

TREATING PEOPLE AND COMMUNITIES AS ASSETS

BUILDING ON ACCOMPLISHMENT: THE MICROCREDIT SUMMIT CAMPAIGN'S FUTURE CHALLENGES FOR GLOBAL POVERTY REDUCTION AND ECONOMIC EMPOWERMENT

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Introduction

The Millennium Development Goals can be met by 2015 — but only if all involved break with business as usual and dramatically accelerate and scale up action now.

UN Secretary General Kofi Annan

Eight years before these words were printed in the United Nations Development Program's (UNDP's) *Human Development Report 2005*, more than 2,900 people from 137 countries gathered in Washington, DC, for the Microcredit Summit — a civil society-organized summit with a profound commitment to “break with business as usual and dramatically accelerate and scale up action.” Delegates to the 1997 Microcredit Summit launched an audacious campaign to reach 100 million of the world's poorest families, especially the women of those families, with credit for self-employment and other financial and business services by the end of 2005. The Summit 1) broke with the tradition of excluding the poor from access to financial services, 2) broke with the tradition of excluding the poorestⁱ from international development, and 3) made a commitment to dramatically accelerating and scaling up action. This report outlines progress toward the 100 million poorest goal as well as barriers to reaching it. This Campaign offers much needed hope for achieving the Millennium Development Goals (MDGs), especially the goal of cutting absolute poverty in half by 2015.

As of December 31, 2004, 3,164 microcreditⁱⁱ institutions have reported reaching 92,270,289 clients, 66,614,871 of whom were among the poorest when they took their first loan. Of these poorest clients, 83.5 percent, or 55,622,406 million, are women. Seven hundred eighty-one of these institutions submitted an Institutional Action Plan in 2005. Together these 781 institutions account for 90 percent of the poorest clients reported. Assuming five persons per family, the 66.6 million poorest clients reached by the end of 2004 affected some 333 million family members.

In order to reach 100 million of the world's poorest families by the end of 2005, the Campaign requires a 38.1 percent growth rate per year from its starting point of 7.6 million poorest families at the end of 1997. The Campaign's overall growth of 776 percent between 1997 and 2004 now averages just over 36 percent per year.

During 2005, the Campaign was able to verify data from 330 institutions, representing 58,450,926 poorest families or 87.7 percent of the total poorest reported.

Loans to 66.6 million poorest clients affect a total of 333 million people, including both clients and their family members. The 333 million people affected equal the combined populations of the United Kingdom, France, Germany, Italy, Spain, The Netherlands, Switzerland, and Norway, but their lives are dramatically different from the lives of the citizens of those countries.

The Faces Behind the Statistics

Microfinance stands as one of the most promising and cost-effective tools in the fight against global poverty.

**Jonathan Morduch, Chair
United Nations Expert Group on Poverty Statistics**

Janet Deval, a client of Fonkoze, a microcredit institution in Haiti, is one of the 66.6 million poorest clients reached. Janet has been a credit client for more than two years and comes regularly to all meetings. She has also been a part of every literacy program available and is about to start the newest module on developing business skills. Not only could she not read or write when she started, but she has had an extra challenge: Janet has only a fraction of her hearing due to an injury when she was 20 years old.

My husband didn't want me to send my five children to school because his parents didn't send him to school. From the beginning, he said he would not pay and he has never given even one goud, but I always knew it was important. For a long time I have gone to Port-au-Prince to buy goods to sell in Hinche, and I put all my money into paying for school for my children.

When I found out that Fonkoze gave literacy classes for market women, I was so happy. I never went to school even one day. I didn't know anything about school. I started right away with basic literacy and I have tried to never miss a class.

I couldn't write my name and I didn't understand anything, but I kept going even when my husband got angry. My kids pushed me and encouraged me and they helped me practice my letters. The monitor, Christa, told me to keep writing every day even when I didn't understand.

I can write my name now, and I write it everywhere. Imagine, I used to go to Port-au-Prince to buy and I couldn't read the bags and I felt lost. I couldn't keep track of what I bought. The drivers sometimes would take my boxes off the truck and give them to someone else, but I didn't know until I got all the way home. Now, I can't lose anything. Now I write my name on every box and I know what I buy.

I finished Alfa Baz and Alfa Pos and then I went to the Health Program, too. I still don't know many things, so I want to keep going. I take my notebook to my school and I write in it because one day I hope to read and understand everything. I bought two books in the market and my kids help me read them.

I work hard in the market so that I can repay my loans, keep going to school and so that my kids have that chance, too. If my parents would have sent me to school, I would have thrown a party for them to say thank you.

The Microcredit Summit was launched to multiply stories like this 100 million times, but a number of barriers continue to impede the Campaign's success.

The End of Poverty: An Inspiring Call and a Daunting Challenge

Massive poverty and obscene inequality are such terrible scourges of our time — times in which the world boasts breathtaking advances in science, technology, industry, and wealth accumulation — that they have to rank alongside slavery and apartheid as social evils.

**Nelson Mandela, former President
Republic of South Africa**

Perhaps the most exciting news in international development over the past year has been the escalating calls for meeting the Millennium Development Goals by 2015 and the even more inspiring calls for the end of poverty by 2025.

These calls from leaders such as Columbia University Professor Jeffrey Sachs, rock musicians/activists Bono and Bob Geldof, and from grassroots movements such as the Make Poverty History and ONE campaigns are inspiring because they overcome, even momentarily, our society's deadly penchant for focusing on the irrelevant. When the calls for the end of poverty are given voice in the news media, it provides a glimpse of what is truly important and what is possible for the future of our planet.

Delegates to the Latin America/Caribbean Microcredit Summit, held April 19-22, 2005, in Santiago, Chile, had an opportunity to eavesdrop on a statement of such vision when Muhammad Yunus, founder of the Grameen Bank in Bangladesh, addressed Chilean President Ricardo Lagos in his closing plenary remarks. Professor Yunus, whose institution reached 5 million clients by August 2005, affecting some 25 million family members, had visited Chile two times previously and met with President Lagos each time. This time, he was speaking to the President in front of 1,100 Summit delegates. Here is a portion of what Professor Yunus said:

Mr. President, when I first visited Chile and learned that there were only 15 million Chileans and just 3 million lived in poverty I thought, 'Chile could be the first country on the planet to eradicate poverty.' And you, Mr. President, could hire the architect who would design the museum that people would visit to see what poverty in Chile looked like before it was eliminated. Mr. President, I have been told that it is especially beautiful in northern Chile. The poverty museum could be built there and you, Mr. President, could lay the cornerstone.

President Lagos, whose term ends in March 2006, came to the podium, looked at Professor Yunus, then at the 1,100 delegates and said, "He is a very optimistic man." Optimistic or not, some members of the microfinance community in Chile have taken the challenge to heart and have begun to ask how their work can contribute to the eradication of poverty in Chile.

More than 20 years ago, former Republican US Senator Mark Hatfield said, "We stand by as children starve by the millions because we lack the will to eliminate hunger. Yet we have found the will to develop missiles capable of flying over the polar cap and landing within a few hundred feet of their target. This is not innovation, it is a profound distortion of humanity's purpose on earth."

To Senator Hatfield, ending the needless deaths of millions of children each year is clearly one aspect of "humanity's purpose on earth." But 20 years later we still live in a world where 29,000 children under the age of five die each *day* from largely *preventable* malnutrition and disease. Those words, "29,000 child deaths a day," are far too easy to write, far too easy to read, and yet excruciatingly difficult to grasp. How else does one explain the mass media's almost total disregard for this tragedy?

If the people of the planet were to ever truly grasp the scope of this scandalous human calamity and our potential to solve it, the world would indeed be a vastly different place.

This is why the recent increased attention to ending poverty, limited as it may be, remains such an inspiration and reason for hope. But this inspiration is accompanied by a number of daunting challenges: the challenge of ineffective institutions, the challenge of inaccurate analysis, and the need to make way for the revolutionaries.

The following sections include a particular focus on leading institutions from Bangladesh. This is because time is running out for reaching the Millennium Development Goals and the data that are emerging from that country, the most saturated microcredit market in the world, provide convincing evidence for a dramatic change in international development—a change that makes sustainable microfinance for the very poor one of the pillars in the effort to reach the Millennium Development Goals.

The Challenge of Ineffective Institutions

If the world were to truly grasp the opportunity that ending poverty offers, we would still have to confront the difficulty many of our institutions face in generating the necessary breakthroughs.

In 2003, for example, more than 700 parliamentarians wrote to the heads of the World Bank, the regional development banks, and the UNDP about the importance of sustainable microfinance for the very poor in reaching the MDG on reducing poverty, the need to expand resources going to microfinance, and the need to guarantee that half of the spending reaches those living on less than US\$1 a day. Then-World Bank President James Wolfensohn wrote back saying he agreed that “microfinance has a demonstrated, powerful impact in improving the livelihood of the poor, and a crucial role in reducing poverty” and that the poor’s ability to access financial services “is a critical condition for the attainment of the Millennium Development Goals.”

