MicroNOTE

Pakistan Microfinance Network

POVERTY PROFILE OF MICROFINANCE CLIENTS IN PAKISTAN

Evidence from four MFPs using the Poverty Scorecard

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INTRODUCTION

In Pakistan, microfinance is often viewed by policy makers and the general public as a tool to alleviate poverty. It is thus also believed, or expected, that the target market for microfinance practitioners (MFPs) is the people living below the poverty line. However, over recent years as the microfinance paradigm has matured globally, there is an increasing recognition and acceptance of microfinance as an instrument for increasing access to financial services rather than direct poverty reduction. It is by providing access to services such as credit, savings, insurance and secure payment transfer facilities that microfinance helps low income households better manage risks, smooth consumption, expand livelihood opportunities and thus improve their quality of life. There is also an understanding that microfinance is not meant for the 'poorest of the poor' but rather for population segments that live close to the poverty line (above and below).

Pakistan Microfinance Network (PMN) has undertaken a quick study to gain greater understanding of the poverty and microfinance nexus in Pakistan. This paper presents the data collected by four PMN members (i.e. FMFB, Kashf Foundation, NRSP - UPAP and SAFWCO) to give a snapshot of microfinance clients lie in terms of the national poverty line.

We do however recommend keeping in view the feedback on the PPI by the organizations reported in Section V when interpreting the data.

DATA AND METHODOLOGY

All four MFPs used the poverty scorecard (also called the Progress out of Poverty Index – PPI) for Pakistan (see Annex A for details on Pakistan's PPI) to see where their clients lie in terms of the national poverty line.

Box 1: The Poverty Scorecard/ PPI

The Progress out of Poverty Index™ (PPI™) is a simple and accurate tool that measures poverty levels of groups and individuals. The PPI is based on an approach developed by Mark Schreiner of Microfinance Risk Management, L.L.C.

It is a user-friendly tool that estimates the likelihood (likelihood is the probability that a client will fall above or below a poverty line) of clients being below various poverty lines such as the national poverty line, the poverty line that defines the poorest half below the national poverty line or the $1/Day/PPP and $2/Day/PPP international poverty lines. While the PPI is built on a universal methodology, each PPI is country specific and based on that country's best nationally representative income and expenditure household survey. For each country, the process starts with a nationally representative income and/or expenditure survey. Data from the survey are analyzed to rank indicators that strongly correlate with poverty. These indicators are then tested and vetted with local MFIs and their representatives.

CGAP, Grameen Foundation and the Ford Foundation endorse the use of rigorous poverty assessment tools and believe the Progress out of Poverty Index™ (PPI) is a highly effective tool for those institutions interested in measuring the likelihood of client poverty.

For greater understanding of the PPI, please visit Grameen Foundation's website dedicated to this tool: www.progressoutofpoverty.org

Each organization tested and implemented the scorecard independently and thus chose their samples based on their respective institutional need and capacity. This paper reports their findings as shared by them voluntarily. To maintain objectivity in interpreting the findings, please read through the sampling details for each of the four MFPs as provided in Annex B.

HEADLINE FINDINGS & ANALYSIS

The PPI for Pakistan uses the official national poverty line to define the poor[1] and uses data from Pakistan Integrated Household Survey (PIHS). In order to provide perspective, Table 1 below provides information on the overall poverty profile of Pakistan. To make the analysis consistent, this profile is presented using the same categories as used by the MFPs:

1. bottom half below poverty line which includes people below 50 percent of the national poverty line

2. top half below poverty line which includes people above 50 percent and up to 100 percent of the national poverty line

3. total below the poverty line which is the sum of the above two categories and includes all people below the national poverty line

4. total above the poverty line includes all people above the national poverty line.

Table 1: Country Information

Pakistan	
Bottom half below poverty line (%)	0.5
Top half below poverty line (%)	21.8
Total below poverty line (%)	22.3
Total above poverty line (%)	77.7

Note: National poverty line (2005-06) = Rs. 944.47
Source: Pakistan Economic Survey 2007-08, Finance Division, Government of Pakistan.

