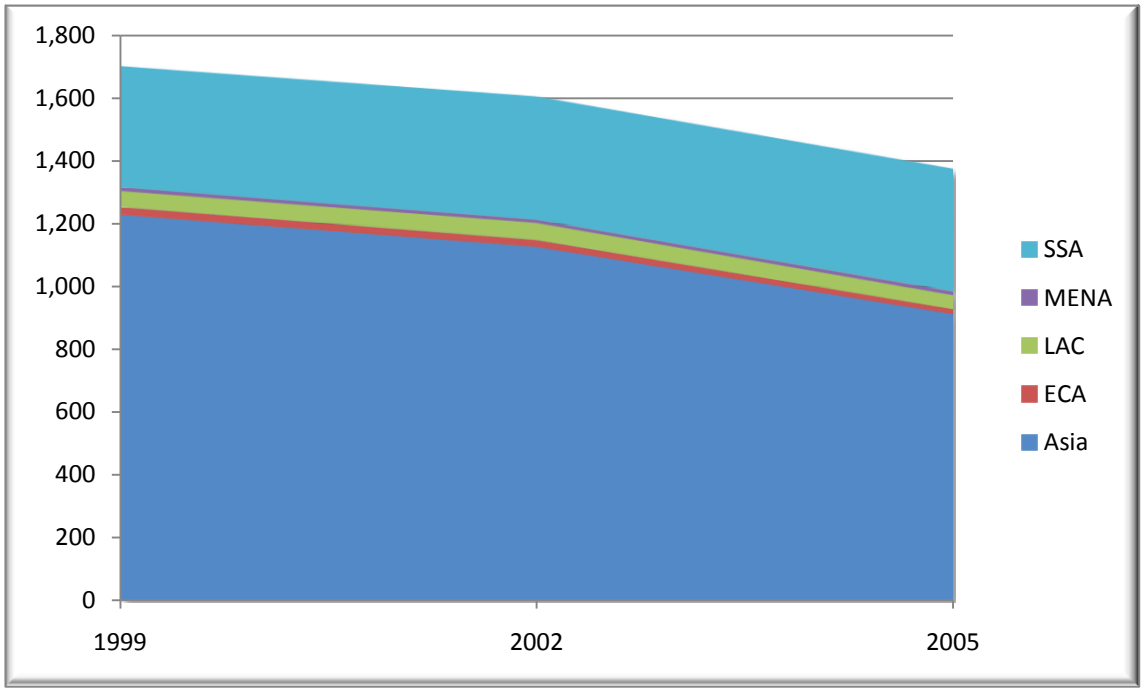


Figure 4.2a: Poverty headcount at US$1.25 a day (millions)

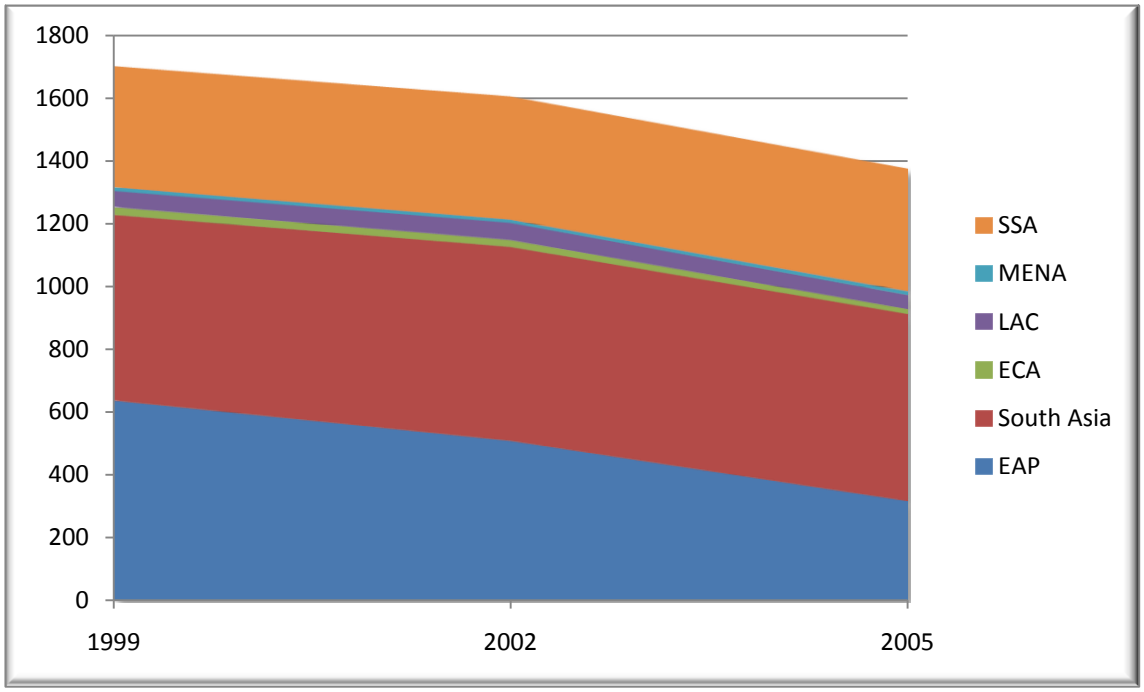


Figure 4.2b: Poverty headcount at US$1.25 a day (millions): illustrating EAP and South Asia

4.1.2 Poverty Gap Index

Additionally, the poverty gap index was examined. The poverty gap as defined by the World Bank is the mean shortfall from the international poverty line at US$1.25 a day (PPP), and is expressed as a percentage of the poverty line. It indicates both the depth and incidence of poverty. The lower the value of the gap, that is the closer it is to zero, the less the poverty level. The values for the index were obtained through *PovcalNet*, and as with the headcount index, the data was available for that for 1999, 2002, and 2005.

Figure 4.3 shows that throughout the years 1999 to 2005 the two regions with the highest poverty rates are SSA and Asia, whilst the lowest rates are those for MENA. The gap in Asia was reduced by approximately eight percent and that for SSA by five percent however, one can clearly observe that poverty incidence is still quite high in both regions at 14.33 percent and 20.74 percent respectively. By 2005 ECA, and MENA had almost the same rate at approximately one percent. The poverty gap in LAC fell only by one percent between 1999 and 2005.

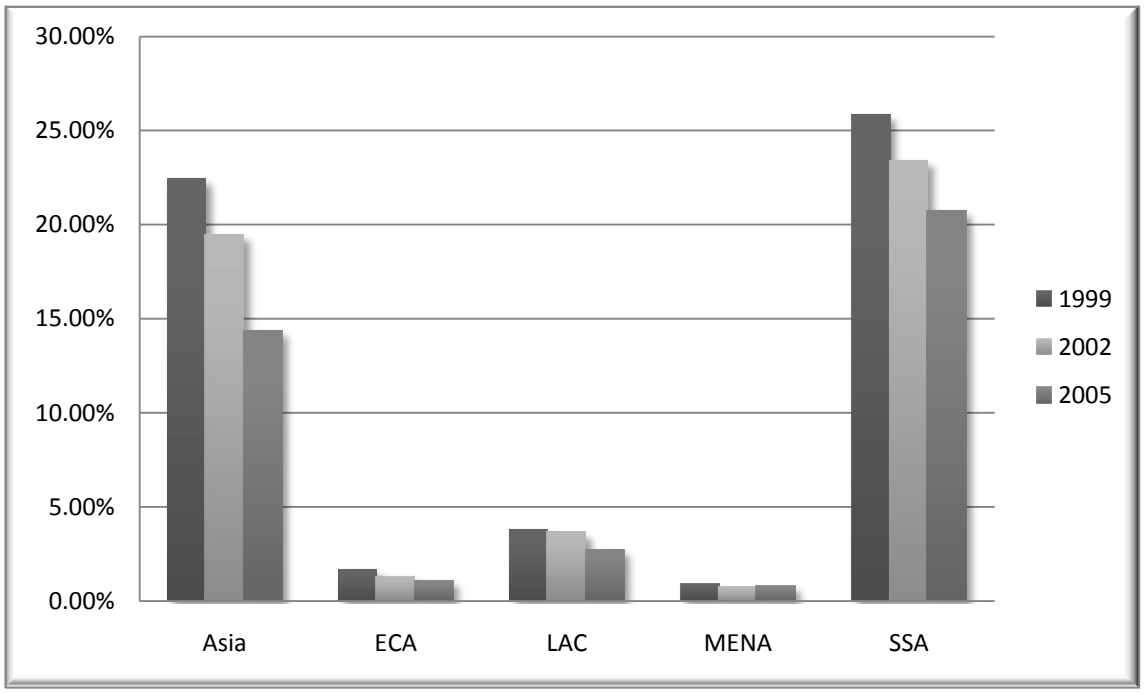


Figure 4.3: Poverty Gap at US$1.25 a day (PPP) (% of poverty line)

4.2 Microfinance Outreach

This part of the chapter analyses how effective microfinance has been over the past decade in alleviating poverty in the respective regions. Information regarding the data sources is provided which is then followed by a brief discussion on the data sets applied. The section concludes with a regional analysis on the level of microfinance outreach within each region.

4.2.1 Data Sources

The data for this part of the analysis was extracted from a series of yearly reports published by the MIX; the Microfinance Analysis and Benchmarking Reports. In addition to these reports, the MicroBanking Bulletins indicating yearly benchmarks were also used. Both the reports and bulletins are available for the five regions being Asia, ECA, LAC, MENA, and SSA. The reports and bulletins used for the purpose of this research were those for years 2000 to 2010.

The Microfinance Analysis and Benchmarking Reports are published yearly for each region. Every report analyses the performance of the microfinance industry within the respective region by assessing that region's benchmarks, its leaders, and trends, in addition to examining any possible forthcoming challenges.

The MicroBanking Bulletin, which is published twice a year, is one of the fundamental publications of the MIX. The Bulletin gathers the financial results of MFIs around the world and after converting the data to a common basis, it is compared. By doing so the MicroBanking Bulletin aims to improve the financial performance of MFIs. The MIX relies mainly on self-reported data by the individual MFIs and for this reason they

conduct independent verification to assess the reliability of the information provided to the organisation. This grading is by no means related to the performance of the MFIs.

4.2.2 Data Set

The bulletins published by the MIX offer the data for each indicator in various formats which include median, mean, maximum and minimum, standard deviation, and 25th and 75th percentile values. Median values are typically used when the data includes some extreme values which are very likely to influence the mean. Hence, for the purpose of this research median values were applied.

The variables, or indicators as referred to by the MIX, which are used to analyse microfinance outreach are presented below;

- The number of MFIs,
- The number of active borrowers,
- The number of loans outstanding,
- The average loan balance per borrower,
- The gross loan portfolio (in US$),
- The number of voluntary savers or depositors,
- The voluntary savings or deposits (in US$),
- The average deposit balance per depositor,
- Percent of women borrowers,

- The GNI per capita (US$), and
- The GDP per capita, PPP (in constant 2005 international US$).