The statement was clear in its conviction, but it came from the head of an institution that spends less than one percent of its annual budget on microfinance. The chasm between the words of endorsement and the paltry level of funding is hard to reconcile. James Wolfensohn asked senior officials at the World Bank and the Consultative Group to Assist the Poor (CGAP) to answer the parliamentarians’ requests in depth. Their responses questioned the wisdom of increasing resources from less than one percent to less than two percent, targeting half of the resources to those living below US\$1 a day, and requiring the use of cost-effective poverty measurement tools to ensure compliance. The reasoning the officials used to justify inaction resonates in some quarters of the international aid community, but is flawed in the eyes of many who work at the grassroots level and who see the tremendous opportunity to scale up this powerful anti-poverty approach.

The responses from these major agencies raise obvious questions. How will these institutions contribute to delivering on a visionary call to cut poverty in half within 10 years, much less eliminate it within 20, without increasing resources? How will it be accomplished without targeting a portion for those living below US\$1 a day? How will we know if poverty is declining without proper measurement tools? And perhaps most importantly, why is there so much resistance to these changes?

One reason for the reluctance to fully rise to this challenge was provided by a senior official at one of the regional development banks. This official described the institution and others like the World Bank as *academic* institutions, not *development* institutions — institutions focused on testing academic theories.

The divide in the field of development could also be described this way: on one side there are officials populating these institutions who are informed by academia and on the other, there are practitioners who are informed by field experience. Certainly the academics have field experience, but they are informed and driven by academic assumptions. On the other hand, those driven by their field experience certainly have academic backgrounds, often very distinguished ones, but they are guided by their experience in

the field. In fact, they discard their academic assumptions if their field experience instructs them otherwise.

A clear view of what it means to be driven by field experience emerges from the insights of Fazle Abed, Chairman of BRAC, an institution that by 1985 had trained 5 million Bangladeshis to prepare oral rehydration salts (ORS), a solution that protects severely dehydrated children from impending death. Driven by a strong commitment to overcome barriers and solve seemingly insurmountable problems, Abed outlined a visionary and dogged approach that BRAC would apply in all of its development work.

Abed described a massive effort to educate mothers on the signs of dehydration in children and on training them to prepare and administer the life-saving oral rehydration solution. BRAC measured its results and found only eight percent usage within the community. He then described a campaign to train fathers and other male leaders in the villages on preparing the ORS and finding that, as a result, usage doubled to 16 percent. Abed went on to describe the launch of a wide-ranging social marketing campaign that used multiple forms of communication to educate entire communities, resulting in a surge of ORS usage.

This effort on oral rehydration is not an isolated case for BRAC. Jeffrey Sachs, in his book *The End of Poverty*, describes visiting BRAC microcredit clients and learning that the women all had, or planned to have, no more than two children each.

Perhaps more amazing than the stories of how microfinance was fueling small-scale businesses, were the women's attitudes to child rearing...Here was a group where the average number of children for these mothers was between one and two children...This social norm was new, a demonstration of a change of outlook and possibility so dramatic that Dr. Rosenfield [the Dean of the Columbia University School of Public Health] dwelt on it throughout the rest of his visit...he remembered vividly the days when Bangladeshi rural women would typically have had six or seven children.

Dean Rosenfield was stunned by this transformation, but it is the sort of transformation that will be required if we are to end poverty. But our systems are not yet prepared to provide the "more and better aid" that the Make Poverty History campaigners call for. The next story, again from Professor Sachs, gives a painful example of how bureaucracy can triumph over vision.

In his book, Jeffrey Sachs refers to "cruel" international processes when he describes the donor agencies' responses to Malawi's effort to deal with the 900,000 in its country infected with AIDS.

Malawi actually put together one of the earliest and best conceived strategies for bringing treatment to its dying population, and gave an enormously thoughtful response....to help Malawians try to reach about a third of the total infected population (about three hundred thousand people) with anti-AIDS drug treatment within a five-year scale-up period.

...The donor governments—including the United States and Europeans—told Malawi to scale back its proposal because the first proposal was "too ambitious and too costly."

The next draft was shrunk to 100,000 receiving treatment within five years and was cut two more times at the insistence of donor agencies. Jeffrey Sachs continues:

After a long struggle, Malawi received funding to save just 25,000 at the end of five years — a death warrant from the international community for the people of this country.

Will the inspiration found in the calls for an end to poverty be matched by the required action from the major development institutions? Business as usual is clearly insufficient.

Making Way for the Revolutionaries

Instead of business as usual, what is required is a revolution in the way we fight poverty. Grameen Bank Managing Director Muhammad Yunus gave an example of the revolutionary action required when he was asked about his strategy for creating the Grameen Bank. "I didn't have a strategy," Professor Yunus replied, "I just kept doing what was next. But when I look back, my strategy was, whatever banks did, I did the opposite. If banks lent to the rich, I lent to the poor. If banks lent to men, I lent to women. If banks made large loans, I made small ones. If banks required collateral, my loans were collateral free. If banks required a lot of paperwork, my loans were illiterate friendly. If you had to go to the bank, my bank went to the village. Yes, that was my strategy. Whatever banks did, I did the opposite."

If we are to end poverty, we not only need to make way for the revolutionaries, but we must also follow their lead. All too often, however, the move within the field of microfinance is to be more like banks, often with the unintended consequence of once again failing to provide financial products and services to the very poor, once again denying them tools they need for a dignified route out of poverty. The Microcredit Summit Campaign's work on integrating microfinance with health education is a case in point.

One thing the Campaign and many of the microfinance practitioners it supports worldwide have learned is that microfinance is an incomplete solution for many poor people and that its impact can be magnified if used in combination with complementary strategies. If a family raises its daily income from US\$0.50 to US\$1.50 through microcredit, its members might still be no more knowledgeable about basic health topics and other life skills such as the importance of vaccinating children against preventable diseases or learning how to prevent HIV/AIDS. This lack of knowledge and the resulting illnesses can swiftly undo the improvement in a family's economic situation. Economic well-being cannot be separated from health; indeed, the two are intimately linked.

This lesson is emerging in institutions around the world. For example, Fonkoze Executive Director, Anne Hastings, tells of her work in Haiti with Dr. Paul Farmer, co-founder of Partners in Health and its Haitian affiliate, Zanmi Lasante. Farmer wants a Fonkoze bank branch in every Zanmi Lasante clinic and hospital because he not only wants to see his patients' health restored, but he also wants to make sure they are armed with financial services that can help free them from a life of unending poverty. Dr. Vicky Guzman, a visionary health leader in El Salvador, has come to this same conclusion and has begun integrating microcredit into the work of her organization, Asociacion Salvadorena Pro-Salud Rural (ASAPROSAR).

But just as health providers see the need for microcredit, some microcredit providers find that their clients' greatest barrier to leaving poverty is poor health and the money spent on medical treatment—treatment that is sometimes competent and sometimes not.

Most microfinance programs already offer some combination of services to their clients, including savings, training, networking, and peer support. Microfinance programs can become powerful vehicles for other desirable social developments. Linking financial services with health education can improve the well being of clients and their families, increase their productivity, and reduce dropout rates, all in a sustainable manner.

Experience has shown that microcredit can empower women and change lives. "Some of the impacts evident in evaluations of Credit with Education programs," writes Chris Dunford, President of Freedom from Hunger, "might be the effect of either the financial or education components or both working together."

... [In] Bolivia, there was evidence that access to the financial and education services had positively impacted women's self-confidence and status in the community...participants in Bolivia were running for and holding offices in local governing bodies...[and] were

significantly more likely to have given others advice about both practices for good health, nutrition, and better business.

Under the tutelage of Freedom from Hunger, Microcredit Summit trainers in Asia and Africa have begun leading three-day and five-day training workshops on integrating microfinance with education in health. By August 2005, training had been completed in a total of eight countries across Asia and Africa. Based on the data from evaluations in the first four countries, all eight training workshops could reach 731,731 clients, affecting some 3.7 million family members.

Although combining quality financial services with quality health education can create a powerful synergy, there is still an influential, and, in the view of the Microcredit Summit Campaign, short-sighted school of thought arguing that microfinance institutions should only offer financial services. This was made clear in 1999 when a microfinance specialist at a donor agency replied to the Campaign's initial efforts to integrate microfinance with health education. "Lunacy!" he wrote in response to our request for feedback. "Let bankers be bankers and let health educators be health educators." Last year, these sentiments were repeated at the beginning of a three-day workshop in East Africa. One of the 33 trainees, a senior official in the association of microfinance institutions (MFIs) in that country, called the training that was about to begin "bad practice." (This is the trap of defining certain approaches as "best practice," which tends to stifle new thinking and innovation. It might be better to define "sound practices" that are appropriate for different objectives in different contexts.) The Microcredit Summit trainer asked if the trainee had ever participated in a workshop on integrating microfinance with health education. "No," replied the trainee. The Summit's trainer asked the trainee to stay for the three days and then offer his views.

At the end of the workshop, the trainee said that microfinance practitioners had been led astray by donors who urged a focus solely on financial services. He now saw that integrating microfinance with health education was important both to his clients and to his staff and he was the first to enroll in a follow-up five-day workshop. Similar resistance has been found in parts of Asia and Latin America and remains a challenge to be overcome.

It is, therefore, critical that academics learn from the revolutionaries. Those who say we cannot reach the very poor will see no reason to try and will in fact *not* reach the very poor. Those who say we cannot integrate financial services with health education will see no reason to try. It is the visionary leaders, those willing to break the rules, who will create what is missing to end poverty.