Table 2 below gives an overview of the poverty levels amongst clients of the four reporting MFPs. Although a high proportion of clients lie above the poverty line, distribution of clients on the poverty scale compared to the national distribution of population shows that generally MFPs are reaching proportionately more poor, especially the bottom poor. Outreach to the top half of the poor however is surprising as it would be expected that given the microfinance target market, proportion of this segment would be higher than the bottom poor. International evidence would also lead us to believe the same. Table 3 shows estimates on poverty levels in microfinance clients across different countries and regions and shows that most of them tend to be the vulnerable rather than the destitute or the very poor.

Table 2: Overall Levels of Poverty amongst Microfinance Clients

	FMFB	Kashf Foundation	NRSP - UPAP	SAFWCO
Number of respondents	7036	454	1353	192
Bottom half below poverty line (%)	7.8	6.4	13.0	17.9
Top half below poverty line (%)	9.0	7.3	13.2	15.1
Total below poverty line (%)	16.8	13.7	26.2	33.0
Total above poverty line (%)	83.2	86.3	73.8	67.0

Table 3: Poverty levels in MF Clients across the World

	Philippines (CARD)	Uganda (UWFT)	Bolivia (4 Programs)	Bangladesh (BRAC)
Destitute	Negligible	Negligible	Negligible	Negligible
Extreme Poor	Some	Few	Almost None	~40%
Moderate Poor	Many	Many	Many	~35%
Vulnerable Non-Poor	Some	Many	Many	~25%

Note: CARD = Centre for Agriculture and Rural Development; UWFT = Uganda Women's Finance Trust; BRAC = Bangladesh Rural Advancement Committee.
Source: Cohen, M. & Sebstad, J. 1999. "Microfinance and Risk Management: A Client Perspective". CGAP.

SLICING THE DATA BY GENDER, GEOGRAPHY AND LOAN CYCLE

The tables and graphs below provide additional break down in the data to look at poverty levels through the gender, rural/urban and loan cycle lens.

i) Gender: Only two of the participating MFPs (FMFB & SAFWCO) conducted the survey using male and female clients but only one i.e. SAFWCO had gender segregated data available. Their data shows that more female clients than male tend to lie below the poverty line.

Table 4: Gender-wise Poverty Profile of Microfinance Clients

	FMFB		Kashf Foundation	NRSP -UPAP	SAFWCO	
	Male	Female	All Female	All Female	Male	Female
Number of respondents	n/a	n/a	454	1,353	100	92
Bottom half below poverty line (%)	n/a	n/a	6.9	13.0	10.9	24.6
Top half below poverty line (%)	n/a	n/a	7.3	13.2	10.6	20.0
Total below poverty line (%)	n/a	n/a	13.7	26.2	21.5	44.6
Total above the poverty line (%)	n/a	n/a	86.3	73.8	78.5	55.4

ii) Rural/Urban: splitting the data by rural/urban categories does not really provide useful insights. This could be due to the inconsistency in the definitions of these categories: since no useful demarcation between them exists at the national level, it is difficult to classify areas of operation into rural/urban. Nevertheless, generally more rural clients are below the poverty line compared to their urban counterparts. This again corresponds closely with national poverty statistics which show rural poverty levels as much higher than urban poverty levels.

Table 5: Rural/Urban Poverty Profile of Microfinance Clients

	FMFB[2]		Kashf Foundation[3]		NRSP - UPAP	SAFWCO	
	Rural	Urban	Rural	Urban	All Urban	Rural	Urban
Number of respondents	2,516	4,520	37	417	1,353	100	92
Bottom half below poverty line (%)	11.3	5.9	10.8	6.0	13.0	15.8	20.2
Top half below poverty line (%)	11.5	7.7	11.7	7.0	13.2	16.1	14.0
Total below poverty line (%)	22.8	13.6	22.5	12.7	26.2	31.9	34.2
Total above the poverty line (%)	77.2	86.4	77.5	87.3	73.8	68.1	65.8

iii) By Loan Cycle: Looking at poverty levels across clients in different loan cycles could be a proxy for impact – the longer a person has been with the program, the better her quality of life should be.