All indicators have been derived from the MIX annual benchmark publications except for the GDP per capita (PPP), which was obtained from the World Bank *eAtlas for Global Development* web application. A definition of each indicator is given in Appendix B.

In the Poverty Analysis, most data regarding Asia was given in terms of its two sub-regions; EAP and South Asia. However, due to data availability, the data regarding Asia in the Microfinance Analysis is provided for the region as a whole.

The data for depositors is represented under the general heading 'The number of voluntary savers/depositors'. Yet, the data for this indicator was found under the following headings for the respective years;

- Voluntary savers and voluntary savings between 1999 and 2005,
- Voluntary depositors and voluntary deposits between 2006 and 2007, and
- Depositors and deposits from 2008 onwards.

Consequently, it was assumed that all three versions of the indicator refer to the savers or depositors the MFIs had between 1999 and 2009.

The time period researched was between 1999 and 2009. Most charts however represent data for years 1999, 2004, and 2009. This is because there is a large amount of data to display per chart. Hence the start and end years, 1999 and 2009 respectively, are represented along with a median year; 2004. Appendix B includes the data for all years and regions.

4.2.3 Analysis

The ease of access into the financial sector is also referred to as the financial depth of an economy. The more financially deep the economy, the more developed it is which is illustrated through "efficient credit allocation, risk reduction through diversified investment in financial intermediaries and the lowering of transaction costs of these intermediaries through information generation" (Kai and Hamori:2). As Kai and Hamori discuss, financial deepening reduces inequality, thus improving poor people's prospects into the financial sector which in turn contributes to poverty reduction.

In attempting to measure financial inclusion, one may encounter some limitations. First of all it is not easy to measure financial depth, and secondly there is lack of available resources. This is because despite the financial sector being renowned for its up-to-date data and its immediate availability, yet data regarding access to financial services is not easy to come by. It is not enough to consider aggregate data; if for example one takes into perspective the deposit accounts held by households, one can see that not all households hold the same number of accounts, if any at all. In measuring financial inclusion, one needs to assess micro data which is obtainable mostly through household surveys or a census which unfortunately are lacking. In addition, available surveys contain data that cannot be applied across countries at all times. Consequently, indicators are used which combine the results of existing surveys with macro data which

is more easily obtainable (Finance For All? Policies and Pitfalls in Expanding Access, World Bank, 2008).

4.2.3.1 GDP per Capita, PPP

The GDP per capita is an indicator giving information about the state of the economy. GDP is the monetary value of all finished commodities produced in a country by respective domestic producers over a specific time period, usually a year. In turn, the GDP per capita is a measure of the total output of a country divided by the total population of that country. The World Bank issued the PPP GDP per capita defined as GDP converted into international dollars using purchasing power parity rates and does not include deductions for depreciation of manufactured assets and degradation of natural resources. The data is available in constant 2005 international dollars.

The GDP per capita indicator is very useful because it shows the relative performance of each country thus enabling the comparison of one country to another. An increase in the GDP per capita indicates a growing economy. The results are illustrated in Figure 4.4 which shows that all five regions have undergone substantial development from 1999 onwards, except for SSA. The GDP per capita for this region is still quite low, below US$2,000 in 2009 which is slightly higher than where it was in 1999. The other four regions however, registered great results over the ten year period with ECA having a GDP per capita above US$10,000 between 2008 and 2009.

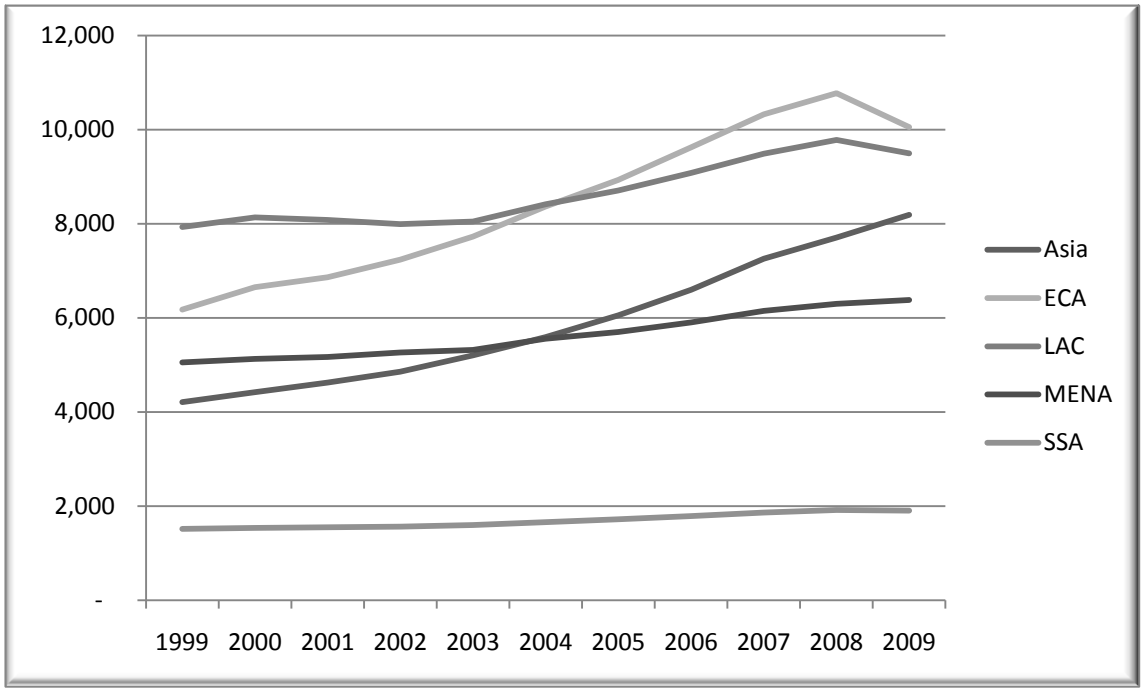
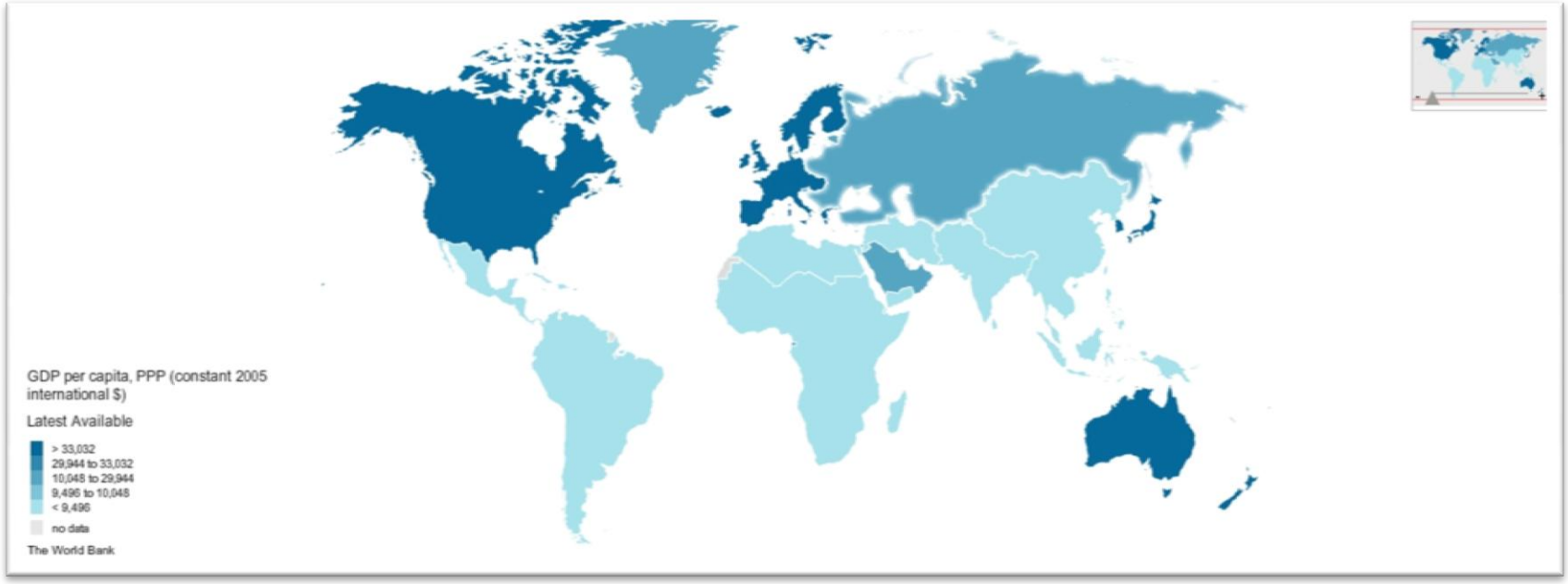


Figure 4.4: GDP per capita, PPP

Map 4.2, derived from *eAtlas of Global Development* by the World Bank, illustrates GDP per capita per region as at 2009. One can see that the regions concerned are highly under developed when compared to other developed regions with a GDP per capita of US$33,000 and higher.



Map 2: GDP per capita (US$)

Source: The World Bank eAtlas of Global Development (Statistical Mapping Module copyright Collins Bartholomew Ltd; text and data copyright The World Bank Group).

4.2.3.2 Number of MFIs

By establishing the number of MFIs within each region, one gets a preliminary idea as to the concentration of microfinance within the respective region. Figure 4.5 illustrates how the number of MFIs per region increased between 1999 and 2009. LAC and Asia have seen a more-than-proportionate increase within this sector whilst, MENA and SSA have not made much progress during the ten year period.