Perhaps our challenge is best described in a speech delivered more than 20 years ago by the late Louis Kelso, an investment banker who pioneered the concept of employee stock ownership plans (ESOPs). Kelso describes his discovery, laid out in books co-authored with Mortimer Adler and with his wife Patricia Kelso, in the following way: "As the production of goods and services changes from labor intensive to capital intensive, the way in which every man (sic) — not just some men, but every man — earns his income must change in the same way. You can't do that unless two things happen: 1) you have to broaden the ownership of capital and 2) you have to tighten up the laws of property so that the capital owner collects the wages of his capital with the same faithfulness that the laborer now collects the wages of his labor." Here is how Kelso reflects on the resistance to his own ideas, cited above, and to the discoveries of others:

What I discovered was not a new economic theory, but a missing fact. Copernicus, after watching the stars and playing with the mathematical formulas that he thought explained their activities, concluded that geometric theory was wrong. He deduced, instead, that all the heavenly bodies in our galaxies moved not around the earth, but around the sun. But he was dealing with something that was so distant that it couldn't be easily seen or accurately measured. And when Galileo, almost a century later, picked up the same idea and tried to get it accepted by conventional science, the establishment almost fried him. They made him recant heliocentric theory to save his life. What each had discovered without realizing it, was not a new theory, but a missing fact. You couldn't see it until the invention of the telescope.

Later, when Pasteur came forward with germ theory and struggled much of his lifetime to get the medical profession to accept it, he was dealing not really with a new theory, but with a missing fact. The only problem was that the germs were so small, you couldn't see them until the invention of the microscope.

We don't need telescopes and microscopes to understand the fact I want to talk about now. We do need shovels to dig through the tons of mythology that cover it up.

In much the same way, the field of microfinance also needs shovels to dig through the myths that often hide what the visionaries have found.

Myths that Impede Microfinance's Full Contribution to the MDGs

At the most basic level, the key to ending extreme poverty is to enable the poorest of the poor to get their foot on the ladder of development. The ladder of development hovers overhead, and the poorest of the poor are stuck beneath it. They lack the minimum amount of capital necessary to get a foothold, and therefore need a boost up to the first rung.

Jeffrey D. Sachs
The End of Poverty

Each year's *State of the Microcredit Summit Campaign Report* highlights our work to debunk myths that stand as barriers to fulfilling the Campaign's four core themes: 1) reaching the poorest, 2) reaching and empowering women, 3) building financially self-sufficient institutions, and 4) ensuring a positive, measurable impact on the lives of clients and their families.

The following myths have been the most damaging:

Myth one — Microfinance institutions cannot reach the poorest because they are too costly to identify and motivate.

Myth two — If an institution succeeds in reaching the very poor, it cannot become financially self-sufficient.

Myth three — An institution that somehow manages to reach the very poor and become financially self-sufficient will only be adding a debt burden to those families.

These myths spring from the belief that microcredit will not help the world's poorest families move out of poverty. Every year, however, progress is made as each myth is more fully discredited.

It is critical that these myths be refuted both individually and as a group, for those who promulgate the myths see them as interconnected. The Campaign, therefore, has addressed them both separately and as a group. In this section we will first look at each myth individually.

In 1998, in an effort to show that the poorest families could be identified at low cost, the Microcredit Summit Campaign launched a Poverty Measurement Tool Kit that included two tools: 1) Participatory Wealth Ranking (PWR) and 2) the CASHPOR House Index (CHI). With Participatory Wealth Ranking (PWR), villagers map out their village with the help of a facilitator and three separate groups of villagers rank each household in different categories according to their poverty. PWR, though similar to participatory rural assessment (PRA) and rapid rural appraisal (RRA), is far more accurate and reliable because with this method, each family is ranked by three separate groups of villagers and an average of

the three groups is used for ranking a particular family. Then the women from the bottom groups are motivated to join the program. With the CASHPOR House Index (CHI), staff examine the houses of potential clients and assign a standard score based on the size and structure of the dwelling as well as the material used for the roof and walls. After selecting houses of those who are most likely to be the poorest, an assets test is administered to further verify the results. The Toolkit was a result of a Poverty Measurement Discussion Group launched by the Campaign in 1997.

Both tools were tested against CGAP's more rigorous and more costly Poverty Assessment Tool. CGAP found that: "Participatory Wealth Ranking...offer[s] a far more reliable method for communities themselves to identify who the poor are...It asserts the primacy of local knowledge over externally determined measurement criteria and lets the community take charge in deciding how rankings are to take place." CGAP also found, "the appeal of [the Housing] index lies in its being simple, observable, and verifiable....Housing can be used as an excellent proxy for ranking households." Since the Poverty Measurement Toolkit was launched, the Microcredit Summit Campaign has organized two-hour workshops on the tools for more than 3,000 practitioners in 35 countries of Africa and Asia and nearly a dozen four-day training workshops throughout Asia.

"Myth Two" is refuted with mounting evidence showing that you can reach the very poor and build a financially self-sufficient institution. It becomes more difficult when clients are in remote areas, but institutions in Africa, Asia, and Latin America have demonstrated over and over that it can be done. The Microcredit Summit Campaign commissioned a paper in 1999 on this topic, which was discussed at our global and regional meetings in Africa, Asia, and Latin America from 1999 to 2001.

For several years now, the Microfinance Information eXchange (The MIX) and the Micro-banking Bulletin (MBB) have shown that Microfinance institutions (MFIs) reaching very poor clients can grow to be financially sound. CGAP CEO Elizabeth Littlefield made that point in 2004 at the Asia/Pacific Microcredit Summit held in Dhaka, Bangladesh.

There is no evidence of a necessary trade-off between poverty and sustainability. Very recent data from our MBB and from the MIX show us that the best poverty-focused microfinance institutions are breaking right through conventional wisdom....Sustainable microfinance institutions that serve lower end markets, the poorest, reach, on average, one and a half times as many borrowers as other microfinance [institutions] and they do it with fewer resources. Hence, these institutions do a much better job of stretching their resources to reach more clients. In terms of clients served, they are far more efficient with their human resources, serving each borrower at half the cost, on average, of a sustainable institution serving higher market segments.

This point is most clearly made in the case of the Association for Social Advancement (ASA) in Bangladesh, an institution that reaches more than 2.7 million clients, many of them very poor when they start. ASA has been called the most efficient MFI in the world, able to lend at an administrative cost of US\$0.035 per dollar loaned.

And finally, "Myth Three" is refuted when it is shown that microfinance, while not a panacea, is still the best tool we have to reduce poverty among the very poor. Perhaps the most compelling data on the impact of microcredit to date can be found in two important documents published in 2005. One is Shahidur Khandker's in-depth study, published in the *World Bank Economic Review*, of three Bangladeshi MFIs: BRAC, Grameen Bank, and RD-12, the latter a government program. The additional findings are in the United Nations Development Program's *Human Development Report 2005*. Khandker, a World Bank researcher whose study spans 14 years, was able to draw from research done in 1991/92 and again in 1998/99 by the World Bank and the Bangladesh Institute of Development Studies. Khandker found:

- Moderate poverty in all villages declined by 17 percentage points, 18 points in program areas, and 13 percentage points in non-program areas.

- Poverty declined by greater than 20 percent for program participants who had been members since 1991/92, which is about three percentage points per year. Greater than half of this reduction is directly attributable to microfinance.
- The impact was greater on extreme poverty than moderate poverty.
- Spillover effects among non-participants due to growing economic activity: Microfinance reduced poverty among this group by some 1.0 percentage points annually for moderate poverty and 1.3 percent annually for extreme poverty.

Based on his data, Khandker concluded that microfinance accounted for 40 percent of the entire reduction of moderate poverty in rural Bangladesh.

These findings become even more significant when viewed alongside data from the UNDP's *Human Development Report 2005*. The report compares India and Bangladesh in its discussion of how low incomes need not be a barrier to progress on the Millennium Development Goals.

At a lower level of income and with far lower growth, Bangladesh has overtaken India [in reducing its child mortality rate]. These differences matter. Had India matched Bangladesh's rate of reduction in child mortality over the past decade, 732,000 fewer children would die this year [in India].

The *Human Development Report* goes on to explain that those countries which are first in being connected into global markets are not necessarily seeing those benefits trickle down.

Integration into global markets has manifestly enhanced wealth creation, generated economic dynamism, and raised living standards for many millions of people in India and China. At the same time the human development benefits of economic success have been slow to trickle down to large sections of the population.

In a section focused on Bangladesh's moderate growth and rapid human development, the report cites four factors in transforming Bangladesh's human development landscape: 1) active partnerships with civil society, 2) targeted transfers, 3) extended health programs, and 4) virtuous cycles and female agency. This last area is described as follows:

Improved access to health and education for women, allied with expanded opportunities for employment and access to microcredit, has expanded choice and empowered women. While disparities still exist, women have become increasingly powerful catalysts for development, demanding greater control over fertility and birth spacing, education for their daughters, and access to services.

These remarkable findings link with Professor Sach's earlier comment on the dramatic change in outlook and possibility among BRAC microfinance clients who wanted only one or two children instead of the six or seven that had been the norm a generation earlier.