Table 7 provides information on the sample distribution in terms of loan cycle. Figure 1 below illustrates institution-wise poverty profile of clients in different loan cycles. Overall, proportion of clients below the poverty line declines in higher loan cycles but surprisingly it rises in the highest cycles for Kashf and SAFWCO. It is not clear what could be the reason for this – is it a data discrepancy resulting from a relatively small sample in case of SAFWCO (only two clients in the fifth cycle) or is there a reversal of positive impact?

Table 7: Number of Respondents by Loan Cycle

Loan Cycle	FMFB	Kashf Foundation	NRSP - UPAP	SAFWCO
1st	7,036[4]	223	351	71
2nd	0	89	399	4
3rd	0	56	229	83
4th	0	26	169	32
5th	0	20	113	2
6th & above	0	40	92	0

2. FMFB uses four categories: Urban Town, Urban Group, Rural Town and Rural Group. For the purposes of this paper both rural groups and both urban groups were clubbed.
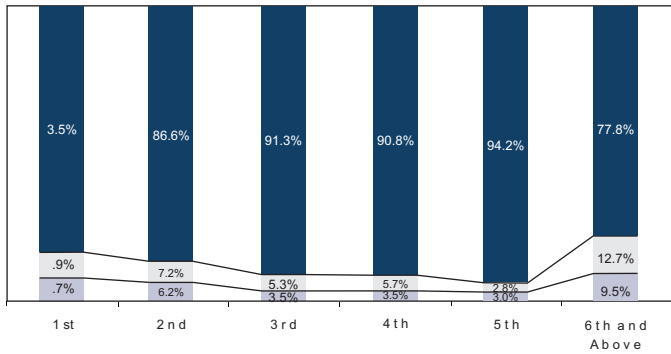
3. Kashf Foundation uses a third category peri-urban for classification of clients. For the purposes of this paper, clients classified as peri-urban have been clubbed with the urban clients.

4. FMFB piloted the PPI with clients that availed a new product between Oct-Dec 2007. This could include clients that had previously availed some other FMFB service/product but that data was not collected. The assumption thus is that the entire sample comprises of new clients in their first loan cycle.

Figure 1: Institution-wise Poverty Profile of Microfinance Clients by Loan Cycle[5]
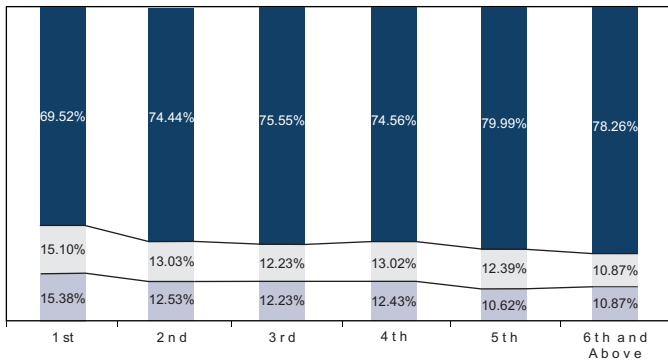
Kashf Foundation

☐ Bottom half below poverty line ☐ Top half below poverty line ■ Above the poverty line

3.5%	86.6%	91.3%	90.8%	94.2%	77.8%
.9%	7.2%	5.3%	5.7%	2.8%	12.7%
.7%	6.2%	3.5%	3.5%	3.0%	9.5%

1 st   2 n d   3 r d   4 t h   5 t h   6 t h a n d
A b o v e

Loan Cycle	Sample Size
1st	223
2nd	89
3rd	56
4th	26
5th	20
6th and above	40

NRSP - UPAP

☐ Bottom half below poverty line ☐ Top half below poverty line ■ Above the poverty line