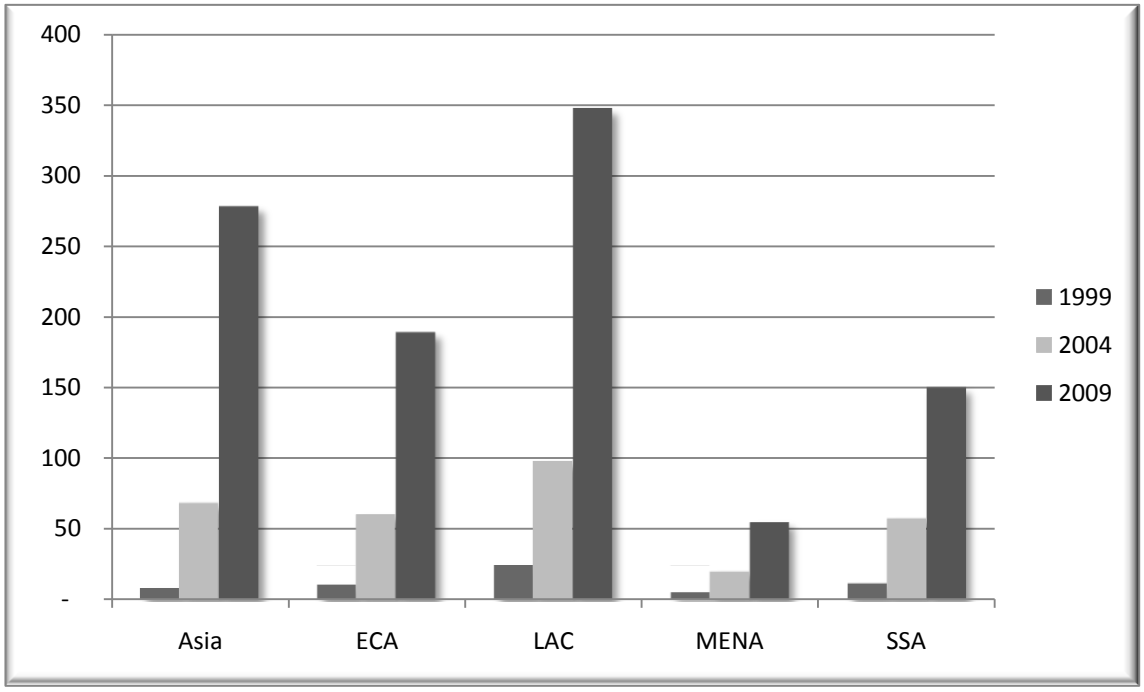


Figure 4.5: Change in the Number of MFIs between 1999 and 2009

Figure 4.6 compares the number of MFIs per region as at 2009, the most recent year with data availability. One can see that LAC and Asia have the highest number of MFIs respectively, whilst MENA is still quite low at 55 reporting MFIs in 2009. One must note that the number of MFIs listed in the reports published by the MIX are subject to participation by local MFIs.

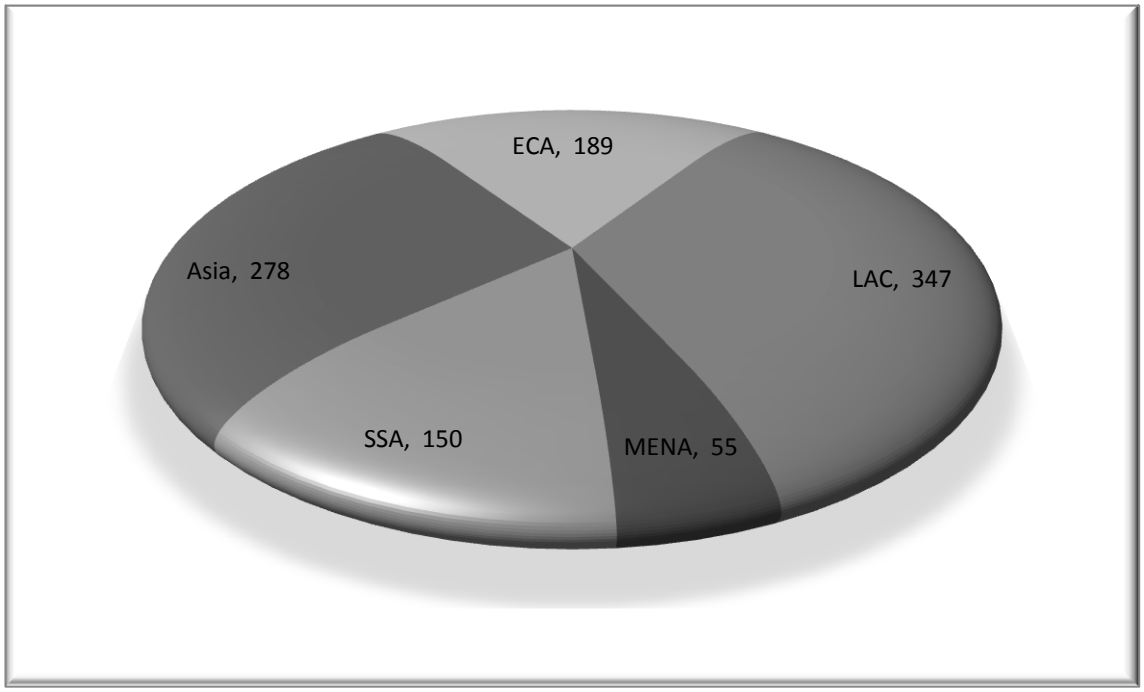


Figure 4.6: Number of MFIs per region in 2009

4.2.3.3 Borrowers

Besides calculating the number of MFIs per region, the outreach level of microfinance can also be calculated by measuring the number of active borrowers and depositors within the respective region. In this respect however, data representing the number of voluntary depositors or savers is limited, and was thus not measured. Figure 7 illustrates the number of active borrowers for the years 1999, 2004, and 2009.

Between 2003 and 2004 the number of borrowers in Asia declined by approximately 98 percent due to external factors including an epidemic and natural disaster. The situation nonetheless has been improving. Microfinance in the ECA region has positively increased since 1999, albeit at a slow pace. As a result of the financial and economic crisis the number of active borrowers has declined slightly between 2008 and 2009. In

addition, the financial crisis affected LAC and SSA and as Figure 4.7 illustrates, the microfinance borrowers in each region also declined during 2008 and 2009. The MENA region has seen a gradual increase in the number of active borrowers between 1999 and 2009.

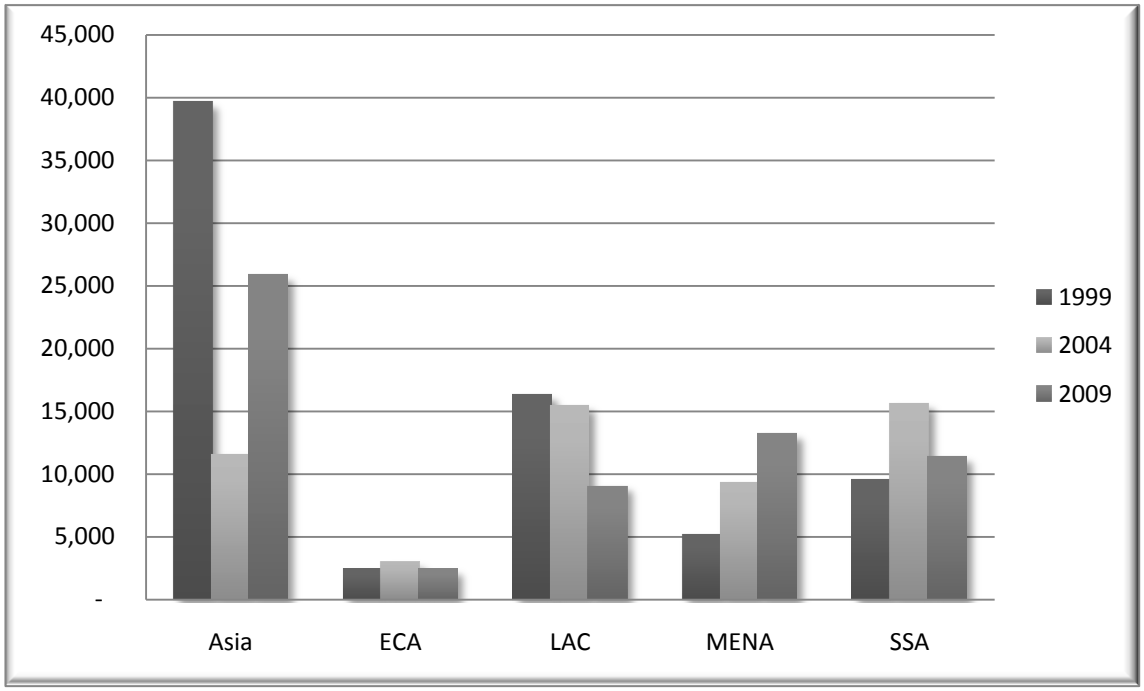


Figure 4.7: Number of Active Microfinance Borrowers for 1999, 2004, and 2009

As a subset of total borrowers, one may also consider the percentage of female borrowers as a percentage of the total number of active borrowers. Most microfinance programmes are targeted at women since they are the heads of households either because they are widows or separated or else their husband's income is not sufficient, hence they turn to microfinance as a means of progressing towards better livelihoods. Figure 4.8 illustrates the percentage of women borrowers for the years 1999, 2004, and 2009.

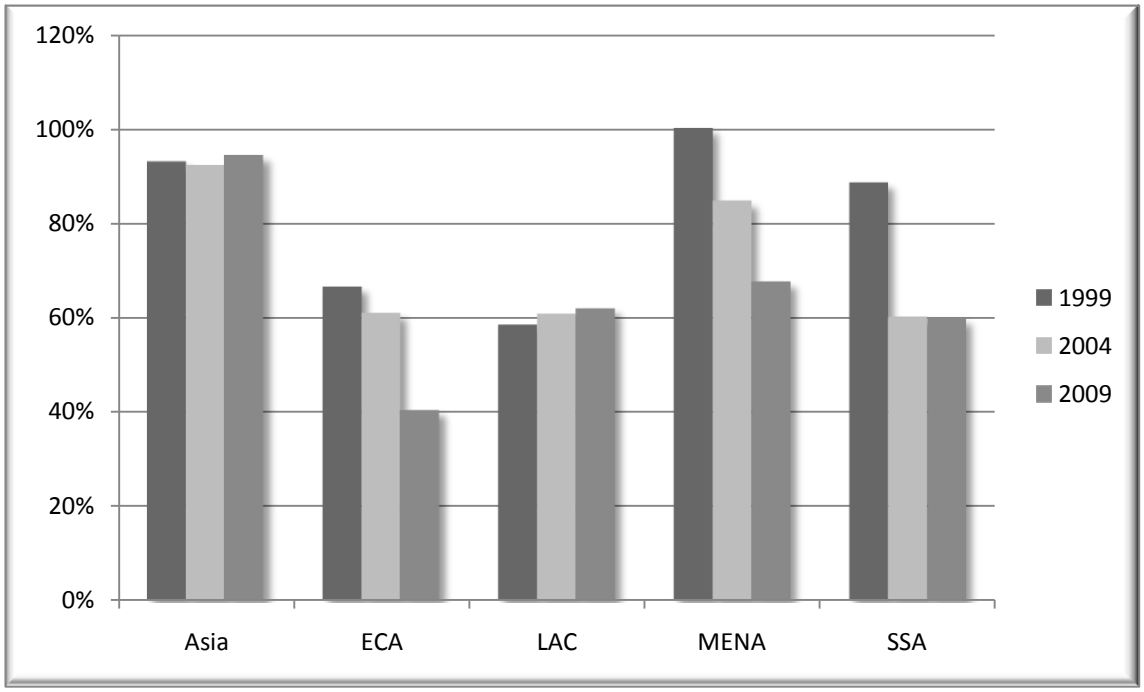


Figure 4.8: Percentage of women borrowers

In 1999 MENA, Asia, and SSA had the highest percentage of women borrowers at 100, 92.9 and 88.5 percent respectively. Asia retained an average of 93.4 percent over the ten year period, whilst MENA and SSA saw a decline in women borrowers to 67.6 and 59.8 percent respectively. The amount of female borrowers in ECA also gradually declined to 40.3 percent in 2009, whilst LAC maintained an average of 59.49 percent over the ten year period.