As mentioned above, however, refuting the myths piecemeal will not convince the critics. That is why the Campaign commissioned a paper in 2001 entitled "Ensuring Impact" published in *Pathways Out of Poverty: Innovations in Microfinance for the Poorest Families*, which is focused on refuting the myths as a group. The paper highlights two case studies, the Society to Help Awaken Rural Poor (SHARE) in India and Credito con Educacion Rural (CRECER) in Bolivia. A CGAP study found that 72.5 percent of SHARE's entering clients were living on less than US\$1 a day. Micro-Credit Ratings International Ltd (M-CRIL), a rating agency based in India, found that SHARE was 100 percent financially self-sufficient. A US Agency for International Development (USAID) Assessment of the Impact of Microenterprise Services (AIMS) team found that one-third of SHARE's mature clients, clients who had taken loans for three years or more, were no longer poor. Last year, ICICI Bank, the second largest commercial bank in India, purchased US\$4.3 million worth of SHARE's portfolio, a further indication of this Indian MFI's strength.

But all of these myths die hard. A donor agency official who visited a microfinance program in India several years ago admitted during his visit that, if he hadn't seen it with his own eyes, he wouldn't have believed that clients as poor as the ones he was meeting could be reached successfully with microcredit.

Some of the lingering debate is muddled by imprecise definitions and lack of clarity about which poverty groups are being discussed. Initially the argument centered on the perceived requirement that only the "economically active poor" be targeted because they were the only group who could use a loan successfully. The phrase "economically active poor" was meant to refer, for example, to clients who at least had a stall in a market. It was also meant to exclude the very poor. The economically active poor argument always seemed weak given that virtually all people in very poor countries are, of necessity, economically active in one way or another. Even begging is an economic activity.

It became increasingly clear, through studies such as the one of SHARE mentioned above, that if nearly three-quarters of entering clients were below US\$1 a day, certainly some institutions had found a way to reach the very poor sustainably, while showing social progress among the clients. At that point the argument shifted to an assertion that surely the "poorest of the poor," those living on US\$0.05 or US\$0.10 a day, could not make good use of a loan. They would only want and need a safe place to keep their savings. It must be noted that the Microcredit Summit Campaign does not use the term "poorest of the poor." We use the terms "poorest" or "very poor," to refer to entering clients living below US\$1 a day or in the bottom half of their nation's poverty line. We use the term "poor," to mean those living in poverty above US\$1 a day or in the upper half below their nation's poverty line. In any event, the argument that the "poorest of the poor," those living on US\$0.05 or US\$0.10 a day, cannot benefit from a loan, often inadvertently strips a billion others, all living below US\$1 a day, of access to this intervention. In other words, when it is said that the "poorest of the poor" cannot use microcredit and it is not clear which poverty group is included, it is easy to write off all of the very poor, including everyone living on less than US\$1 a day.

The argument for excluding the so-called "poorest of the poor" is further eroded in the wake of experiments in Haiti, Bangladesh, and elsewhere that are committed to finding ways to reach the most vulnerable, even beggars, with loans as small as US\$3 along with other financial and non-financial services.

Grameen Bank's 'Struggling Members Program'

[Note: This section was written by Professor Muhammad Yunus, founder and Managing Director of the Grameen Bank.]

Grameen Bank was started in 1976 as an experimental project to combat rural poverty by providing credit to the very poor. As of July, 2005, Grameen Bank disbursed US\$4.95 billion in loans to 5 million borrowers, 96 percent of them women.

In late 2002, Grameen Bank embarked on a new program, exclusively targeted for the beggars in Bangladesh. Begging is chosen by many poor people in Bangladesh, as a result of river erosion, divorce, death of the earning member in the family, unemployment or disability. For many, it becomes a lifetime occupation. Beggars in Bangladesh are not reached by most of the poverty alleviation programs and subsist on the margins of society. The Struggling (Beggar) Members Program is a new initiative taken by Grameen Bank both to challenge a sustained campaign that microcredit cannot be used by the people belonging to the lowest rung of poverty, as well as to reinforce the Grameen Bank's belief that credit should be accepted as a human right.

The key features of this program bypass the rules and regulations that apply to the regular Grameen Bank members. The struggling members are not required to form any microcredit group. While they may

be affiliated with a regular group, they are not obliged to attend the weekly meetings. The regular group members act as mentors to the struggling members, providing guidance and support to them. The bank treats its struggling members with the same respect and attention as regular members and refrains from using the term "beggar" which is socially demeaning.

A typical loan to a beggar member amounts to 500 Bangladesh Takas (US\$8). It is collateral-free and there is no interest charged on it. The repayment schedule is flexible, decided by the struggling members themselves. The installments are to be paid according to their convenience and earning capability. Installments must not be paid from money earned from begging, but from money earned from their new businesses.

The goal of the program is not only to economically empower, but also to boost the morale and dignity of the beggars. They are given identity badges with the bank's logo as physical evidence of the bank's support. The struggling members sell items such as bread, candy, pickles, dry fish, betel-nut, betel-leaf, eggs, and toys to supplement their begging. They also use the money to produce puffed rice, hand fans, baskets, and other goods to sell.

The struggling members are welcome to save with Grameen Bank if they wish. They are covered by the life insurance and loan insurance programs without paying any premiums. Under the life insurance plan, their families receive a small sum for taking care of burial expenses. With the loan insurance plan, their outstanding loans will be fully repaid in case of death.

The Grameen Bank provides struggling members with blankets, quilt, woolen shawls, mosquito nets, and umbrellas on credit to be repaid as interest-free loans. Although there is no compulsion for the struggling members to give up begging, there are nearly 1,000 beggars who have done so and moved on to making a living instead by selling products.

As of July 2005, 31.10 million Bangladesh Takas (US\$500,000) have been disbursed to 47,454 struggling members, of which 15.39 million Bangladesh Takas (US\$250,000) have been repaid. Meanwhile struggling members have saved in their personal savings accounts 2.23 million Bangladesh Takas (US\$34,000) from their own income. Grameen Bank estimates the number of struggling members will exceed 55,000 by the end of 2005.

The Economics of Microfinance

Further discussion on who can and who cannot successfully use a loan is found in Beatriz Armendariz de Aghion and Jonathan Morduch's book *The Economics of Microfinance*:

Debate arises, though, with the relatively new (and wrongheaded in our belief) argument that in fact the poorest customers need savings facilities only—that making loans to the poorest is a bad bet. The argument has been made in a variety of CGAP documents, but the most nuanced articulation can be found in a 2001 paper by Marguerite S. Robinson, in her discussion of “financial services in the poverty alleviation toolbox.” Marguerite Robinson argues that neither credit nor savings accounts are appropriate for “extremely poor” households (instead, she argues for job creation, skills training, relocation, and provision of adequate water, medicine, and nutrition). Providing savings accounts and credit makes sense only for the “economically active” poor (and richer groups), she continues. But, she argues, only savings is right for the poorest among the economically active population. While we strongly agree that access to financial services will not be the answer for everyone, we see neither systemic evidence nor theory that allows us to conclude that savings is more appropriate than credit for the poorest who seek financial services.

A New Law and an Opportunity to Expand the Breakthrough

Over the last several years, this report has heralded a new US law, which requires the US Agency for International Development (USAID) to develop and certify, by October 2006, two or more cost-effective poverty measurement tools that measure US\$1 a-day poverty. The new tools are to replace the size of a client's loan, which is currently used, but has proven to be inadequate for accurate poverty measurement.

After the newly mandated tools are certified, institutions receiving microenterprise funds from USAID must use one of the tools and report the number of entering clients who live on less than US\$1 a day. The law is an effort to bring accountability and transparency to the long-standing Congressional commitment to have at least half of USAID microenterprise funds benefit very poor clients.

The new law could have a profound impact on all of development, not just microfinance, by assisting leaders in fields such as health and education in their own efforts to ensure that the very poor are not left out. In addition, the law could have an equally profound impact on the Microcredit Summit Campaign's new goal seeking to ensure that 100 million of the world's poorest families move from below US\$1 a day, adjusted for Purchasing Power Parity (PPP), to above US\$1 a day by the end of 2015. This new Microcredit Summit goal is central to achieving the MDG on halving the number of families living below US\$1 a day by 2015.

One of the papers commissioned for the Global Microcredit Summit to be held in Halifax, Canada in November 2006 will address the measurement challenge directly. The paper is co-authored by Thierry van Bastelaer, Director of the Enterprise Development Group at the Center for Institutional Reform and the Informal Sector (IRIS) at the University of Maryland, and Manfred Zeller, an IRIS Consultant and Professor for Rural Development Theory and Policy at the University of Hohenheim in Germany. Van Bastelaer and Zeller are chief developers of what will possibly become the new USAID poverty measurement tools. Their paper for the Halifax Summit is titled: "Achieving the Microcredit Summit and Millennium Development Goals of Reducing Extreme Poverty: What is the Cutting Edge on Cost-Effectively Measuring Movement Across the US\$1/Day Threshold?"

If the potential impact is to be fully realized, however, the new law's requirements must be embraced by other leading development institutions. This was attempted in late 2003 when more than 700 parliamentarians from the United States, the United Kingdom, Canada, Japan, Australia, India, and Mexico wrote to the heads of the World Bank, the three regional development banks, and UNDP with such a request.

Two years later, each of the five institutions has a new leader and the parliamentarians are bringing their request to that new leadership: Paul Wolfowitz, President of The World Bank; Haruhiko Kuroda, President of the Asian Development Bank; Luis Alberto Moreno, President of the Inter-American Development Bank; Donald Kaberuka, President of the African Development Bank; and Kemal Dervis, Administrator of the UNDP.