69.52%	74.44%	75.55%	74.56%	79.99%	78.26%
15.10%	13.03%	12.23%	13.02%	12.39%	10.87%
15.38%	12.53%	12.23%	12.43%	10.62%	10.87%

1 st   2 n d   3 r d   4 t h   5 t h   6 t h a n d
A b o v e

Loan Cycle	Sample Size
1st	351
2nd	399
3rd	229
4th	169
5th	113
6th and above	92

SAFWCO

☐ Bottom half below poverty line ☐ Top half below poverty line ■ Above the poverty line

62.6%	65.3%	70.2%	70.2%	48.3%
16.9%	16.1%	14.3%	12.7%	22.3%
20.6%	18.7%	15.6%	17.1%	29.5%

1 st   2 n d   3 r d   4 t h   5 t h
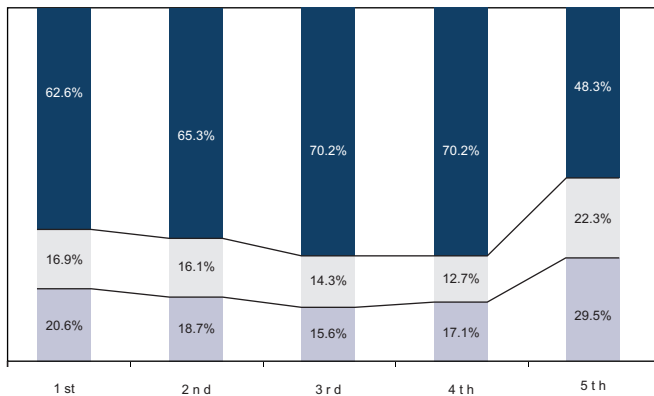
Loan Cycle	Sample Size
1st	71
2nd	4
3rd	83
4th	32
5th	2
6th and above	0

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5. Graph for FMFB has not been produced as all their clients were in first loan cycle.

EFFICACY OF THE POVERTY SCORECARD – FEEDBACK FROM 4 MFPS

The PPI is widely acknowledged as an easy to use, objective client assessment tool that can not only help target clients but also track progress over time. However, like any tool its success depends on the microfinance practitioners' experiences with it and their willingness to mainstream it in their operations. Feedback was thus sought from the participating institutions on what they thought of the PPI on various aspects such as user-friendliness, effectiveness in capturing poverty levels of clients and future plans.

It seems that across the various institutions, there is generally consensus on the pros and cons of the PPI. Aspects that received a positive response were:

Cost implications: All four MFPs which piloted the PPI unanimously agreed that the Index is a cost effective tool in monetary terms.

Time commitment from field officers: With the exception of Kashf, the other three MFPs also felt that the tool required relatively less commitment in terms of human resources and time. SAFWCO, for example, said there was very little incremental cost to its use in the field, both in terms of monetary cost and time commitment from loan officers.

User-friendliness & Training needs: NRSP and SAFWCO felt that it was easy to train their staff to use and implement the PPI. SAFWCO also felt that the training did not cause any additional monetary costs as they were very easily able to include it in their regular training calendar. FMFB, however, felt that while they were able to pilot the tool without any significant staff training, if the tool was to be utilized in the future, such training would become essential.

Integrating the PPI with MIS: MFPs felt this was not difficult task.

Client Response: None of the MFPs faced any significant resistance from participating clients in answering the PPI questions. FMFB did however notice that certain clients were prone to exaggerating their circumstances as they thought their answers would affect their current or prospective loan size. However, once this misconception was clarified, clients were much more truthful in responding to the survey questions.

