

# FINDINGS FROM SOCIAL RATINGS

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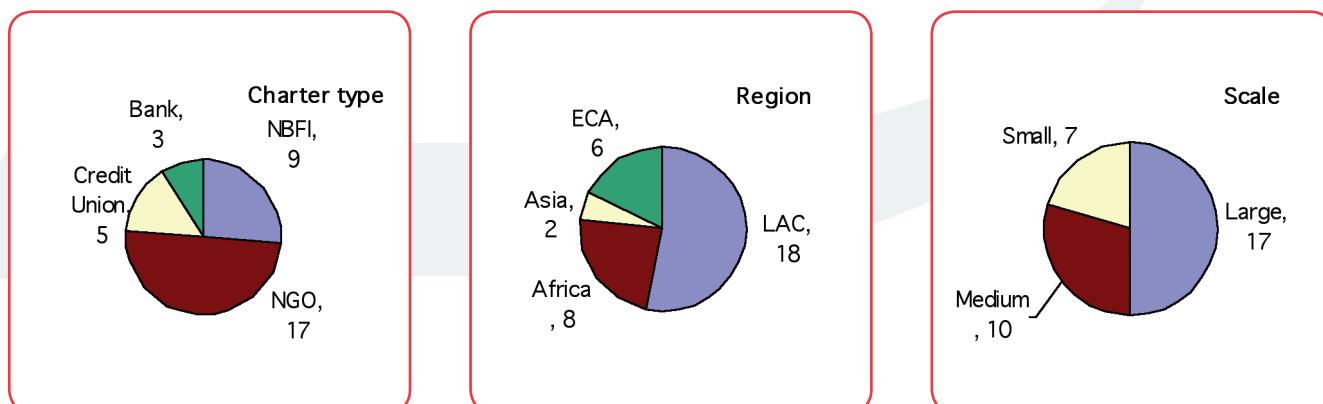
## Poverty Outreach and Financial Exclusion

### INTRODUCTION

In the last decade considerable efforts have been devoted by the microfinance industry to the improvement of its financial performance. Yet, encouraging financial self-sufficiency and professional management of MFIs should not by any means discourage the original outreach objective of the microfinance mission, which is to cater financial services to those segments of the population living in poverty conditions and/or without access to the formal financial system. Moreover, concerns arising around the risk of mission drift and the actual outreach of microfinance could expose the whole sector to a reputational risk.

MicroFinanza Rating is willing to share its experience cumulated through social ratings in order to try to provide some concrete answers on the issue of depth of microfinance outreach. The analysis benefits from the added value of the comprehensive social rating methodology, which allows a direct measurement of poverty and financial exclusion thanks to surveys conducted on clients. Results are referred to a sample of recent clients of MFIs.

Results are based on data coming from 34 MFIs in 21 Countries. Due to the sample size, which is too small to be representative of the microfinance sector, the findings should be considered a contribution to the debate rather than general results for the sector. Observed MFIs show varied profiles in terms of region, scale and legal form, as it can be observed from the graphs 1, 2 and 3.



Graph 1, 2, 3: MFIs by Charter type, Region and Scale.

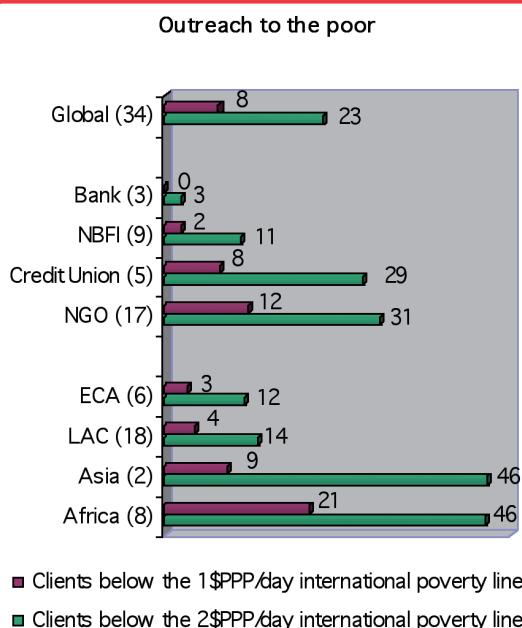
<sup>1</sup> Recent clients are defined as those who had access to the MFI services for the first time in the previous 12 months.