4.2.3.4 Gross Loan Portfolio

Figure 4.9 illustrates how the gross loan portfolio progressed over the ten year period for each of the five regions. LAC had the highest portfolio both in 1999 and 2009 at approximately US$6 million. Asia experienced a decline in its gross portfolio between 2003 and 2004 but has improved since and stood at US$5.2 million in 2009. SSA had

quite a volatile portfolio until 2006, but has since seen a gradual increase with a portfolio valued at US$4.7 million in 2009. Both ECA and MENA have improved since 1999 and gross loan portfolios of US$3.8 million and US$6.2 million respectively in 2009.

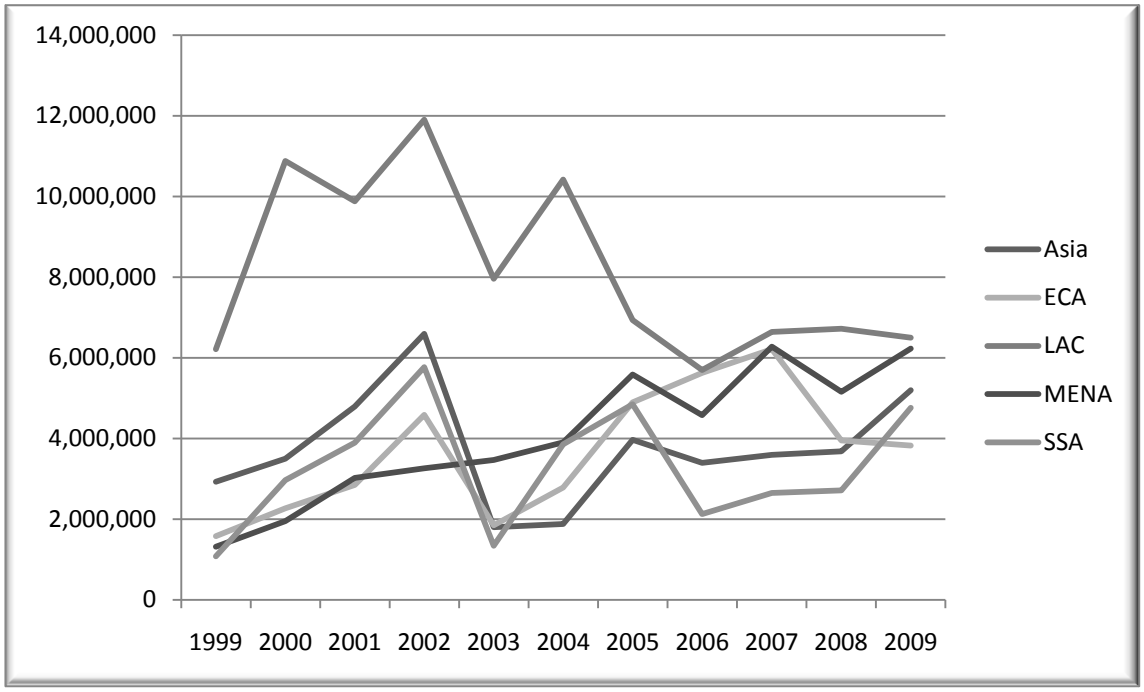


Figure 4.9: Gross Loan Portfolio (millions, US$)

4.2.3.5 Client Poverty Level

Most microfinance projects aim at reducing poverty and thus MFIs need to be able to measure the poverty levels of their clients. There are various ways by which to measure client poverty levels however for the purpose of this research a very basic method will be used, suggested by Rosenberg (2009).

The procedure first involves the calculation of the average outstanding balance which includes the amounts of loans that clients have not yet repaid whilst in the case of deposits, those savings that clients have not withdrawn so far. This indicator illustrates the client's situation at both social and economic levels. Due to data availability, only the average outstanding loan balance was used.

The second step is to express the average outstanding loan balance as a percentage of per capita GNI. This allows for comparison between MFIs in different countries and how well they are able to reach poor people given their country's income distribution (Rosenberg, 2009). The GNI per capita is the total income generated by the country's residents irrespective of their location in the world divided by the total number of residents. It is calculated over a specific time period, usually over a year. Figure 4.10 illustrates the GNI per capita (US$) for the five regions between 1999 and 2009. Each region saw an increase in its income per head over the ten-year period. Yet, ECA and LAC experienced the largest change respectively; the latter doubled its GNI per capita from US$2,000 in 1999 to US$4,000 in 2009 whilst the former increased its income by four times as much to US$4,000 per person in 2009. Prior to 2008, MENA's GNI per capita remained almost unchanged but then increased by US$1,000 per person between 2008 and 2009. Asia and SSA had the same level of income per person in 1999, however Asia had a slightly higher income level than SSA in 2009.

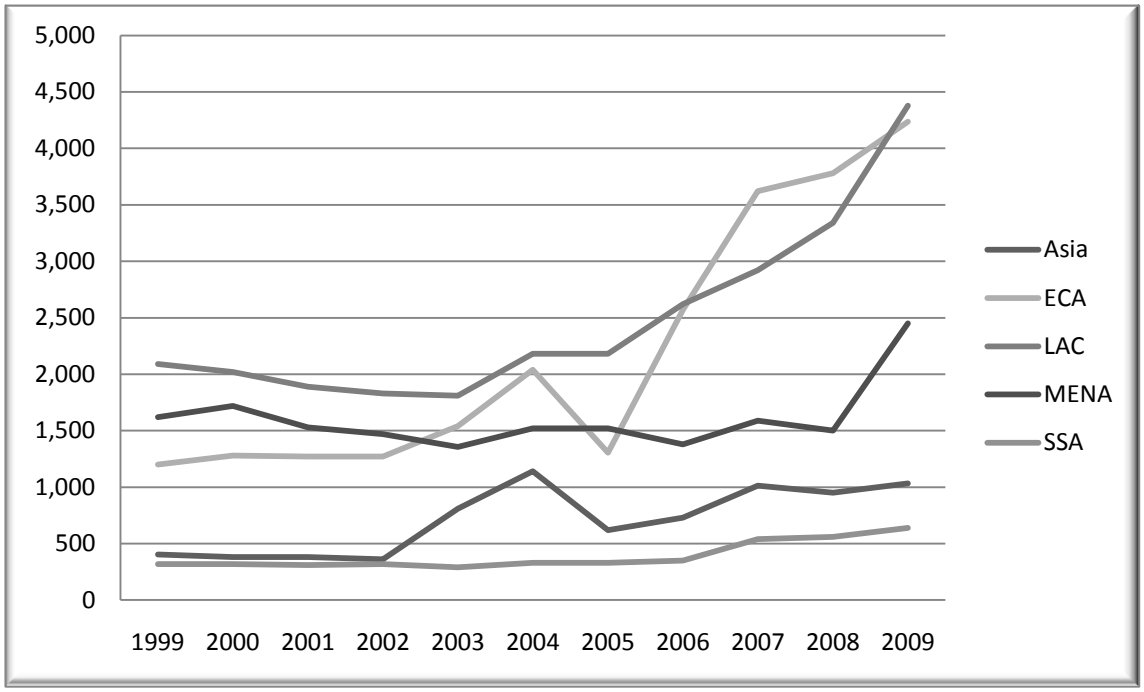


Figure 4.10: GNI per capita (US$)

The client poverty level was calculated as follows;

$$Average\ Outstanding\ Loan\ Balance = \frac{Gross\ amount\ of\ loans\ outstanding}{Number\ of\ active\ clients\ or\ accounts}$$

Subsequently, the average outstanding balance is expressed as a percentage of GNI per capita;

$$\frac{Average\ Outstanding\ Loan\ Balance}{GNI\ per\ Capita}$$

Rosenberg (2009) suggested that an average outstanding loan balance below 20 percent of GNI per capita usually indicates that clients are extremely poor. He also said that if the percentage ratio falls under 250 percent of GNI per capita the lending institutions fall under the MFI definition.

The results obtained for each region over the ten year period are portrayed in Figure 4.11. Hence, taking Rosenberg's point of view, all the organisations that participated in the research fall under the MFI definition since the highest ratio obtained between 1999 and 2009 is for SSA at 36.94 percent. Moreover, taking the 20 percent benchmark into perception, over the ten-year period, all regions have succeeded in targeting the destitute poor. Making some exceptions in terms of Asia and SSA; they both had higher ratios until 2002 and 2006 respectively.

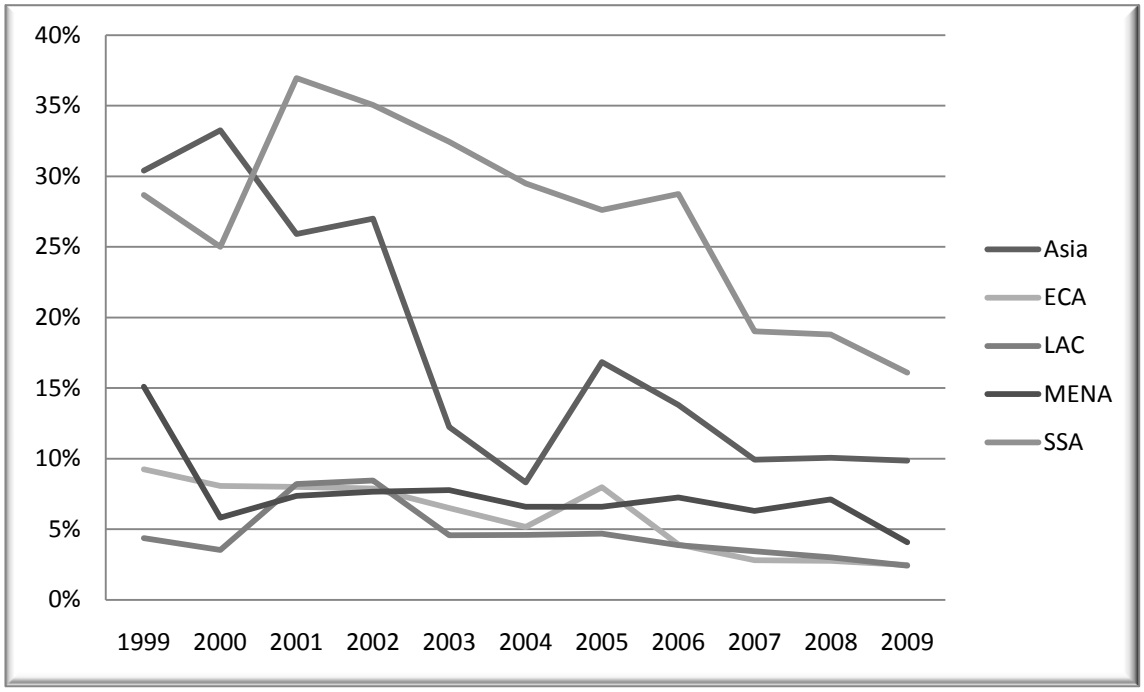


Figure 4.11: Average Outstanding Loan Balance as a percentage of per capita GNI

CHAPTER 5

CASE STUDIES

5.1 Introduction

The previous chapter analysed the effectiveness of microfinance and its outreach to the poor. This chapter takes into account various real-life case scenarios where MFIs, whether directly or indirectly, merged together microfinance and social safety net programmes in order to reach the hardcore poor.

