

# SPI and poverty assessment

## Brief N°9



### The ASC Union experience: Joint SPI and PAT application in Albania

#### Microfinance and poverty assessment

The essential function of microfinance is to serve the poor and excluded. However, we recognise today that even a perfectly designed microfinance program will probably have no positive impact on the poorest if it does not attempt to specifically reach them by defining and targeting the right products. Experience shows that unless you apply a targeting method, the poorest will not be reached by programs or they will tend to exclude themselves. The risks involved in changing the focus of the mission must not be minimised: To grow and be sustainable, an MFI may have a tendency to direct its action at a less disadvantaged clientele.

New instruments (PPI and PAT) have been developed to assess the degree of poverty of the users of a development program in a particularly operational and cost-effective way. They are based on a small number of indicators issued by national surveys on quality of life and are selected for their statistical ability to determine the poverty level of households. The indicators, non-financial, relate to easily identifiable and verifiable criteria, and establish the probability of a person being poor. By applying it to the entire client base or to a sample, it is possible to determine the percentage of clients that are poor.

These tools generally take into account one or two poverty thresholds:

**Extreme poverty line:** Said to be US\$1 per person, actually corresponding to US\$1.08 in 1993 at purchasing power parity, adjusted by the rate of inflation since 1993. Sometimes, the extreme poverty line is set as the median national poverty threshold.

**Poverty line:** US\$2 per day, or national poverty line.

#### Application process by the ASC Union with PAT and SPI

The ASC Union is an Albanian MFI created on a co-operative model which operates as a federation of rural village savings and credit unions. The ASC has jointly applied the SPI questionnaire and the PAT tool developed in Albania by IRIS and USAID. This was rolled out in spring 2008 along with the ASC Union's participation in the experiment in Mix Market social performance indicators.

The validity of the results provided by poverty assessments depends fundamentally on the quality of the sample used. In the ASC's case, being a pilot project, it was decided to limit the travel necessary for personnel by restricting the random sampling to preselected geographic areas, considered to be representative of the entire client base (grape sampling). For cost reasons, the sample size was also reduced to 130 individuals, the minimum size used by rating agencies, but could be enlarged to provide better representation.

During the survey, the operational usefulness of the PAT questionnaire for Albania has been verified. However, certain difficulties were encountered with both indicators. On the one hand, a problem arose concerning the questionnaire's suitability in the region of the country where it was being applied. In fact, one question related to whether or not the target household owned a horse, while in the area where the ASC operates other animals are frequently used (mules and donkeys in particular). On the other hand, questions arose as to the validity over time of a question concerning telephones, as, since the date that the national survey was carried out (2003), telephone ownership has expanded widely, in particular among poor families certain members of whom have

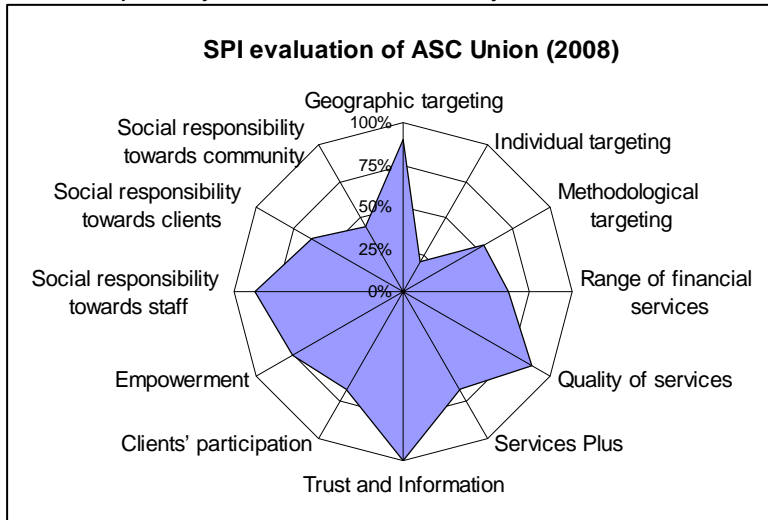
#### Countries with poverty assessment tools

PPI (CGAP-Ford Grameen)	PAT (IRIS/USAID)
Bangladesh, Haiti; India, Mexico, Philippines, Vietnam, Malawi, Mexico, Nigeria.	
Bolivia ; Morocco; Pakistan; Nepal; South Africa ; Salvador; Palestine; Nicaragua; Kenya, Egypt.	Albania, Azerbaijan, Colombia, Timor, Ghana, Guatemala, Indonesia, Jamaica, Kazakhstan, Madagascar, Peru, Tajikistan, Uganda.

emigrated. These difficulties may appear anecdotal, but given the small number of questions (18) they could invalidate the tool.

## Results and conclusions of the study

For Albania, the PAT tool results relate to only a single poverty threshold equivalent to the median national poverty line. The ASC survey result shows virtually no clients in this category. It must be



be said that this threshold relates to one small part of the population (less than 13% in 2002) and that the ASC's mission is not directly to touch the most poor, but generally those excluded from the financial system (66% in Albania).

Furthermore, the SPI assessment above clearly shows that individual targeting is not an important strategic approach for the ASC Union, which favours geographic targeting (marginalised rural areas) and the adaptation of services to the excluded.

## Conclusions for poverty assessment by MFIs

These new assessment tools are cost-effective and operational, and are particularly useful for MFIs whose objective is to touch very poor people:

**Targeting and control of scope:** MFIs can verify whether they are serving their target public and can more effectively select from among their clients the most disadvantaged families.

**Adaptation to client profiles:** It allows portfolios to be segmented according to its clients' poverty levels to carry out differentiated studies (satisfaction, retention) and to better adapt the range of products and services to the specific needs of this client category.

**Monitoring of clients' socioeconomic situation:** It measures the contribution to the Millennium Development Goals relating to the reduction of extreme poverty.

These tools are also thereby part of the social performance "kit" that MFIs have at their disposal, linked to social performance assessment tools, governance analyses and impact studies.

As such, it should be emphasised that these instruments are not essential for MFIs who do not take targeting extreme poverty as a priority. In addition, experience shows that certain improvements would help adapt it better to the needs and constraints of the practitioners. Indicators need to be selected with characteristics that vary less over time and space and that are easier to gather. It would also be useful to multiple the number of profiles that these tools can identify so that, extreme poverty aside, it could also take into account people who are poor or have low incomes or have specific socioeconomic profiles (socially excluded, vulnerable families, micro-entrepreneurs, rural families, etc).

For more information about these poverty measurement tools, see the websites dedicated to PPI (<http://www.progressoutofpoverty.org>) and PAT ([www.povertytools.org](http://www.povertytools.org)).

For more information, please visit the CERISE web sites:

+33 (0) 1 40 36 92 92

[www.cerise-microfinance.org](http://www.cerise-microfinance.org)

[cerise@globenet.org](mailto:cerise@globenet.org)