<sup>2</sup> Small (GLP in USD, LAC < 4,000,000; Others<2,000,000); Medium (GLP in USD, LAC $\geq$  4,000,000 and  $\leq$  15,000,000; Others  $\geq$  2,000,000 and  $\leq$  8,000,000); Large (GLP in USD, LAC > 15,000,000; Others>8,000,000)

## FINDINGS

As shown in graph 4, the average incidence of poverty among MFI clients at global level is **23%** for the 2\$PPP/line and **8%** for the 1\$PPP/day line.

Considering the messages sent by the sector in terms of poverty outreach, a gap is often found between the actual **results** and the activities **claimed**. The sector should be aware that its poverty outreach **may not** always **meet** the **expectations generated** about microfinance as a tool to reach the poor.



Graph 4: Outreach to the poor.

When analyzing data by charter type, findings suggest that **regulated MFIs** have a **lower** percentage of clients below the 2\$/PPP line, while the share of poor clients is significantly higher among Credit Unions and NGOs. However, it is worth considering the multiplication effect on the **absolute number** of **poor** clients produced by the larger size of regulated MFIs.

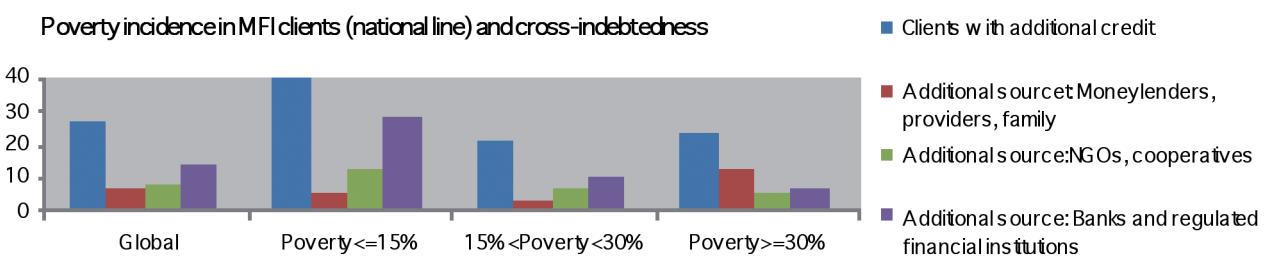
The **scale** of MFIs and poverty outreach **do not** seem to be linked by a **linear relation**, with medium size MFIs presenting the largest share of poor clients (35%), followed by small MFIs (30%) and large MFIs (13%).

**African** MFIs are the ones with the higher poverty outreach (46%) in absolute terms, together with Asian MFIs (46%). However, the higher share of clients below the **1\$PPP/day** line among African clients (21%) as compared to Asian ones (9%) confirms the deeper outreach of African MFIs and is partly due to the more severe poverty context. On the other hand, also due to the **lower incidence of poverty** at regional level, MFIs in ECA (10%) and Latin America (14%) show a significantly lower absolute depth of outreach.

The relatively limited outreach to the poor is confirmed by comparing the poverty rate found among the clients and the national poverty rate.

Generally, results show that the **poverty incidence among MFIs' clients** is **lower** than the **national poverty rate**<sup>3</sup>. The poverty rate among MFI clients is higher than the national average in only 22% of the cases, with an average gap of 14%. However, the negative gap can be partly explained by the difficult context conditions in which MFI operate, with Countries showing severe poverty conditions, where the lowest segment of the pyramid, not eligible for microfinance, is larger if compared to wealthier Countries.

Data also shows that the average **cross-indebtedness** among MFI clients is generally **lower** where the **poverty** conditions of clients are **more severe**. In other words, the poorer is the clientele, the less it is cross-indebted. Not surprisingly, more vulnerable clients tend to resort to less formal providers.