> "The poorest participate in grant-funded safety net programmes, where they receive nonfinancial support, such as employment, food aid, training, etc., as well as support to graduate from their existing levels of poverty to a level where they can make good use of access to appropriate financial services."
>
> Hashemi and Rosenberg (2006:2)

Social safety net programmes take various forms; these may include cash transfers, conditional cash transfers, food-related programmes, price and other subsidies, public works, fee waivers, and social funds.

5.2 RMP

RMP is provided by CARE for women in Bangladesh. The public works programme was initiated in 1982 and "provides employment for destitute rural women – women who are heads of households or married to disabled men and who have no other income source" (Hashemi and Rosenberg, 2006:3). The job entails maintaining earthen village

roads and earning cash wages in return. To classify for the job, women have to be aged between 18 and 35, and they have to be physically fit. They are recruited for a four year period during which they are also required to take part in a savings plan which captures a fifth of each woman's earnings (Hashemi and Rosenberg, 2006). During this period, "the participants are trained in numeracy, human rights, gender equality, and health and nutrition, as well as income-generating skills and microenterprise management" (Hashemi and Rosenberg, 2006:3). Moreover, whilst in the programme they receive information with regards to MFIs in Bangladesh and "are encouraged to approach the MFIs for working capital and expansion needs after they graduate" (Hashemi and Rosenberg, 2006:4). CARE continues to provide business management advice to its participants up to a year following the end of the programme cycle. The aim of the programme is to provide these women with the tools to make it as microentrepreneurs by training them with the necessary skills and provide them with capital which they themselves had saved.

Despite the fact that not all women make it as microentrepreneurs, the programme has a high percentage of success.

5.3 TSEP

TSEP is part of the ABA in Egypt. ABA was set up in 1988 and runs two microfinance programmes; the Small and Micro Enterprise Project, and the Blossoms of Micro Enterprise Programme. The latter programme targets very poor women, however some people were either unwilling or were unable to enter the programme due to their extremely poor status. Hence, the TSEP was formed. The funds for this project are derived from charitable gifts donated by the business community. On entering the programme, unemployed people receive US$50. Participants have to show that they are committed to the programme by "engaging in an economically viable enterprise"

(Hashemi and Rosenberg, 2006:6) order to receive their first loan instalment of around US$25. Following successful completion of business activity after the first three months, participants are given their next US$25 loan instalment, given that they express the intention of business expansion. The aim is to first graduate participants into the Blossoms of Micro Enterprise Programme, and eventually move on to the Small and Micro Enterprise Project.

5.4 IGVGD Programme and CFPR/TUP

The IGVGD Programme, another programme offered in Bangladesh is a collaboration amongst the government of Bangladesh, the WFP (a NGO), and BRAC (a MFI), which combines food aid with microcredit.

Earlier on, BRAC had become aware of the difficulty of including the poorest in its microfinance schemes due to the fact that these people primarily required assistance in terms of basic survival. Furthermore, BRAC knew that government assistance was not going to last into the longer term due to limited resources. Thus, the concept of IGVGD came into place;

> "IGVGD's goal is to build a bridge that helps participants move from a highly subsidised survival programme into a sustainable microcredit programme."
>
> (Hashemi and Rosenberg, 2006:5)

Those entitled to participate in the programme are destitute rural women with little or no income-earning opportunities and who are at the highest risk of hunger. The programme is based on a government safety net programme providing free grain to participants over an eighteen month period. During this period participants are split into

groups by a unit independent from the regular BRAC microfinance operations which provides the women with basic training in raising livestock for example, and it also collects savings from them. After the participants have received skills training they are given microloans so as to engage in small-scale income generating activities (Hashemi and Rosenberg, 2006). "By the time the cycle of free grain ends, participants have received training, managed credit, tried some kind of entrepreneurial activity, and accumulated savings that can be used as investment capital" (Hashemi and Rosenberg, 2006:5). Most importantly the fact that they participated in group activities, would have enabled them to gain confidence to move forward. At this stage, the women qualify for regular microfinance programmes and are ready to engage in their own income generating activities. Appendix C illustrates a detailed explanation of the IGVGD cycle and the stages involved.

Despite the fact that the IGVGD programme was highly successful for the majority of the poorest, those in minority and who were the most vulnerable were not being reached. BRAC noticed certain deficiencies with the programme, for example not receiving the full food aid entitled to the female participants. This inspired BRAC to move a step further and in 2002, IGVGD faced scaling up; "one of the primary outcomes gained from the IGVGD experience has been the design of a new BRAC programme for the poorest" (Christen et al., 2004:79), the CFPR/TUP or TUP. TUP involves a methodology created especially for targeting the very poor, and "a special investment programme that grants assets and a stipend, an enterprise specific skills development training programme, a programme of essential healthcare, and a social development programme" (Christen et al., 2004:91). The differences between the IGVGD and TUP programmes are portrayed in Table 5.1.

Programme	Target Group	Terms and Conditions	Product Details
IGVGD	• Households headed by women who own no more than 10 decimals of land[2] • Women divorced, separated, or have a disabled husband	To be eligible for loans: • Must have a VO member • Must save	• Initial loan size about US$50 • Other conditions similar to Microfinance[3]
CFPR/TUP	• No more than 10 decimals of land • No adult earning member • No productive assets • School-age children • Adult women in manual labour	• Must not be members of any government or NGO development programme • Must have at least one adult woman who is physically capable	• Distribution of income earnings assets • Subsistence allowance for a specified period • Employment and enterprise development training and technical support • Essential health care support
			Source: Christen et al., 2004:80

Table 5.1: The differences between IGVGD and TUP

[2] A decimal is 1/100 of an acre.
[3] The Microfinance programme charges a 15% flat interest rate (as at 2004) and its loans are repayable in weekly instalments over a year.

Following the implementation of TUP, as at 2004, a considerable improvement was seen over the IGVGD programme in targeting the ultra poor who were previously still not reached. The CFPR/TUP programme is currently in its second phase, CFPR II, which takes a more geographic approach in addition to formulating tailor-made packages according to the level and type of support required by the very poor (Research and Evaluation Division, BRAC, March 2009).

5.5 CGAP-Ford Foundation Graduation Programme

CGAP, in seeking ways to alleviate poverty identified BRAC's successful approach within this field. CGAP liked the idea of graduating the poor into microfinance and wanted to test whether the system adopted by BRAC would be viable if introduced outside Bangladesh. Hence, in 2006 the CGAP-Ford Foundation Graduation Programme which involves a series of ten pilot projects implemented in eight countries was launched. Its aim was to "understand how safety nets, livelihoods support, and microfinance can be sequenced to create pathways for the poorest out of extreme poverty" (Hashemi and de Montesquiou, 2006:2) was launched.

The ten pilot programmes which represent "regional, economic, cultural, and ecological diversity" (Hashemi and de Montesquiou, 2006:2) have been launched in Haiti, Pakistan, Honduras, Peru, Ethiopia, Yemen, Ghana, and India.[4] Five pilots in Haiti, Pakistan and India have been completed and are scaling up whilst the rest of the projects are still in progress.

[4] One pilot programme was implemented in each country, except for India in which three programmes were initiated.

The Graduation Model as illustrated in Appendix A has five stages (Hashemi and de Montesquiou, 2006);

- Targeting to ensure the poorest enter the programme,
- Consumption support either indirectly in the form of cash or directly through food distribution,
- Savings which helps participants mitigate risks and avoid having to sell assets when faced with a crisis,
- Skills training and monitoring by staff to address problems and monitor progress, and
- Asset transfer that enables participants to commence a sustainable income-generating activity.

Research results are as yet in their early stages, mainly due to the fact that the programmes are not all completed. However, the results issued to date are positive. With regards to the costs involved, Hashemi and de Montesquiou (2006) discuss that a cost-benefit analysis has not yet been conducted however, despite high initial costs they expect the programmes to benefit from economies of scale as they progress to higher levels.

5.6 Conclusion

The microfinance and safety net sector has improved greatly however, as Hashemi and de Montesquiou amongst others observe, there is no one single way to alleviate poverty. There has to be ongoing research to identify cost-effective means of reaching the poorest as will be discussed further in the subsequent chapter.

CHAPTER 6

CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

The principal aim of this study was to try and establish a link between microfinance and social safety net programmes. In addition, the degree of poverty during the ten year period from 1999 to 2009 coupled with the effectiveness of microfinance as a means of alleviating poverty, were also examined.

6.2 Poverty and Microfinance

In trying to ascertain poverty levels during the ten year period, two indicators were used; the poverty headcount ratio at US$1.25 a day (PPP) as a percentage of total population, and the poverty gap at US$1.25 a day. Both indicators illustrate that overall, poverty levels between 1999 and 2009 have been reduced, albeit not by the same proportions. Nonetheless, poverty rates in both Asia and SSA indicate high deficiencies when compared to the other three regions, although percentage-wise both Asia and SSA surpassed the other three regions in reducing their poverty figures.

With respect to microfinance analysis, a number of other indicators were applied in an attempt to assess financial inclusion in each of the five regions concerned. To gauge the development stage of each region, the GDP per capita was measured which resulted in SSA being the least economically developed region during the ten year period. MENA and Asia were more or less on the same level however Asia picked up from 2004 onwards.

Following an assessment of the number of MFIs per region, the result was that in all regions, the number has gradually increased between 1999 and 2009.

The number of active borrowers was also evaluated resulting in quite volatile numbers which is further reflected in the gross loan portfolio. The volatility is mainly caused by externalities including an epidemic and tsunami in Asia, and the financial and economic crisis which had global repercussions. The number of depositors was also taken into consideration however data availability is highly limited for this indicator. Most MFIs direct their microfinance programmes mostly towards poor women. Hence, the percentage of female borrowers was assessed over the ten-year period. Both Asia and LAC maintained on average the same percentage of female borrowers throughout, even though the total amount of borrowers in 2009 was much less than that in 1999. Female borrowers in both ECA and SSA declined but so did the total number of active borrowers, although in both cases the decline in female borrowers was more than the fall in overall borrowers. In MENA however, whilst the total borrowers increased, the percentage of female borrowers declined.