In their letters to the new leaders, the parliamentarians ask for their partnership during the United Nations International Year of Microcredit, "in ensuring that the powerful intervention of microcredit be put to the fullest use in fulfilling the Millennium Development Goals (MDGs), especially the goal to halve the proportion of people living in extreme poverty by 2015."

The parliamentarians acknowledge the revolutionary nature of microfinance and make the following requests:

- 1) **Increased funding for microfinance:** Given the unrealized potential of microfinance to contribute to meeting the MDGs, we find it perplexing that an institution such as the World Bank invests less than one percent of its annual spending on microfinance. In a case such as this, we believe resources should at least be doubled given that scores of institutions around the world have the capacity to reach tens of millions more of the very poor sustainably.
- 2) **At least 50 percent of funds reaching the poorest:** By December 31, 2006, we ask that your institution make the commitment to having at least 50 percent of your microfinance investment reach clients who are living below US\$1 a day or within the bottom half of those living below their nation's poverty line when they start with a program. We believe that it will take a clear mandate by your institution to reach these very poor families. Just as a revolution in banking was required in order for microfinance to even exist, we believe that a revolution in development is required to ensure that the very poor are reached, a revolution that will not come from incentives alone.
- 3) **Use of cost-effective poverty measurement tools to ensure meeting the target of half of resources going to families who are living below US\$1 a day when they enter a program:** Perhaps most importantly, by December 31, 2007, we would like to see you require that the microfinance institutions with whom you work use cost-effective poverty measurement tools to determine the proportion of their clients living below US\$1 a day, and use the same or similar tools to show which portion has moved above US\$1 a day. Among the most important developments in poverty reduction is a new US law requiring the development and use of cost-effective poverty measurement tools by programs receiving USAID microenterprise funds. Where else in development assistance can we show that the very poor are being reached with tools that can help them move out of poverty with dignity?
- 4) **An annual reporting of results:** By December 31, 2008, we would like to see your institution report, on an annual basis, the amount of resources provided for microfinance and the percentage of those resources that reach families who were living on less than US\$1 a day when they entered a program (based on use of the US-certified tools that will be developed in the next two years).

The parliamentarians close their letter with the following quote from an article co-authored by Muhammad Yunus of Grameen Bank, and Fazle Abed of BRAC:

Why is there any debate on whether donor priorities should be sharply on the poorest?.... they are the first to be left behind. The recent US law...specifies that half of US foreign assistance designated for microcredit actually reaches those people living on less than US\$1 a day. We don't understand why anybody would object to this. By all logic of foreign assistance and the Millennium Development Goals, it is the right thing to do.

"We fully agree with them," the parliamentarians conclude, "and hope your response will show that you do as well."

The actions taken by the new leaders at the World Bank, the regional development banks, and UNDP will show whether there is indeed a new vision, one that truly recognizes sustainable microfinance for the very poor as a powerful tool for meeting the MDG on poverty reduction. Their responses will demonstrate whether we have finally made the "break with business as usual" that Kofi Annan calls for and whether we will "dramatically accelerate and scale up action now."

Will the leaders commit to doubling financial resources with half reaching the very poor or will they be mired in the myth of insufficient retail capacity? Will they realize that it is half of *their* institution's resources that would need to reach the very poor and *not* half of each MFI's resources that need to reach the very poor?

Will they see that all too often, the field of development fails to reach the very poor, and that nothing short of a revolution will be sufficient to address this failure? Will they see that incentives alone cannot spark this revolution with the MDGs due in just 10 years?

Will they see, as Freedom from Hunger's Chris Dunford argues, that we measure what we value and that we value what we measure and, as a result, will they give the same importance to measuring the poverty level of entering clients that they give to measuring the financial performance of the MFIs?

In short, will they follow the visionaries, revolutionaries, and action researchers or will they continue with business as usual?

More than Just Reaching the Poorest

The above discussion, focused primarily on the social side of microfinance, does not provide a complete view of the Microcredit Summit Campaign's work. A glimpse of the agenda for the upcoming Global Microcredit Summit to be held in Halifax in November 2006 reveals the Campaign's commitment to the wider microfinance agenda. Papers are being commissioned for 40 workshops and associated sessions and the following are just a sample:

The Future of Microfinance: Visioning the Who, What, When, Where, Why, and How of Microfinance Expansion Over the Next 10 Years: We are at a critical point in the Campaign's history, completing the first phase and re-launching the Campaign with two new goals for 2015. This is an especially important time to outline a vision for the next ten years.

Overcoming Regulatory and Legal Constraints to Savings Mobilization: Building savings and other assets is essential to a sustained move out of poverty, but many MFIs are constrained by law from accepting savings.

Effective Micro-Life Insurance and Micro-Health Insurance Programs to Reduce Vulnerability: Insurance products are another key to reducing vulnerability and are beginning to be offered around the world.

Remittances: What are the Challenges and What are the Opportunities?: Tens of billions of dollars flow each year from North to South, sometimes at great expense to the remitter. MFIs are beginning to offer remittance services and tap this flow of resources.

Good Practice in Business Development Services: How Do We Enhance Entrepreneurial Skills of MFI Clients?: Business development services can be a boon or a burden for clients. At their best, they can assist clients in improving their businesses and accelerating their move out of poverty.

Microfinance Investment Funds: What is the Role for Foreign Direct Investors and Are We Measuring both Financial and Social Performance?: Foreign direct investment is a field that is finally taking off and it presents challenges and opportunities for investors and MFIs.

Corporate/MFI Partnerships that are Profitable for the Corporation, the MFI, and the Clients: After decades of neglect, corporations are beginning to see the opportunities for partnering with MFIs and their clients. This session will look at cutting edge work in this area.

Innovations and Challenges in MFI Ratings: A nascent field at the time of the 1997 Microcredit Summit, MFI raters are playing an increasingly important role today.

Interest Rates: Serving the Institution and the Clients: Always a daunting challenge for the field, the MFIs must balance the need to both cover costs and provide efficient financial services to the poor and must address the challenge of government-imposed interest rate caps.

With Transformation to Regulated MFIs, What are the Models of Ownership that Protect the Social Mission? : Many leaders in the field are heralding the importance of transforming non-governmental MFIs into regulated institutions. What is necessary to ensure that the social mission is enhanced, and not eroded, in the process?

Microcredit in Post-Conflict/Conflict, Natural Disaster, and Other Difficult Settings: MFIs have had to face Hurricane Mitch in Central America, floods in Bangladesh, the tsunami in South and Southeast Asia, the earthquake in Pakistan, and civil strife in Africa and elsewhere. What are the lessons learned?

Survey Methodology

Each year the Microcredit Summit Campaign goes through a process of data collection and verification leading to the publication of the *State of the Microcredit Summit Campaign Report*. The process includes: 1) circulating Institutional Action Plans (IAPs) to thousands of practitioners with a request for submission of most recent data; 2) a phone campaign to the largest institutions in the Campaign to encourage submission; 3) a verification process seeking third-party corroboration of the data submitted by the largest MFIs; 4) data compilation and analysis; and 5) the writing of the report. For eight years now this process has produced the largest primary source collection of data from microfinance institutions available.

In most cases, the data presented in this report is from individual institutions. We have tried to avoid including data from network institutions to prevent double counting. Network institutions have played a valuable role, however, in facilitating data collection from their affiliates. As in years past, we are especially grateful to the following institutions for their active support in this data collection process: AFMIN (AEMFI, AISFD-CI, APIMFT, APIM, AMFIU, GHAMFIN, REGUIPRAM, RIFIDEC, AMFI, APIM-BF, RIM), APIMEC, CARE, Catholic Relief Services, COPEME, Developpement international Desjardins, FINCA, FINRURAL, FORO LAC FR, Freedom from Hunger, Grameen Trust, Katalysis, Opportunity International, PKSf, Plan International, Pride Africa, Red Financiera Rural, REDCAMIF (REDIMIF, REDMICROH, ASOMI, ASOMIF and REDCOM), Red para el Desarrollo de las Microfinanzas en Chile, Save the Children, Women's World Banking, World Relief, and World Vision International. We are also indebted to the institutions in Asia, Africa, and Latin America that host umbrella meetings with our regional staff. Those meetings play a pivotal role in Action Plan collection.

As of October 21, 2005, 6,600 institutions were members of the Microcredit Summit Campaign's 15 councils. Of that number, 4,257 institutions from 131 countries were members of the Microcredit Summit Council of Practitioners, an increase of more than 400 in the last 12 months. In 2005, 781 practitioner institutions submitted an Action Plan, 238 of whom had previously never done so. The 781 Practitioners that submitted an Action Plan in 2005 had 90 percent of all the poorest clients reported. This means that the data in this report is 90 percent current and the other 10 percent is one or more years old. Since we began collecting Action Plans in 1998, the Microcredit Summit Campaign has received plans from 3,164 practitioner institutions.

The Action Plan asks for the following data: 1) total number of active clients (clients with a current loan); 2) total number of active clients who were among the poorest when they received their first loan; 3) what poverty measurement tool was used, if any, to determine the number of poorest clients 4) percentage of poorest clients who are women; 5) average size of first loan; 6) total number of active savers; 7) average savings per saver; 8) percentage of poorest clients who have crossed the poverty line; 9) what impact measurement tool was used, if any, to determine the number of clients who were very poor when they

took their first loan and have now crossed the poverty line 10) financial or business development services offered, if any; and 11) percent financial self-sufficiency an institution has reached.