The aspects that received a mixed response were:

Accuracy in predicting poverty: SAFWCO felt that not only was the tool itself relatively accurate, but its advantage lies in the ease with which the results can be validated and cross-checked. This is difficult in other tools which rely heavily on perceptions and judgment calls. The other three MFPs had reservations about the accuracy of the Index:

"The PPI is on the verge of being simplistic when it comes to assessing "poverty" for Kashf's clients. The PPI questions are not sensitive to pick up the differences in relative poverty in the case of Kashf. Perhaps, the metrics (questions) need to be carefully constructed in order to ensure variation in responses." – KASHF

"The questions used in the PPI scorecard were too simplistic, and could not be applied accurately to all the different regions of Pakistan. Moreover, the questions were found to be too limited in their scope and therefore were not sensitive to picking up differences in relative poverty." – FMFB

Relevance of the National Poverty Line: A major concern of the organizations is also the usefulness and relevance of the national poverty line. This official definition is considered to be too low by many in Pakistan and thus MFPs feel linking the likelihoods to more widely acceptable definitions such as the $1/day and $2/day would be more useful.

"FMFB recognizes that the poverty scorecard used in the survey (PPI) was very objective, user-friendly and a cost-effective tool in monetary terms. The content of the index, on the other hand, is something which relies too heavily on government data, and thus raises the risk of inaccuracy. The usefulness and relevance of the national poverty line is a major concern for FMFB" – FMFB

"It might be a good idea for Grameen Foundation-USA to develop a Pakistan specific poverty assessment tool in collaboration with one of two leading MFIs in Pakistan that can be both sensitive and reflective of the poverty levels operative among microfinance clients in Pakistan." – KASHF

Future Plans: Currently the World Bank office in Pakistan is working on a version of the poverty scorecard as well. This scorecard will probably be used by the government for targeting the poor in income transfer and safety net programmes. Some MFPs have indicated that they might substitute the WB scorecard for the PPI whereas others may prefer to develop an indigenous version specific to their institution. More precisely:

?RSP intends to use the tool regularly in order to tack client progress in urban areas and to target clients and track their progress in rural areas.

?AFWCO intends to extend the current scope of the tool beyond microfinance clients.

?MFB is planning to "develop an indigenous version of the poverty scorecard which would be more organically linked to poverty and more specific to the institution".

?Kashf feels e major or strength of the PPI lies in its ability to divide clients into different bands of [poverty] like top 50% and bottom 50%. As an MFI we intend to use this information after conducting the PPI analysis ever two quarters. For instance, if we find out that a majority of our clients are in the top 50% then this could two things for us: it would serve as an impact assessment tool telling us that compared to the last time PPI was done, the living standard of our clients has improved and after finding out this information we would be in a position to better tailor and design our products in order to serve the needs of our clients better.

The Progress out of Poverty Index (PPI) for Pakistan is an easy-to-use, objective client poverty assessment tool. The PPI uses 10 simple indicators that field workers can quickly collect and verify. Scores can be computed by hand on paper in real time. With 90-percent confidence, a group's estimated overall poverty rate is accurate within +/–1.1 percentage points.

Indicators in the PPI were derived from the 15,503 households surveyed in the 2001 Pakistan Integrated Household Survey (PIHS). About 400 potential poverty indicators were prepared, including:

  ? Household and housing characteristics (such as cooking fuel and type of floor)

  ? Individual characteristics (such as age and highest grade completed)

  ? Household durable goods (such as electric fans and telephones)

Each indicator's ability to predict poverty was tested. From the original 400 indicators, about 150 indicators were selected for further analysis. Many indicators were found to be similar in terms of their link with poverty. For example, most households who have a television also have electricity. If a PPI already includes "has a television", then "has electricity" is superfluous. Thus, many indicators strongly linked with poverty are not in the PPI because similar indicators are already included.

The PPI also aims to measure changes in poverty through time. Thus, some powerful indicators (such as education of the female head/spouse) that are unlikely to change as poverty changes were omitted in favor of slightly less-powerful indicators (such as the number of radios) that are more likely to change.

After all indicators had been tested, one was selected based on several factors. These included the improvement in accuracy, the likelihood of acceptance by users (determined by simplicity, cost of collection, and "face validity" in terms of experience, theory, and common sense), the ability of the indicator to change values as poverty status changes over time, variety vis-à-vis other indicators already in the PPI, and ease of observation/verification. The selected indicator was then added to the PPI, and the previous steps were repeated until 10 indicators were selected. Finally, the responses were weighted and scores were derived such that the lowest possible score is 0 (most likely poor) and the highest is 100.