As a final assessment of microfinance outreach, the client poverty level was calculated. One must note that the method applied gives only a preliminary indication of client poverty levels. It would be beneficial if it is used with other more complex yet expensive alternatives for a more accurate result. The findings indicate that all regions are successfully targeting more destitute poor; ECA, LAC, and MENA achieving the best results with percentages below 10 percent during the ten-year period.

6.3 Microfinance and Safety Net Programmes

Chapter 5 concerning case studies proved that there indeed exists a relationship between microfinance and social safety net programmes, and through careful planning and continuous monitoring they can be merged together with the aim of reaching the destitute poor. In addition, communication between safety net and microfinance workers is a must. Following is a discussion of facts which emerged from the case studies, together with recommendations.

When a MFI is to establish this link, there are several factors to consider. Primarily the MFI has to decide whether it will offer the safety net programme itself or else hire the services of a separate agency which specialises within this field. If the MFI opts for the former alternative, then it must employ new workers who will be solely responsible for the implementation and running of the safety net programme. This segregation of MFI and safety net programme employees is important in order to differentiate between the two organisations and thus avoid confusion amongst participants.

The safety net programme then needs to carry out effective targeting by seeing that those most in need are reached and hence enter the programme. This can be done through careful market analysis, as indicated by the Figure in Appendix A. It is important that when participants join the programme they are first given the livelihood support they need. Then they progress to the next level. Although during this stage participants do not engage in microfinance activities, it is still beneficial that they start saving. This will help them to start forming their asset base and moreover they will enter a routine of regular payments in instalments which they will go into once they graduate to the microfinance programme.

During this stage, participants should also receive ongoing training mostly in business proficiency. This is because when they graduate into microfinance, participants will be introduced to the concept of micro business where each client will take small loans to start up their own enterprise. The aim is that each client's business slowly expands and hence they will be able to support themselves and their families and gradually move above the poverty line. It may be the case that participants find it difficult to set up and run their business due to lack of business-mindedness. In such cases it might help if the programme offered specialised training for these people and give them further guidance in terms of running a business and also create case scenarios to help get the participant accustomed to the operations of a business.

Finally, MFIs should take into consideration the fact that not all participants graduate into microfinance, and even if they do there are some who still go back into destitute poverty after some time. This does not necessarily indicate that there is a fault with the programme itself; on the other hand it may be because the particular participant is not business-minded, for instance. Another reason may be that participants are too poor and they are predominantly in need of food and water to live and this is their main focus rather than setting up business. The third reason is mainly a demographic one, which relates to elderly and severely disabled people who are not able to access the programmes. Instead, assistance to these people has to be on a nation-wide level through provision of basic healthcare and food and water.

6.4 Recommendations

For MFIs to be effective in their purpose, they need to ensure that service outreach to the poor takes place on a large-scale. This implies focusing on the long-term rather than short-term success of their programmes. Long-term does not refer to expanding the business; rapid growth does not necessarily imply success. Consequently, prior to expanding the organisation, and thus increasing their outreach level, MFIs must focus on strengthening the core foundation of their organisation which is done during the first years of operation. During this period they have to design appropriate and effective programmes and constantly monitor and assess the progress of clients within the programmes. By doing so, the MFI will be creating a robust and stable system. MFIs also have to focus more on the targeting process since as the results indicated, albeit seeing an improvement, there is still room for improvement.

As a final note, it is important that people working for microfinance institutions and safety net programmes constantly communicate and interact with poor people since none other than the poor themselves directly experience what it means to live in such an impoverished state.

REFERENCES

CGAP. (2011), Microfinance Now (podcast). Vijay Mahajan. Available: http://www.cgap.org/p/site/c/media/, [19/04/2011]

Easterby-Smith, M., Thorpe, R. and Lowe, A. (2002). Management Research – An Introduction, 2nd edition, UK, Sage Publications.

Grosh, M. et al. (2008). *For Protection and Promotion: The Design and Implementation of Effective Safety Nets*, Washington: The World Bank.

Hashemi, S. (2007). Linking Microfinance and Safety Net Programmes: New Pathways for the Poorest. Silicon Valley Microfinance Network, January.

Hashemi, S. and de Montesquiou, A. (2011). 'Reaching the Poorest: Lessons from the Graduation Model', *Focus Note No. 69*, March, CGAP: Washington.

Hashemi, S. and Rosenberg, R. (2006). 'Graduating The Poorest Into Microfinance: Linking Safety Nets And Financial Services', *Focus Note No. 34*, February, CGAP: Washington.

Hashemi, S. et al. 'Linking Microfinance and Safety Net Programs to Include the Poorest – The Case of IGVGD in Bangladesh', *Focus Note 21*, May, Available: http://info.worldbank.org/etools/docs/library/80364/linking.pdf [11/03/2011].

Haughton, J. and Khandker, S. R. (2009). *Handbook on Poverty and Inequality*, Washington DC: The World Bank.

Hermes, N. and Lensink, R. (2007). 'The Empirics of Microfinance: What do we know?', *The Economic Journal*, 117, February, F1-F10.

World Bank (2010). (WWW) Available: http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTSOCIALPROTECTION/EXTSF/0,,contentMDK:20617496~menuPK:1561930~pagePK:148956~piPK:216618~theSitePK:396378,00.html. [16/08/10].

World Bank (2010). (WWW) Available: http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTSOCIALPROTECTION/EXTSAFETYNETSANDTRANSFERS/0,,contentMDK:22190146~pagePK:210058~piPK:210062~theSitePK:282761,00.html [16/08/2010].

Koveos, P. and Randhawa, D. (2004). Financial Services for the Poor: Assessing Microfinance Institutions, *Managerial Finance*, vol. 30, no. 9, pp. 70-95.

Ledgerwood, J. (1999). *Microfinance Handbook: an institutional and financial perspective (Sustainable banking with the poor)*, Washington: The World Bank.

Lister, R. (2004). *Poverty*, Cambridge: Polity Press.

Lüsted, A. M. (2010). *Poverty*, Minnesota: ABDO Publishing Company.

Padró, F. F. (2004). *Statistical Handbook on the Social Safety Net*, Westport: Greenwood Publishing Group, Inc.

PovcalNet: the on-line tool for poverty measurement developed by the Development Research Group of the World Bank. Available: http://web.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/EXTPROGRAMS/EXTPOVRES/EXTPOVCALNET/0,,contentMDK:22716987~pagePK:64168427~piPK:64168435~theSitePK:5280443~isCURL:Y,00.html

Rosenberg, R. (2009). 'Measuring Results of Microfinance Institutions: Minimum Indicators That Donors and Investors Should Track', *A Technical Guide*, June.

The History of Microfinance (2009). TOPSTARS Micro Support Services, Available: http://www.microfinancegateway.org/p/site/m/template.rc/1.9.45764/ [21/11/2010].
The International Bank for Reconstruction and Development/The World Bank (2008). '*Finance for All? Policies and Pitfalls in Expanding Access*', Washington: The World Bank.

United Nations (2010). The Millennium Development Goals Report, New York.

Yunus, M. (2007). *Creating a World Without Poverty: Social Business and the Future of Capitalism*, New York: PublicAffairs™.

The World Bank eAtlas of Global Development (Statistical Mapping Module copyright Collins Bartholomew Ltd; text and data copyright The World Bank Group) http://data.worldbank.org/e-atlas-of-global-development-released

BIBLIOGRAPHY

Adato, M. et al. (2004). Linking Safety Nets, Social Protection, and Poverty Reduction – Directions for Africa. In: "Assuring Food and Nutrition Security in Africa by 2020: Prioritizing Actions, Strengthening Actors, and Facilitating Partnerships", Kampala, Uganda, April 1-3, 2004.

'Assessing the relative poverty of microfinance clients: A CGAP operational tool', CGAP, Available: http://www.cgap.org/gm/document-1.9.2978/TechnicalTool_05_overview.pdf [20/04/2011].

BRAC (2009). Pathways Out of Extreme Poverty: Findings from round I Survey of CFPR phase II. March, Research and Evaluation Division, BRAC: Bangladesh.

CGAP, USA (2007). Defining a New Path to "Graduation" Out of Extreme Poverty, April. Available: http://www.cgap.org/p/site/c/template.rc/1.26.15968/ [20/04/2011].

Chen, G. et al. (2010). 'Growth and Vulnerabilities in Microfinance', *Focus Note No. 61*, February, CGAP: Washington.

Chen, S. and Ravallion, M. (2004). 'How have the world's poorest fared since the early 1980s?', *World Bank Policy Research Working Paper 3341*, June.

Chowdhury, A. (2009). 'Microfinance As A Poverty Reduction Tool – A Critical Assessment', *DESA Working Paper No. 89*, December, United Nations: New York.

Consultative Group to Assist the Poor/The World Bank (2009). 'Measuring Access to Financial Services Around the World', Financial Access 2009, CGAP: Washington.

Consultative Group to Assist the Poor/The World Bank (2010). 'The State of Financial Inclusion Through The Crisis, Financial Access 2010, CGAP: Washington.

Fiszbein, A. et al. (2009). Conditional Cash Transfers – Reducing Present and Future Poverty. The International Bank for Reconstruction and Development/The World Bank :Washington.

Focus Note NO. 21 (2001). *Linking Microfinance And Safety Net Programmes To Include The Poorest: The Case of IGVGD in Bangladesh*, Washington: CGAP.

Gonzalez, A. (2008). 'International Comparisons of loan Balances per Borrower', *MicroBanking Bulletin*, Issue 16, Spring, pp. 23-27.

Hartarska, V. M., and Holtmann, M. (2006). 'An Overview of Recent Developments in the Microfinance Literature', *Agricultural Finance Review*, Fall. CGAP: Washington.

Helms, B. S. (1997). ‘Anatomy of a Microfinance Deal’, *Focus Note No. 9*, August, CGAP: Washington.

Helms, B. (2006). ‘Access For All – Building Inclusive Financial Systems’, CGAP: Washington.

Henry, C. et al. (2003). ‘Microfinance Poverty Assessment Tool’, Technical Tools Series No. 5, September, CGAP: Washington.

Honohan, P. (2005). ‘Measuring Microfinance Access: Building on Existing Cross-Country Data’, *World Bank Policy Research Working Paper 3606*, May, Prepared for the UNDP, World Bank and IMF Workshop Data on the Access of Poor and Low Income People to Financial Services Washington, DC, October 26, 2004.

Hulme, D. and Moore, K. (2007). ‘Assisting the Poorest in Bangladesh: Learning from Brac’s ‘Targeting the Ultra Poor’ Programme’, *BWPI Working Paper 1*, July, University of Manchester: Manchester.

Islam, N. (2009). ‘Can Microfinance Reduce Economic Insecurity and Poverty? By How Much and How?’, *DESA Working Paper No. 82*, October. United Nations: New York.