In the 2005 IAP, on which this report is based, practitioners were asked to provide the above data for December 31, 2004 (actual), December 31, 2005 (proposed), and December 31, 2006 (proposed). The report is then compiled using end of 2004 data.

Each year, we emphasize that this data is self-reported. However, Microcredit Summit Campaign staff review all Practitioner IAPs that are received. Any institution with questionable data is asked to clarify its responses, and if the questions are not resolved, the questionable data is not included in the report. In 2000, we took the further step of independently verifying aspects of the data. The largest institutions in Africa, Asia, and Latin America provide us with names of donor agencies, research organizations, networks, or other institutions that could verify the total number of clients reached, the number of poorest clients, and the number of poorest women. A letter is sent to potential verifiers asking them to confirm the data submitted by a given MFI. The letter says, "By confirm, we mean that you have visited the program, met with senior officials, reviewed aspects of the operation, they have provided you with numbers, and you believe that the institution and the numbers listed below are reliable and credible."

Clients Reached

By December 31, 2004, 3,164 microcredit institutions reported reaching 92,270,289 clients with a current loan, 66,614,871 of whom were among the poorest (in the bottom half of those living below their country's poverty line or below US\$1 a day) when they started with the program. (Of these 3,164 institutions, 781 sent in their 2005 Institutional Action Plans. The 2,383 remaining institutions sent us their data in previous years, and we have included those numbers in this report.) Ninety percent of the poorest families reported are in Asia, a continent that is home to some 67 percent of the world's people living on less than US\$1 a day.

In the 2000 *State of the Campaign Report*, 78 institutions, representing two-thirds of the poorest clients reported, had their data verified by a third party. In 2005, we were able to verify the data of 330 institutions, representing 58,450,926 poorest families or 87.7 percent of the total poorest clients reported.

Table 1 shows results of the verification process over the last six years:

Table 1:

Year	Number of Institutions Verified	Number of Poorest Clients Verified	Percent of Total Poorest Clients	Total Number of Poorest Clients Reported
2000	78	9,274,385	67	13,779,872
2001	138	12,752,645	66	19,327,451
2002	211	21,771,448	81	26,878,332
2003	234	35,837,356	86	41,594,778
2004	286	47,458,191	87	54,785,433
2005	330	58,450,926	88	66,614,871

The growth from 54.8 million poorest clients at the end of 2003 to 66.6 million poorest clients at the end of 2004 represents a 21.6 percent growth rate over the year. The growth from 7.6 million poorest at the end of 1997 to 66.6 million poorest at the end of 2004 represents a growth of 776 percent during that seven-year period. In order to reach 100 million poorest by the end of 2005, the Microcredit Summit Campaign

needs to sustain a growth rate of 38.1 percent per year. Currently, we average just over 36 percent per year.

Growth Resulting from Institutions Reporting for the First Time

Each year the Campaign makes a concerted effort to include institutions that have not yet reported. In 2000, 22 percent of the growth came from institutions reporting for the first time. In 2001, 57.8 percent of the growth came from institutions reporting for the first time, although a significant portion of that growth came from the National Bank for Agriculture and Rural Development (NABARD) in India, which had expanded dramatically over the previous four years. (NABARD is the apex development bank in India for agriculture and rural development. NABARD has played a central role during the last decade in pioneering the Self Help Group ((SHG)) movement in India, under which poor and poorest women organize themselves into groups. The SHG members save and lend among themselves and also manage the affairs of their groups. The mature SHGs are linked to the formal banking system, which has an extensive branch network throughout the country, to bolster their resources. Although 2001 was the first time NABARD's clients were included in the *State of the Campaign Report*, its large number of clients is the result of dramatic growth within the NABARD program itself.) In 2002, 33.8 percent of growth came from institutions reporting for the first time. In 2003, 27.5 percent of growth came from institutions reporting for the first time, including India's Society for Empowerment of Rural Poor (SERP). In data representing end of 2004 figures, only 5.8 percent of the growth is a result of institutions reporting for the first time.

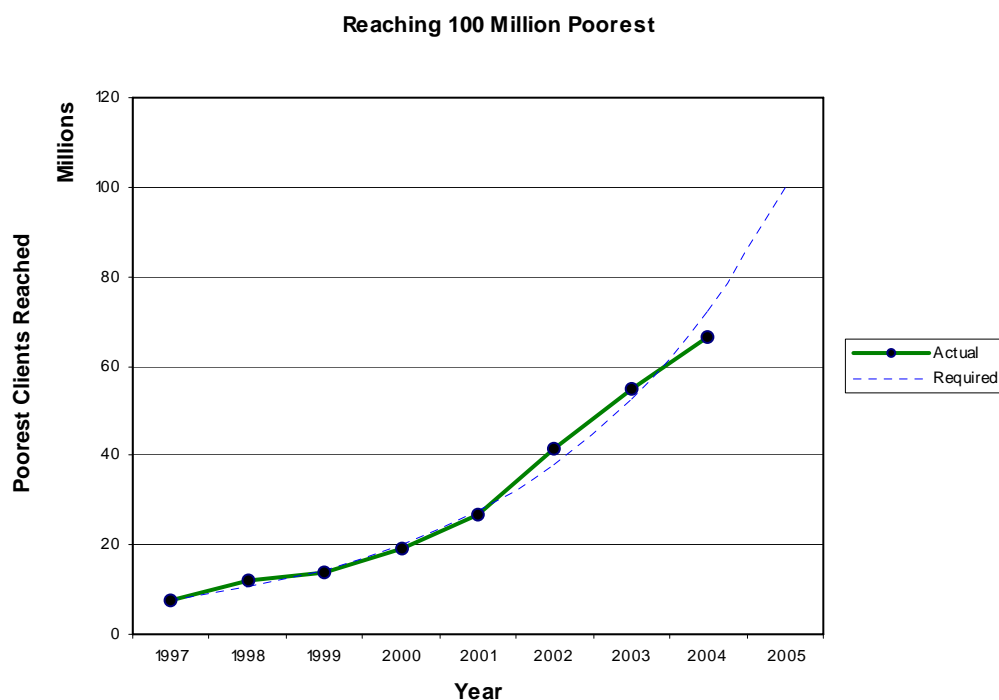
Table 2 shows progress over the last seven years:

Table 2:

Year	Number of Programs Reporting	Total Number of Clients Reached	Number of 'Poorest' Clients Reported
12/31/97	618 institutions	13,478,797	7,600,000
12/31/98	925 institutions	20,938,899	12,221,918
12/31/99	1,065 institutions	23,555,689	13,779,872
12/31/00	1,567 institutions	30,681,107	19,327,451
12/31/01	2,186 institutions	54,932,235	26,878,332
12/31/02	2,572 institutions	67,606,080	41,594,778
12/31/03	2,931 institutions	80,868,343	54,785,433
12/31/04	3,164 institutions	92,270,289	66,614,871

Figure 1 shows the trajectory of growth in poorest clients reached since 1997 versus growth that is required to reach 100 million poorest clients by 2005.

Figure 1:



The size of the institutions reporting data varies greatly. Table 3 shows the breakdown in size of the 3,164 institutions whose data are included in this report.

Table 3:

Size of Institution (in terms of poorest clients)	Number of Institutions	Combined Number of Poorest Clients
1 million or more	8	22,451,770 or 33.7 % of total
100,000-999,999	41	10,037,363 or 15.1 %
10,000-99,999	276	7,195,883 or 10.8 %
2,500-9,999	515	2,498,206 or 3.8 %
Fewer than 2,500	2,321	1,258,301 or 1.9 %
Networks	3	23,173,348 or 34.8 %

Of the 66.6 million poorest clients being served, 55.7 million of them, or 83.6 percent, are being served by the 52 largest individual institutions and networks reporting, all with 100,000 or more poorest clients. The three large networks are: 1) Association of Asian Confederation of Credit Unions (ACCU); 2) Bangladesh Rural Development Board (BRDB); and 3) National Bank for Agriculture and Rural Development (NABARD) in India.

Women Clients Reached

Of the 66.6 million poorest clients reached at the end of 2004, 83.5 percent or 55.6 million are women. The growth in the number of very poor women reached has gone from 10.3 million at the end of 1999 to 55.6 million at the end of 2004. This is a 440 percent increase in the number of poorest women reached from December 31, 1999 to December 31, 2004. The increase represents an additional 45.3 million poorest women reported as receiving microloans in the last five years.

The Use of Poverty Measurement Tools

As mentioned earlier, the Microcredit Summit Campaign's greatest challenge lies in bridging the gap between our commitment to reaching the poorest families and the lack of a sufficient number of quality poverty measurement tools in use.

Beginning in 2000, the Campaign asked practitioners to indicate what poverty measurement tool they used, if any, to target or identify poorest clients. Of the institutions reporting that year, two-thirds (341 out of 512 institutions submitting an Action Plan in 2000) reported using a tool other than an estimate. Thirty percent of that group (or 104 institutions) told us they were using one of the two tools in the Poverty Measurement Tool Kit: Participatory Wealth Ranking or the CASHPOR House Index.

This year, of the 781 institutions submitting data in 2005, 540, or 69.1 percent, reported using a poverty measurement tool other than an estimate. Of this group, 22.8 percent (or 123 institutions) told us they are using one of the two tools from our Poverty Measurement Tool Kit.