A participant's score corresponds to a "poverty likelihood", that is, the probability of being below a poverty line – the national poverty line in case of Pakistan. For a group, the overall poverty rate is the average poverty likelihood of the individuals in the group. For a group over time, progress (or regress) is the change in its average poverty likelihood.

See below for the PPI for Pakistan and its associated poverty likelihood table.

THE PROGRESS OUT OF POVERTY INDEX FOR PAKISTAN

Indicator	Values					Points
	No, or 5 or more children	Yes, 3 or 4 children	Yes, 2 children	Yes, 1 chil	No children	
1. Do all children ages 6 to 17 attend school?	0	10	15	20	23	
2. What is the household's main source of drinking water?				Hand pump 0	Other 7	
3. Does the household own a refrigerator or a freezer?				No 0	Yes 15	
4. What type of toilet is used by the household?			All others 0	Flush connected to pit 7	Flush connected to public sewage 10	
5. Does the household own a cooking stove?				No 0	Yes 9	
6. How many household members have salaried employment?			None 0	One 3	Two or more 9	
7. Does the household own any type of land?				No 0	Yes 7	
8. Does the household own any buffaloes?			Rural, no 0	Urban 1	Rural, yes 4	
9. Does the household own a scooter or motorcycle?				No 0	Yes 11	
10. Does the household own a radio or cassette player?				No 0	Yes 5	
					Total:	

SCORES AND POVERTY LIKELIHOODS TABLE

Score	Poverty likelihood for people with score in range (%)	% of people <= score who are poor	% of people > score who are nonpoor
0-4	87.3	87.3	59.9
5-9	77.1	81.6	64.2
10-14	69.1	76.4	70.0
15-19	67.3	74.6	74.4
20-24	57.6	71.3	79.8
25-29	34.5	65.4	82.6
30-34	36.2	61.2	87.4
35-39	24.6	57.2	90.8
40-44	17.9	54.0	93.3
45-49	13.5	51.6	95.3
50-54	8.2	49.4	96.5
55-59	7.8	48.1	97.8
60-64	1.0	46.2	97.0
65-69	3.8	45.4	97.4
70-74	0.5	44.5	95.2
75-79	8.7	44.1	100.0
80-84	0.0	43.8	100.0
85-89	0.0	43.8	100.0
90-94	0.0	43.7	100.0
95-100	0.0	43.7	100.0

Surveyed cases weighted to represent the Pakistani population.
Source: Based on the 2001 PIHS.

SAMPLING DETAILS FOR REPORTING MFPS

Org.	Total Clients	No. of Branches	No. of Branches used for PPI Pilot	Total Clients of Branches where Pilot was conducted	Sample Size used for the PPI Pilot	No. of Districts of operation	No. of Districts covered in the PPI Pilot	Future Plans for Use/Pilot of PPI	Any comments/ Other Information
KASHF	312,439	154	6	14,679	454	22	2	Not decided yet.	None. Used cluster sampling to select branches.
FMFB	175,743	89	20	41,635	7,036	45	17	Not decided as yet	Information as of January 31st, 2009. The pilot has been undertaken in diverse geographical areas i.e. rural plain, rural mountainous, urban towns and urban cities. FMFB selected the two best performing branches in each region. At the time of the PPI they were operating in 10 regions
SAFWCO	18,000	10	2	1,300	200	4	1	Expand scope of the PPI beyond microfinance clients. Utilize the PPI in exercise for targeting the ultra poor segment of the population. May decide to use the Scorecard being constructed by the World Bank.	Randomly selected branches.
NRSP - UPAP	106,832	185	9	7,468	1,353	14	3	NRSP – UPAP plans to regularly collect PPI information from its new / repeat clients in three districts namely Karachi, Faisalabad and Rawalpindi.	Information as of December 2008. Used a census approach.

Pakistan Micr◉finance Network

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