Jain, A. and Norton, C. (2009). ‘Microfinance: Where do we stand today?’, *MicroBanking Bulletin*, Issue 18, Spring, pp. 9-12.

Johnson, S. and Rogaly, B. (1997). 'Microfinance and Poverty Reduction', Oxfam: UK and Ireland, and ACTIONAID.

Kai, H. and Hamori, S. Globalization, Financial Depth, and Inequality in Sub-Saharan Africa. Available: http://www.econ.kobe-u.ac.jp/doc/seminar/DP/files/0912.pdf, [2/05/2011].

Lafourcade, A. L. et al. (2005). 'Overview of the Outreach and Financial Performance of Microfinance Institutions in Africa', April.

Ledgerwood, J. and White, V. (2006). 'Transforming Microfinance Institutions – Providing Full Financial Services To The Poor', World Bank : Washington.

Leo, B. and Barmeier, J. (2010). 'Who are the MDG Trailblazers? A New MDG Progress Index', *Working Paper 222*, August, Center for Global Development: Washington.

Littlefield, R. et al. (2003). 'Is Microfinance and effective strategy to reach the Millennium Development Goals?', *Focus Note No. 24*, January, CGAP: Washington.

Maes, J. and Foose, L. (2006). 'Microfinance and Non-Financial Services For Very Poor People: Digging Deeper to Find Keys to Success', *Poverty Outreach Working Group*, October. The SEEP Network: Washington.

MIX (2009). The MicroBanking Bulletin No. 19. Marten Leijon, Available: http://www.themix.org/sites/default/files/MBB%2019%20-%20December%202009_0.pdf [27/04/2011]

Office of Communications/Partnerships Bureau United Nations Development Programme (2010). 'Delivering on Commitments – UNDP in Action 2009/2010', United Nations: New York.

Opportunity International (2006). 'Microfinance: A Powerful Tool for Development', In: A Presentation to the European Commission, October 10th, 2006.

Pearce, D. 'Financial Inclusion in the Middle East and North Africa: Analysis and Roadmap Recommendations', *Financial Flagship*, Available: http://siteresources.worldbank.org/INTMNAREGTOPPOVRED/Resources/MENAFlagshipInclusion12_20_10.pdf [02/05/2011].

Rabbani, M. et al. (2006). 'Impact Assessment of CFPR/TUP :A Descriptive Analysis Based on 2002-2005 Panel Data', *CFPR/TUP Working Paper No. 12*, July. BRAC Research and Evaluation Division: Bangladesh, and Aga Khan Foundation Canada: Canada.

Reed, L. R. (2011). State of the Microcredit Summit Campaign Report, Washington: Microcredit Summit Campaign.

Robinson, M. S. (2001). 'The Microfinance Revolution – Sustainable Finance for the Poor', World Bank: Washington.

Rousseau, P. L. and Wachtel, P. (2005). ‘Economic growth and financial depth: is the relationship extinct already?’, Paper prepared for the UNU/WIDER conference on Financial Sector for Growth and Poverty Reduction, Helsinki, September.

Shams, R. et al. (2010). ‘Integration of the Ultra Poor into Mainstream Development: How Effective is CFPR?’, *CFPR Working Paper No. 21*, December. BRAC Research and Evaluation Division: Bangladesh.

The International Bank for Reconstruction and Development/The World Bank (2009). ‘Banking The Poor – Measuring Banking Access in 54 Economies’, Washington: The World Bank.

The International Bank for Reconstruction and Development/The World Bank (2010). World Development Indicators, Washington: The World Bank.

The International Bank for Reconstruction and Development/The World Bank (2011). World Development Indicators, Washington: The World Bank.

APPENDIX A

THE GRADUATION MODEL

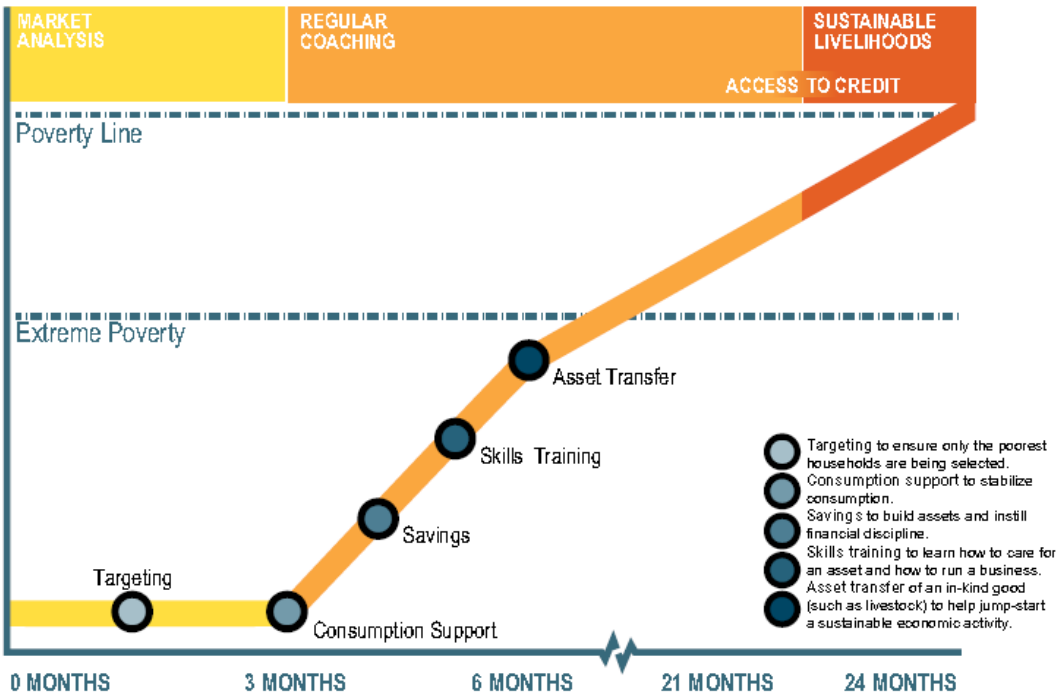


Figure A1: The Five Building Blocks

(Source: Hashemi and de Montesquiou, 2011:3)

APPENDIX B

INDICATOR DEFINITIONS AND DATA TABLES

Number of MFIs	Sample size of group
Number of active borrowers	Number of borrowers with loans outstanding, adjusted for standardised write-offs
Number of loans outstanding	Number of loans outstanding, adjusted for standardised write-offs
Average loan balance per borrower	Adjusted gross loan portfolio/Adjusted number of active borrowers
Gross loan portfolio (US$)	Gross loan portfolio, adjusted for standardised write-offs
Number of voluntary savers	Number of voluntary savers with voluntary savings demand deposit and time deposit accounts
Number of depositors	Number of depositors with any type of deposit account
Voluntary savings	Total value of voluntary savings demand deposit and time deposit accounts
Deposits	Total value of all deposit accounts
Average deposit balance per depositor	Deposits/Number of depositors
Percent of women borrowers	Number of active women borrowers/Adjusted number of active borrowers
GNI per capita (US$)	Total income generated by a country's residents irrespective of location/Total number of residents

Source: MicroBanking Bulletin spreadsheets for years 1999 till 2009

Table B1: Indicator Definitions

Poverty Data Tables

	Region				
Year	Asia	ECA	LAC	MENA	SSA
1999	79.60%	5.10%	10.90%	4.20%	58.40%
2000	..	..	..	..	..
2001	..	..	..	..	..
2002	71.40%	4.60%	10.70%	3.60%	55.00%
2003	..	..	..	..	..
2004	..	..	..	..	..
2005	57.10%	3.70%	8.20%	3.60%	50.90%
2006	..	..	..	..	..
2007	..	..	..	..	..
2008	..	..	..	..	..
2009	..	..	..	..	..
	Source: PovcalNet: the on-line tool for poverty measurement developed by the Development Research Group of the World Bank				

Table B2: Poverty headcount ratio at US$1.25 a day (PPP) (% of population)

	Region				
Year	Asia	ECA	LAC	MENA	SSA
1999	22.41%	1.64%	3.76%	0.84%	25.82%
2000	..	..	..	..	..
2001	..	..	..	..	..
2002	19.46%	1.25%	3.61%	0.69%	23.39%
2003	..	..	..	..	..
2004	..	..	..	..	..
2005	14.33%	1.05%	2.72%	0.77%	20.74%
2006	..	..	..	..	..
2007	..	..	..	..	..
2008	..	..	..	..	..
2009	..	..	..	..	..
	Source: PovcalNet: the on-line tool for poverty measurement developed by the Development Research Group of the World Bank				

Table B3: Poverty Gap at US$1.25 a day (PPP) (% of poverty line)

Region

Year	Asia	ECA	LAC	MENA	SSA
1999	1224	24	55	12	383
2002	1123	22	57	10	390
2005	912	17	45	11	388

Source: PovcalNet: the on-line tool for poverty measurement developed by the Development Research Group of the World Bank

Table B4: Number of Poor People (millions)

	Region					
	Asia		ECA	LAC	MENA	SSA
Year	EAP	South Asia				
1999	635	589	24	55	12	383
2002	507	616	22	57	10	390
2005	316	596	17	45	11	388

Source: PovcalNet: the on-line tool for poverty measurement developed by the Development Research Group of the World Bank

Table B5: Number of Poor People; Asia sub-regions (millions)

Microfinance Data Tables

	Year										
Region	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Asia	8	10	10	10	57	68	99	194	244	283	278
ECA	10	10	10	10	49	60	103	126	158	217	189
LAC	23	23	23	23	52	97	150	228	283	333	347
MENA	5	5	5	5	16	20	23	37	46	56	55
SSA	11	12	12	12	57	57	71	119	159	195	150
	Source: MicroBanking Bulletin spreadsheets for years 1999 till 2009										

Table B6: Number of MFIs

	Year										
Region	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Asia	4,211	4,419	4,621	4,856	5,204	5,590	6,052	6,598	7,258	7,707	8,186
ECA	6,176	6,651	6,861	7,232	7,728	8,367	8,932	9,624	10,323	10,773	10,048
LAC	7,929	8,136	8,076	7,993	8,045	8,415	8,704	9,076	9,489	9,781	9,496
MENA	5,051	5,127	5,168	5,264	5,316	5,556	5,697	5,900	6,144	6,298	6,379
SSA	1,514	1,532	1,547	1,560	1,594	1,657	1,715	1,784	1,859	1,914	1,899
	Source: MicroBanking Bulletin spreadsheets for years 1999 till 2009										

Table B7: GDP per capita, PPP (constant 2005 international US $)

	Year										
Region	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Asia	39,596	51,529	75,351	87,232	8,167	11,512	18,487	16,168	18,117	17,239	25,769
ECA	2,398	3,655	5,414	7,626	5,061	2,884	4,798	4,690	4,465	2,156	2,386
LAC	16,266	22,663	17,595	20,201	17,509	15,400	13,557	10,661	11,682	9,768	9,001
MENA	5,129	4,352	5,780	7,698	8,931	9,267	12,935	13,796	12,590	11,785	13,161
SSA	9,473	14,330	15,991	19,881	9,169	15,542	16,922	9,976	9,800	9,143	11,322
	Source: MicroBanking Bulletin spreadsheets for years 1999 till 2009										