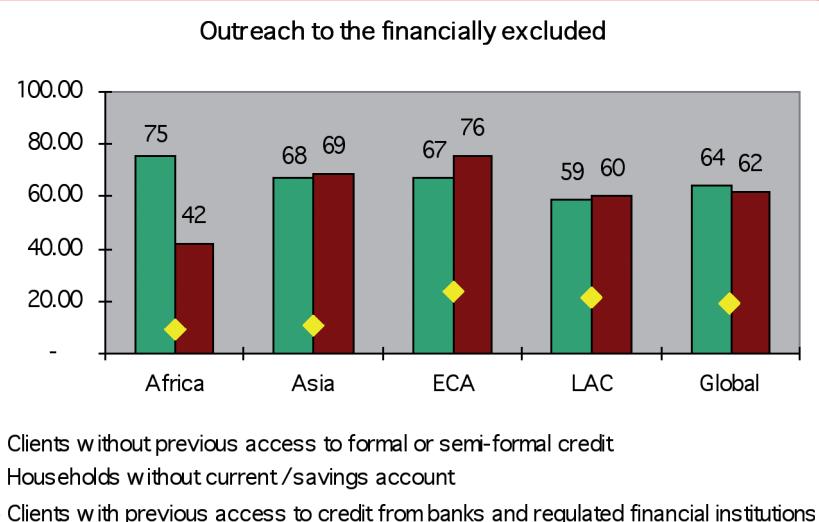
Graph 4: Outreach to the poor.

<sup>3</sup> The comparability of data depends on the availability of up-dated national data. The relevance of the comparison is higher for Countries with a more even distribution of income.

Globally, **64%** of the clients **did not have access to loans** from **other financial institutions<sup>4</sup>** before the MFI.

On the other hand, the share of clients with **previous access to formal sources of credit** (banks and NBFIs) is **19%** on average, showing the existence of a better-off segment of clients served.

The results in terms of outreaching to the financially excluded seem **quite positive in absolute terms**. Yet, the performance is **not impressive** if compared to the sector **expectations** about financially inclusion.



*Graph 6: Outreach to the financially excluded.*

**Africa performs far better** than the other regions, with 75% of the clients without previous access to formal and semi-formal finance, while **Latin America** presents the lowest rate (59%), partly due to the higher maturity of the microfinance markets.

With the noteworthy exception of Africa, the **access to formal saving services** is **more restricted** than the access to credit, partly reflecting the saving culture and the availability of saving services.

## CONCLUSIONS

The adequacy of the microfinance performance in terms of outreach to the poor and to the financially excluded is very much related to the **absolute performance** and the **expectations** generated through internal and external communication, also depending on the specific social objectives of the MFIs.

The findings available so far indicate that microfinance **does not seem to suite the needs of the poorest segment of the pyramid**, rather the economically active poor or the wealthier among the poor.

On the one hand, this should not be surprising: microfinance is not generally intended to be a tool for the lowest bottom of the pyramid, whose issues can be better addressed through other poverty-reducing interventions. On the other hand, the relatively low performance of some poverty oriented MFIs leaves **room for improvement** in the **alignment** of the target reached with the **mission** and external communication. An unmet demand for credit still exists: turning to populations currently excluded from access to credit could reduce the issue of over-indebtedness (e.g.: rural versus urban population)

The development of more accurate tools to measure the outreach to the poor (e.g.: PPI) and the excluded may sometimes provide the sector with results which are **not in line with the expectations**.

The increasing availability of relevant information on the client socio and economic profile, beyond the average loan size, should be added to the sectors' information flows so to provide solid grounds to the decision-making process of MFIs, investors and donors.

Poverty outreach measurement results should be taken as an opportunity for the sector to consider **rethinking the objectives** or **adjusting the strategy** in order to achieve a **better alignment of the results to the mission** and provide the **external community with a transparent message**.

<sup>4</sup> It includes loans from regulated and non-regulated MFIs as well as from commercial banks.

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