Regional Data

Of the 3,164 institutions that have reported to us, 994 are in Africa, 1,628 are in Asia, 388 are in Latin America and the Caribbean, 48 are in North America, 72 are in Europe and the Newly Independent States (NIS), and 34 are in the Middle East.

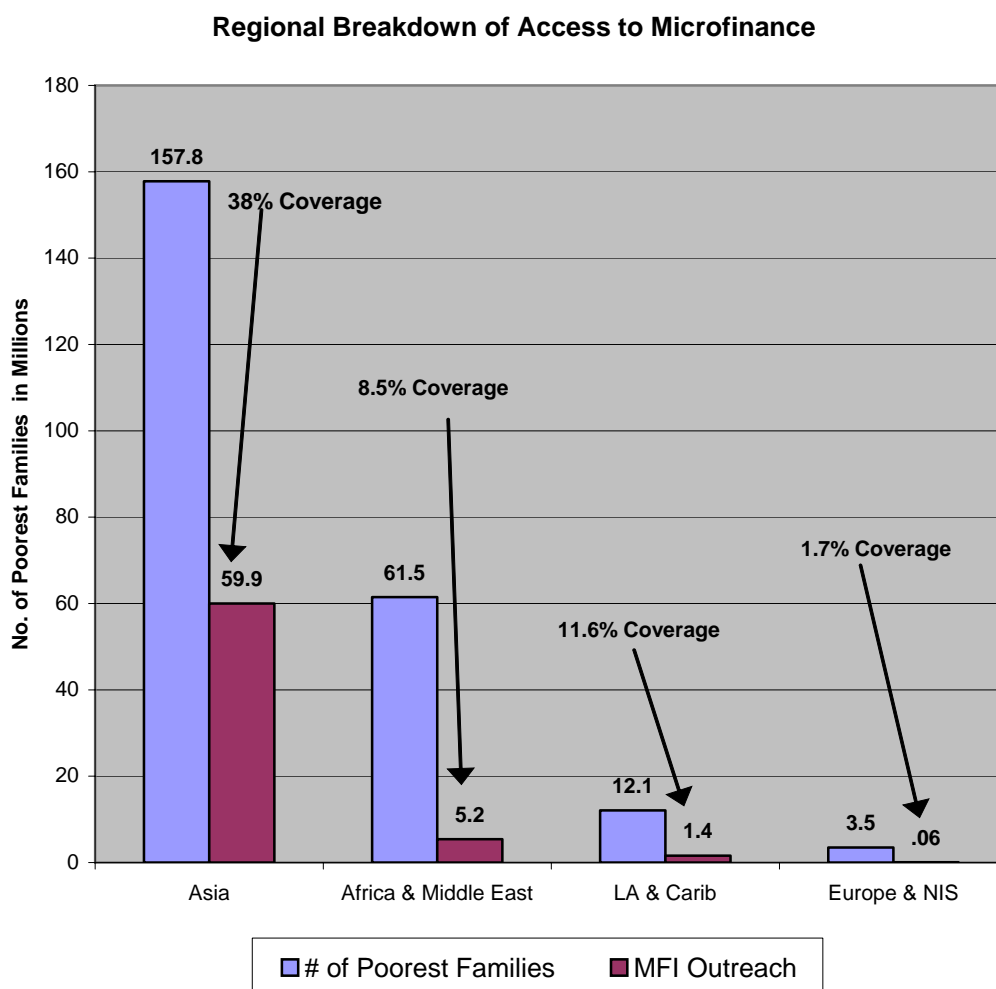
Table 4 shows the regional breakdown of data:

Table 4:

Region	Number of Programs Reporting	Number of Total Clients in 2003	Number of Total Clients in 2004	Number of Poorest Clients in 2003	Number of Poorest Clients in 2004	Number of Poorest Women in 2003	Number of Poorest Women in 2004
Africa	994	6,438,587	7,004,840	4,725,912	5,062,166	3,180,419	3,271,510
Asia	1,628	71,585,413	81,009,798	48,797,590	59,939,638	41,272,188	51,212,061
Latin America & Caribbean	388	2,519,299	3,854,401	1,121,324	1,429,360	719,191	1,020,992
Middle East	34	106,464	168,575	54,039	92,568	22,785	61,804
Developing World Totals	3,044	80,649,763	92,037,614	54,698,865	66,523,732	45,194,583	55,566,367
North America	48	53,147	56,911	24,817	28,638	10,782	17,696
Europe & NIS	72	165,433	175,764	61,751	62,501	37,360	38,343
Industrialized World Totals	120	218,580	232,675	86,568	91,139	48,142	56,039
Global Totals	3,164	80,868,343	92,270,289	54,785,433	66,614,871	45,242,725	55,622,406

Figure 2 shows the relationship between the number of families living in absolute poverty in each region (i.e., those living under US\$1 a day adjusted for PPP) and the number of poorest families reported reached in each region at the end of 2004.

Figure 2:



Reaching 100 Million Poorest by the End of 2005

Between 1997 and 2003, data released by the Microcredit Summit Campaign has showed an average annual growth rate sufficient to reaching 100 million of the world's poorest families with microloans by the end of 2005. Our 2005 report, however, outlines the first decline in that estimate. While it is clear that more than 100 million families will be reached by the end of 2005, the 100 million *poorest* benchmark may not be achieved until the end of 2006 or 2007. That said, progress to date remains remarkable and is one of the bright spots in the field of international development.

In the new edition to his book, *The Price of a Dream*, author David Bornstein writes, "[The progress of the Microcredit Summit Campaign] represents one of the few times that a major development promise is going to be fulfilled—and remarkably close to schedule."

The reason we can say that the 100 million poorest goal *will* be reached when attempts at reaching other development goals all too often fail is because microfinance uniquely addresses two of the greatest constraints to reaching international development targets: 1) insufficient funds and 2) the failure of many development initiatives to reach the very poor.

The funding constraint was powerfully addressed in 1997 in a statement by Michael Chu who was President of ACCION at the time. Quoted in the *Declaration and Plan of Action* for the 1997 Microcredit Summit, Michael Chu said, "The confirmation that microenterprise credit can be managed to achieve economic viability is an accomplishment of revolutionary proportions. This permits an activity motivated by social impact to break free of the structural paradox of most humanitarian efforts, in which the cost of reaching every additional person brings the program closer to its economic limits. Successful microfinance, on the contrary, becomes more self-sufficient with scale."

While there certainly are financial constraints in microfinance, especially in the start-up phase, they are dramatically different from those faced when attempting to reach goals such as vaccinating all children or ensuring primary school enrollment for all. These vitally important activities cost more with each additional child vaccinated or enrolled in school, while microfinance, in Chu's words, "becomes more self-sufficient with scale." This traditional barrier, insufficient funds, will not be the same kind of constraint to achieving the Microcredit Summit's goal as it is for achieving other development goals.

The second barrier, the challenge of reaching the very poor was made clear in a statement by Peter Adamson, who for many years wrote the *State of the World's Children Reports* with and for James Grant of the United Nations Children's Fund (UNICEF). In December 1990, Peter Adamson participated in an international conference call to discuss the latest UNICEF report. The World Summit for Children had been held three months earlier and he was asked which of the seven key goals from the Children's Summit was least likely to be reached. Would it be the goal to reduce child deaths that would present the most difficulty or would it be goals to cut illiteracy or increase access to clean water and safe sanitation? Peter Adamson's response was stunning in its clarity. "None of the goals will be hardest to reach," he replied, "it's the bottom 20 percent of the population that is most likely to be missed. It's not a goal that will be hardest to reach, it's a group."

The bottom 20 percent of the population Peter Adamson spoke of are the 1.2 billion people living below US\$1 a day. That is the group the Microcredit Summit Campaign is committed to reaching and the group targeted by the Millennium Development Goals, especially the goal of halving absolute poverty by 2015.

The field of microfinance is already overcoming this barrier through the ongoing and expanding focus on reaching the very poor discussed earlier.

Which Clients Are Not Being Counted?

While the Microcredit Summit Campaign counts 66.6 million poorest families reached by the end of 2004, there are families that are not included in this assessment. Who are those families?

- **Clients who have graduated from the program successfully:** Some leaders in the Campaign have argued that our benchmark, clients with a current loan, may omit millions who have graduated successfully from a microfinance institution. While this is likely true, the Campaign has no way of determining whether a client's departure is the result of success or failure and therefore maintains its focus on those with a current loan.
- **Clients in Large Government Programs in China and Thailand:** There are large programs in China and Thailand that have never reported to the Campaign and their data is therefore not included in our reports. It is hoped that the *State of the Microcredit Summit Campaign Report 2006* will reflect this data.

- **Programs that Reported One or More Years Ago, But Did Not Report in 2005:** There are more than 2,000 institutions that have reported to the Campaign in previous years, but did not report during 2005. In these cases we have used their old data, which account for only 10 percent of the 66.6 million poorest reached. Some of these MFIs may have disbanded, but many others may have grown dramatically. This too is not reflected in our latest data.
- **Institutions We Have Not Yet Identified:** No other agency has collected data from 3,164 institutions as has the Microcredit Summit Campaign, but there are perhaps thousands of other MFIs, mostly small ones, that have not yet submitted an Action Plan to us. Our efforts, especially those of our Regional Organizers, our Washington, DC-based staff, and our network partners around the world will remain focused on identifying these MFIs and collecting their data.