Table B8: Number of Active Borrowers

	Year										
Region	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Asia	-	50	2,124	9,804	4,597	4,417	1,155	691	568	6,700	12,481
ECA	-	-	-	-	-	-	-	-	-	-	-
LAC	-	-	-	-	-	-	11,815	5,128	-	950	-
MENA	-	-	-	-	-	-	-	-	-	-	-
SSA	-	-	-	1,033	3,733	4,916	7,334	5,871	4,720	18,336	31,263
	Source: MicroBanking Bulletin spreadsheets for years 1999 till 2009										

Table B9: Number of Voluntary Savers/Depositors

Region	Year										
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
	Number of Loans Outstanding										
Asia	48,738	65,094	74,196	84,781	8,097	10,909	19,299	16,295	18,206	16,483	26,238
ECA	2,659	3,771	5,501	7,626	5,061	3,030	4,991	4,717	4,533	2,250	2,479
LAC	14,881	16,101	27,248	31,246	14,519	15,409	13,856	10,818	11,730	9,844	9,552
MENA	12,537	4,352	6,504	8,656	9,388	9,267	12,935	13,796	12,590	12,589	13,161
SSA	8,693	11,465	18,312	22,300	8,628	15,125	15,423	10,039	10,059	9,620	11,634
	Number of Active Borrowers										
Asia	39,596	51,529	75,351	87,232	8,167	11,512	18,487	16,168	18,117	17,239	25,769
ECA	2,398	3,655	5,414	7,626	5,061	2,884	4,798	4,690	4,465	2,156	2,386
LAC	16,266	22,663	17,595	20,201	17,509	15,400	13,557	10,661	11,682	9,768	9,001
MENA	5,129	4,352	5,780	7,698	8,931	9,267	12,935	13,796	12,590	11,785	13,161
SSA	9,473	14,330	15,991	19,881	9,169	15,542	16,922	9,976	9,800	9,143	11,322
	GNI per Capita										
Asia	405	380	380	360	810	1,140	620	730	1,013	950	1,033
ECA	1,200	1,280	1,270	1,270	1,540	2,040	1,304	2,570	3,621	3,780	4,236
LAC	2,090	2,020	1,890	1,830	1,810	2,180	2,180	2,620	2,920	3,340	4,377
MENA	1,620	1,720	1,530	1,470	1,355	1,520	1,520	1,380	1,589	1,500	2,450
SSA	320	320	310	320	290	330	330	350	540	560	639
	Average Outstanding Balance=(Number of Loans Outstanding/Number of Active Borrowers)										
Asia	1.2309	1.2632	0.9847	0.9719	0.9914	0.9476	1.0439	1.0079	1.0049	0.9561	1.0182
ECA	1.1088	1.0317	1.0161	1.0000	1.0000	1.0506	1.0402	1.0058	1.0152	1.0436	1.0390
LAC	0.9149	0.7105	1.5486	1.5468	0.8292	1.0006	1.0221	1.0147	1.0041	1.0078	1.0612
MENA	2.4443	1.0000	1.1253	1.1244	1.0512	1.0000	1.0000	1.0000	1.0000	1.0682	1.0000
SSA	0.9177	0.8001	1.1451	1.1217	0.9410	0.9732	0.9114	1.0063	1.0264	1.0522	1.0276
	As a percentage of GNI per capita										
Asia	30.39%	33.24%	25.91%	27.00%	12.24%	8.31%	16.84%	13.81%	9.92%	10.06%	9.86%
ECA	9.24%	8.06%	8.00%	7.87%	6.49%	5.15%	7.98%	3.91%	2.80%	2.76%	2.45%
LAC	4.38%	3.52%	8.19%	8.45%	4.58%	4.59%	4.69%	3.87%	3.44%	3.02%	2.42%
MENA	15.09%	5.81%	7.35%	7.65%	7.76%	6.58%	6.58%	7.25%	6.29%	7.12%	4.08%
SSA	28.68%	25.00%	36.94%	35.05%	32.45%	29.49%	27.62%	28.75%	19.01%	18.79%	16.08%

Source: MicroBanking Bulletin spreadsheets for years 1999 till 2009

Table B10: Client Poverty Level

	Year										
Region	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Asia	2,928,192	3,497,104	4,789,356	6,591,165	1,797,775	1,880,771	3,961,878	3,392,720	3,592,235	3,677,827	5,193,737
ECA	1,577,288	2,268,528	2,845,186	4,580,869	1,847,405	2,780,486	4,895,848	5,620,630	6,209,887	3,949,277	3,819,853
LAC	6,207,746	10,874,161	9,880,384	11,901,433	7,957,422	10,415,392	6,936,729	5,692,250	6,638,122	6,715,949	6,493,088
MENA	1,317,069	1,951,235	3,020,180	3,257,917	3,467,444	3,898,124	5,586,641	4,579,609	6,271,237	5,153,360	6,229,943
SSA	1,079,556	2,964,418	3,890,730	5,769,383	1,333,949	3,855,794	4,846,189	2,121,470	2,648,924	2,708,387	4,757,102
	Source: MicroBanking Bulletin spreadsheets for years 1999 till 2009										

Table B11: Gross Loan Portfolio

	Year											
Region	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Average
Asia	92.90%	92.00%	98.40%	99.20%	70.00%	92.00%	99.00%	98.00%	97.70%	93.80%	94.40%	93.40%
ECA	66.40%	62.20%	61.30%	55.30%	66.10%	60.80%	46.80%	46.50%	45.80%	43.00%	40.30%	54.05%
LAC	58.30%	58.70%	64.00%	60.60%	42.50%	60.60%	62.60%	62.60%	63.00%	59.60%	61.90%	59.49%
MENA	100.00%	96.00%	61.00%	60.00%	84.00%	84.50%	66.00%	68.90%	69.60%	65.40%	67.60%	74.82%
SSA	88.50%	80.00%	80.00%	79.50%	65.30%	60.00%	57.40%	63.50%	60.00%	57.20%	59.80%	68.29%
	Source: MicroBanking Bulletin spreadsheets for years 1999 till 2009											

Table B12: Percentage of Female Borrowers

APPENDIX C

AN IGVGD CYCLE

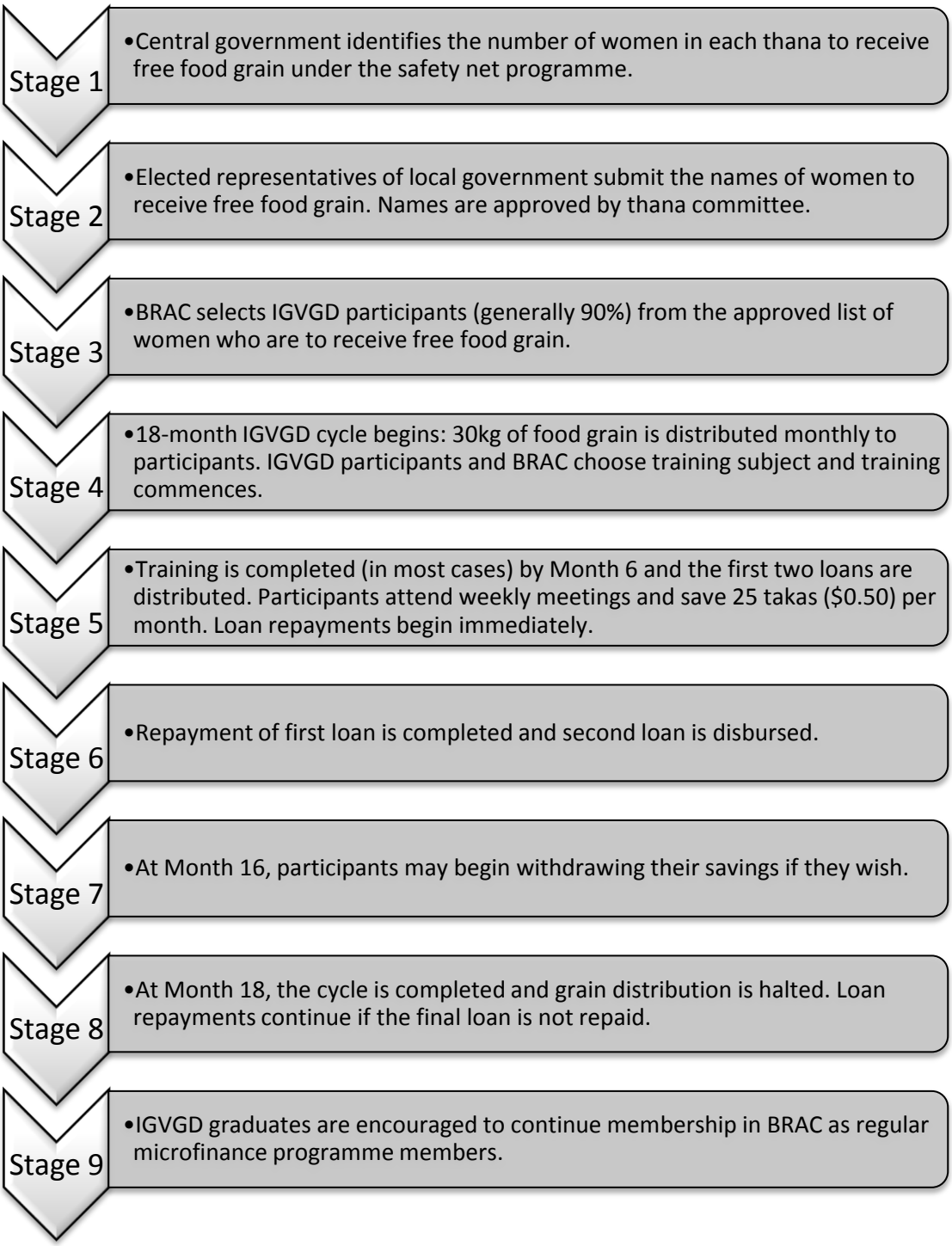


Figure C1: The IGVGD Cycle

Source: Hashemi ,Tudor and Hossain, 2001:4

Notes to Chart

Stage 1

A thana is the lowest administrative unit. The allocation is based on geographical targeting of food insecure areas. Thana-level committees of government officials, elected representatives and voluntary organisations determine the further distribution of the numbers of women for each local government unit under each thana (there are generally eight to ten local government units or unions under each thana).

Stage 5

25 takas were equivalent to US$0.50 as at 2001. This value has now decreased to US$0.342724 as at 21 April 2011.[5]

[5] Source: http://www.xe.com/ucc/convert/?Amount=25&From=BDT&To=USD