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Meike Wollni "Assessing the Poverty Outreach of Microfinance Institutions at Household and Regional Level. A Case Study in Mexico"

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Summary

Problem setting
About one fifth of the world population lives in extreme poverty. Poverty does not only refer to the aspect of income but covers many dimensions. Poor people also suffer from food insecurity and social exclusion. They often lack access to education, microfinance and health Services. Programs and projects are launched in Order to enhance the living Standard of the most disadvantaged people. Yet, poor targeting can jeopardize these efforts. The poorest are easily excluded and the benefits go to the less poor population groups. To avoid this, evaluation of the programs' outreach is essential. If the poverty level of the actual program participants diverges from the target group, program design and targeting must be revised. In this study the case of a Mexican microfinance Institution is considered. Microfinance institutions are commonly seen äs a promising instrument to alleviate poverty. Lending to the very poor enables them to cope with times of food scarcity and distress (e.g. due to bad harvests or sickness), and even may allow them to invest in productive activities, thus improving food security in a sustainable way. Large amounts of donor funds are channelled to support these institutions (e.g. Microcredit Summit). Yet, it remains still unclear if microfinance institutions really are able to reach the poorest of the poor. While the specific objective and mission of the institution should be kept in mind, empirical evidence on the effectiveness of MFIs in reaching the poorest segments of the population is needed, in order to justify the Investment of public funds.

Objectives
The objective of the present study is to assess the poverty outreach of Compartamos, a Mexican microfinance Institution committed to providing small loans to disadvantaged people, mainly to women. The depth of poverty outreach, defined as the poverty level of clients, is evaluated at the regional and at the household level. The regional level assessment addresses the question whether Compartamos operates in the poorest areas in Mexico. For this purpose the institution's operational area is compared to the remaining Mexican regions with regard to the level of well-being. A poverty assessment at the household level seeks to reveal if Compartamos reaches the poorest households within its operational area. Therefore, the poverty level of Compartamos' clients is evaluated in comparison to the general population living in the same area. The results obtained at the household level can then be

related to the poverty level of the operational area. In order to draw an overall conclusion about the effectiveness of Compartamos' operations, the results of the assessment are eventually interpreted in reference to the institutional mission and target group.

Methodology

The methodology chosen for the household level assessment is an operational indicator-based tool. It includes a wide range of qualitative as well as quantitative variables related to food security, housing conditions, human resources and asset ownership, thus reflecting different dimensions of poverty. Two independent samples of 200 new clients and 300 non-clients have been randomly selected. Only new clients are eligible for the interviews to rule out any possible impact that could have occurred from obtaining a loan. A special statistical procedure (principal component analysis) is used to weigh indicators and aggregate them into a composite index. The poverty threshold is defined in relation to the general population represented by the non-client sample. First, non-clients are categorized into three poverty terciles of equal size. Subsequently, clients are sorted into the poverty groups according to their index score generated by the principal component analysis. The distribution of dient households across poverty terciles indicates if they are relatively poorer or better-off than the general population living in the same area. Measuring relative poverty, the method avoids the problem of defining an absolute quantifiable poverty threshold. It combines the advantage of simplicity (achieved through the use of simple indicators) with rigorous Standards for the construction of the poverty index and setting of the poverty threshold. The regional assessment is based on secondary data provided by the National Institute of Statistics, Geography and Informatics (INEGI). INEGI has classified the Mexican states and municipalities according to their level of well-being. The methodology applied by the Institute integrates qualitative and quantitative indicators on many dimensions of poverty. It is thus consistent with the methodological choice for the household level assessment. On the basis of the categorization a comparison is drawn between Compartamos' operational area and the remaining Mexican regions.

Results

The results obtained from both the regional as well as the household level analysis indicate that the poverty outreach of Compartamos is rather shallow than deep. Concerning the regional assessment, municipality level results diverge significantly from state level results. While the institution operates mainly in poorer states, at a more disaggregate level we find a reverse picture: Compartamos' operational area is mainly located in better-off municipalities. The decision of locating branches within the poorest states may have been guided by the objective of reaching the poorest. Yet, for the purpose of this study, municipality level data is more relevant, as these are smaller and therefore more homogeneous regions. It is likely that the decision of branch allocation at the municipality level has been guided by the availability of infrastructure and other facilities, economic opportunities and concentration of the population. All these factors favour high living Standard areas. Even taking into account the distribution of the national population (which is more dense in high living Standard areas), it is evident that Compartamos' market penetration is higher in better-off municipalities, while poor areas are clearly under-served. The household level assessment compares the share of new clients and non-clients within the three relative poverty terciles. Obviously, Compartamos' new clients are under-represented in the two poorer terciles and over-represented in the upper tercile in relation to the general population. Clients reached by the program are mainly from the better-off segment of the population. This may have diverse reasons. On one hand, the Institution does not directly target the poorest households and promotes income-generating investments rather than consumption credits. On the other hand,

poorer clients may also be scared away by richer participants and self-select themselves out of the program. Yet, judging these findings requires a careful consideration of objectives and strategies of the microfinance institution. Compartamos has a strong focus on financial sustainability being almost independent from donors. Meanwhile it has reached a considerable absolute number of clients. But it is important that Compartamos stays committed to reaching the poorest when expanding its Services. Breadth (absolute number of clients) must not sacrifice the objective of depth of outreach. The MFI has achieved a level of sustainability where it earns considerable profits. Part of these profits should be reinvested in order to improve the outreach to the poorest sections of the population.