Re-launching the Microcredit Summit Campaign to 2015 with Two New Goals

Earlier this year, the Executive Committees of the Microcredit Summit Campaign and of RESULTS Educational Fund agreed to extend the Campaign to 2015 with two new goals. (The Microcredit Summit is a project of RESULTS Educational Fund, a US-based non-governmental organization, which has been responsible for the Campaign since its inception in 1995.) The decision reflects a commitment to deepen the Campaign's contribution to fulfilling the Millennium Development Goals, especially the goal of cutting absolute poverty in half by 2015. The two new goals are:

1. Working to ensure that 175 million of the world's poorest families, especially the women of those families, are receiving credit for self-employment and other financial and business services by the end of 2015. (With an average of five in a family this would affect 875 million family members.)
2. Working to ensure that 100 million of the world's poorest families move from below US\$1 a day adjusted for purchasing power parity (PPP) to above US\$1 a day adjusted for PPP, by the end of 2015. (With an average of five per family this would mean that 500 million people would have risen above US\$1 a day nearly completing the Millennium Development Goal on halving absolute poverty.)

As exciting as these new goals are, one in particular presents a significant measurement challenge. In fact, twice now the Microcredit Summit Campaign has set goals for which there were no widely-known, cost-effective ways to measure progress. This was certainly true regarding cost-effective poverty measurement tools when the Summit was launched in 1997 with its "100 million poorest" goal. The lack of such tools stood as a critical barrier to achieving the Microcredit Summit's poverty-focused goal. When a quantifiable goal is set without ways to measure progress, the goal can be rendered meaningless.

The Campaign, however, has worked tirelessly to answer this challenge and this work has been one of our greatest contributions to the field. For example, a Poverty Measurement Discussion Group in 1997 led to the creation of a Poverty Measurement Tool Kit in 1998, which includes the tools discussed earlier: 1) Participatory Wealth Ranking (PWR) and 2) the CASHPOR House Index (CHI), and their dissemination.

With the new goal to have 100 million of the world's poorest families move above US\$1 a day adjusted for PPP, we are faced with a new measurement challenge—the need for cost-effective tools that measure whether a family moves from below US\$1 a day to above US\$1 a day. It is a challenge we will meet over the next several years.

One difference between the 1997-2005 challenge and the 2006-2015 challenge is the new US law that requires development and certification of cost-effective poverty measurement tools that measure US\$1 a day poverty. These new tools might both provide reasonable assessment of whether a family starts below US\$1 a day *and*, if applied on a consistent basis, whether the family moves above US\$1 a day. (The goal, of course, is not merely to move families above US\$1 a day, but to have that move be the beginning of continuous progress in the well-being of those families.)

If this is so, it will likely have two results: 1) provide much needed impetus to the MDG on halving absolute poverty by 2015 and 2) upset impact purists who would argue that more rigorous and costly impact measurement tools are required in order to establish causality. "Just because a family starts below US\$1 a day," they might argue, "doesn't mean their progress above US\$1 a day is a result of their involvement in a microfinance program. A low-cost tool will not be able to determine causality."

This has always been the trade-off: having a sense of both the poverty level of entering clients and of their progress provided by a less rigorous, but cost-effective, tool or having no sense of the social progress being made unless a government agency has paid for a more costly impact assessment. For years this trade-off left many practitioners not knowing the poverty level of their entering clients beyond anecdotal evidence.

USAID has commissioned the IRIS Center at the University of Maryland to develop accurate yet cost-effective poverty measurement tools in response to the new US law. A team of researchers has tested over 700 basic indicators against the more rigorous Living Standards Measurement Study (LSMS), the more costly tool used by the World Bank and others to determine US\$1 a day poverty, to see which of the low-cost indicators correlates most closely with the more rigorous tool. The accuracy tests have been completed successfully and the practicality tests have begun. More information on the project is available at www.povertytools.org or on the USAID Microenterprise Division's website www.microlinks.org.

Regional and Global Meetings 2004-2006

In 2005, the Microcredit Summit completed the third in its most recent series of regional meetings. In February 2004, more than 1,200 delegates from 47 countries attended the Asia/Pacific Microcredit Summit Regional Meeting in Dhaka, Bangladesh co-hosted by the Palli Karma-Sahayak Foundation (PKSF). In October 2004, 650 delegates from 75 countries participated in the Middle East/Africa Microcredit Summit in Amman, Jordan that was co-hosted by the Arab Gulf Program for United Nations Development Organizations (AGFUND) in Saudi Arabia. And in April 2005, more than 1,100 delegates from 38 countries came to Santiago, Chile for the Latin America/Caribbean Region Meeting co-hosted by BancoEstado and other leading Chilean institutions.

Each gathering is organized to forward the Campaign's learning agenda as expressed in the following statement by Anne Hastings, Director of Fonkoze in Haiti, immediately after the Latin America/Caribbean meeting: "It was brilliant! It was so wonderful to be at a conference where at the opening ceremonies the tone was set: 'Microcredit is not the goal, but the means — The goal is to end poverty!'"

The Campaign's learning agenda will be dramatically enhanced when 2,000 delegates from more than 100 countries gather at the Global Microcredit Summit in Halifax, Nova Scotia, Canada, from November 12-15, 2006. End of 2005 data will be released at the Halifax Summit. Information on the Global Microcredit Summit 2006 can be found at: <http://www.globalmicrocreditsummit2006.org>

Conclusion

You know that mantra, "Give a man a fish, he'll eat for a day. Teach a man to fish, he'll eat for a lifetime?" It's missing something: microfinance is the fishing rod, the boat, the net, etc. Cash and dignity, side by side.... Maybe the mantra should be: "Give a man a fish, he'll eat for a day. Give a woman microcredit, she, her husband, her children, and her extended family will eat for a lifetime."

Bono, lead singer, U2

We close this report with the story of Susan Wangui of Kenya, a story of adversity and hope.

Susan grew up in a poor, rural area of Kenya. She was the only one of her siblings to attend school but was forced to drop out after fourth grade when her family could no longer afford the school fees. Her parents kicked her out when she became pregnant at 17. Hoping to find work, Susan and her infant son moved to Nairobi, where she married and had a daughter. Her husband left her when they learned she was HIV-positive. Unable to find work and with no means to support her two small children, Susan ended up in prostitution.

Susan learned about Jamii Bora, a Nairobi-based microfinance institution, from neighbors in her slum. She completed their business training, which improved her business skills and gave her the confidence to begin her clothes mending and sales business. The microfinance services enabled her to quit prostitution and move her family from a shack in their crime- and disease-ridden slum into a safer house.

Susan sometimes struggles to pay the higher rent and occasionally must skip meals, but feels her children's safety justifies the difficulties. Their house has a floor, running water, a waterproof roof and locking door—all luxuries they did not have previously.

With each increasing loan, Susan buys more raw materials in bulk at lower costs, thus increasing her business's profitability. She is convinced she would not be alive without Jamii Bora's medical insurance and access to HIV medication, and can't imagine what would become of her children, as there is no one else to care for them. Susan has savings for the first time and is striving to earn enough to ensure her children's educations so they can break free from the chains of poverty.

When the Microcredit Summit Campaign was launched in 1997, there were 7.6 million clients like Janet and Susan, the women whose lives are described in this report. These 7.6 million very poor clients affected 38 million family members. By the end of 2004, 66.6 million very poor clients were reached by microfinance institutions, bringing hope to some 333 million family members.

The aspirations of this Campaign and of our partners and their clients are powerfully expressed in the following excerpt from George Bernard Shaw's *Man and Superman*:

This is the true joy in life, the being used for a purpose recognized by yourself as a mighty one, the being a force of nature, instead of a selfish, feverish little clod of ailments and grievances complaining that the world will not devote itself to making you happy. I am of the opinion that my life belongs to the whole community, and it is my privilege to do for it whatever I can. I want to be thoroughly used up when I die, for the harder I work, the more I live. I rejoice in life for its own sake. Life is no brief candle to me, it is a sort of splendid torch which I've got a hold of for the moment, and I want to make it burn as brightly as possible before handing it on to future generations.

Members of this Campaign, including tens of thousands of microcredit staff members and tens of millions of clients, devote each working day to realizing the true joy in life—being used for a purpose recognized by themselves as a mighty one, working to end the scandal of global poverty. And when we see positive changes in the lives of the hundreds of millions of family members, we know that we are holding the splendid torch of life and truly making it “burn as brightly as possible before handing it on to future generations.”

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ⁱ The Microcredit Summit Campaign defines “poorest” as those who are in the bottom half of those living below their nation’s poverty line, or any of the 1.2 billion who live on less than US\$1 a day adjusted for purchasing power parity (PPP), when they started with a program. As stated in past reports, the Campaign’s greatest challenge lies in bridging the gap between its commitment to reaching the poorest and the lack of a sufficient number of effective poverty measurement tools in use. Therefore, every mention of the term poorest within this report should be read within the context of this dilemma. Our work to expand awareness about and use of cost-effective poverty measurement tools is described throughout this report.

ⁱⁱ For the purpose of this report, the 1997 Microcredit Summit, and the Summit’s nine-year fulfillment campaign, any mention of “microcredit” refers to programs that provide credit for self-employment and other financial and business services (including savings and technical assistance) to very poor persons.