ASSESSING THE POVERTY OUTREACH OF MICROFINANCE INSTITUTIONS AT HOUSEHOLD AND REGIONAL LEVELS
A CASE STUDY IN MEXICO

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This report is based on a Diploma thesis (Nov. 2001) with the same title supervised by Manfred Zeller.
Summary

Microfinance institutions (MFI) are generally considered to be a promising instrument to alleviate poverty and to provide financial services to the poorest households. To what extent MFIs are really able to reach the poorest of the poor remains still unclear. Empirical evidence is needed to justify the investment of public funds. The intention of the present study is to evaluate the outreach performance of Compartamos, a Mexican microfinance institution. Poverty outreach, measured by the relative poverty level of clients, is assessed at the regional and household levels. Results of the poverty assessment at the household level is evaluated in an overall framework comprising the poverty level of the operational area, institutional mission and target group.

The methodology chosen for the household level assessment is an operational indicator-based tool developed by Henry et al. (2001). It includes a wide range of qualitative as well as quantitative variables related to food security, housing conditions, human resources and asset ownership to reflect different dimensions of poverty. Two independent samples of 210 new clients and 317 non-clients are randomly selected in six regions in Mexico. 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 client households across poverty terciles indicates if they are relatively poorer or better-off than the general population living in the same area.

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 therefore consistent with the methodology chosen for the household level assessment. On the basis of the classification, the poverty level of Compartamos’ operational area is evaluated at the state and municipality levels.

Results of the household and regional level poverty assessments indicate that Compartamos does not have considerable depth of outreach. Concerning the regional assessment, municipality level results diverge significantly from state level results. The MFI has established more branches in poor states, probably guided by the objective of reaching the poorest. However, an assessment at the state level runs the risk to conceal major discrepancies within the studied units. Smaller administrative units are likely to be
more homogenous with respect to their level of well-being. The analysis at the municipality level reveals that Compartamos has a preference for allocating branches in municipalities with high living standards. At this level, the decision is probably influenced by the availability of infrastructure, economic opportunities and higher population density. When taking the distribution of the Mexican population across municipalities of different levels of well-being into account, it becomes evident that Compartamos’ market penetration is higher in the better-off areas, while the poor areas are clearly under-served. Similarly, the household level assessment reveals that 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.

Yet, judging these findings requires a careful consideration of objectives and strategies of the microfinance institution. The institution aims at reaching women living in conditions of disadvantage but not necessarily the poorest among them. Serving a mixed clientele is in accordance with the institutional focus on sustainability and growth. Taking into account the notable breadth of outreach achieved by the institution, even the relatively small share of very poor clients results in a considerable absolute number of very poor households reached by Compartamos. Under these circumstances it can be alleged that in the case of Compartamos breadth can compensate for depth. Given its focus on growth and sustainability, 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.
1. Introduction

About one fifth of the world population lives in extreme poverty. These persons are generally excluded from the formal banking sector “because their savings [are] tiny, their loan demand [is] small, and they [lack] loan collateral” (Zeller et al. 2000: 1). Risk and transaction costs associated with serving the poor are often considered prohibitive for commercial banks.

Microfinance institutions (MFIs), commonly seen as a promising instrument for poverty alleviation, aim at filling this gap and at providing capital to the under-served segments of the population. The common vision of these institutions is to lift poor households out of poverty by providing them with financial services. The main emphasis lies on small loans, but some institutions offer savings facilities and insurance as well as complementary services (such as education or nutrition programs) to their clients. Access to the financial services should enable poor households to realize income-generating activities, to accumulate assets, and to smooth their consumption in periods of distress.

The Microcredit Summit Campaign (2001), established in 1997 by a group of policymakers, donors and practitioners, set the goal to provide more than 100 million of the poorest families worldwide with microcredit and other financial services by 2005. Reaching this goal requires large amounts of donor funding to build up new institutions. Public funds mobilized to support microfinance often carry a mandate to serve not only the poor but also the poorest (e.g. CGAP 2001). Yet, it still remains an issue of debate, to which extent MFIs are able to reach the poorest sections of the population (CGAP 1998).

If scarce donor funds are channelled to support microcredit providers, it has to be proven that these institutions reach the poor, so that donations end up in the right hands. There is a need for empirical evidence on the effectiveness of MFIs in reaching the poorest segments of the population. In this study, the case of Compartamos, a Mexican MFI, is considered. This MFI received financial support to cover its start-up and expansion costs. An assessment of the institution’s poverty outreach will reveal if these donations really benefit the poorest. For a comprehensive picture, Compartamos’ poverty outreach will be evaluated at the household and regional levels.

2. Conceptual framework

Three goals are generally aimed at by MFIs and should be the basis for their evaluation: outreach to the poor, sustainability of the institution and impact among clients generated by the offered services (Zeller et al. 2000). Outreach can be distinguished into breadth and depth of outreach. Breadth is defined as the total number of active clients and is
important because demand for credit by the poor is likely to exceed the funds available for lending to the poor (Schreiner 1999). The objective is therefore to reach as much of the under-served as possible with the given funds. However, a large client base does not necessarily mean that the poorest are served. For that reason it is critical to consider the institutions’ depth of outreach, which refers to the poverty level of clients. Sustainability relates to the viability of institutions in the future. It is an important criterion for successful MFIs as only permanent institutions can assist future generations and improve the situation of poor borrowers in the long-term (Woller et al. 1999). Persistence of the MFI is often related to its financial performance. A financially sustainable MFI is independent of donor subsidies. Finally, impact is the sum of all positive and negative changes that take place in the clients’ and their families’ lives, in their enterprises and in their communities due to the services provided by the MFI (The SEEP Network 2000). To justify allocation of scarce donor funds, it should be proved that MFIs have positive effects on poverty reduction (Navajas et al. 2000).

This study is concerned with evaluating poverty outreach, however, one performance goal should not be considered in isolation from the other goals, nor from institutional and external factors that influence the achievement of goals. Several trade-offs as well as synergies exist between the achievement of the objectives of outreach, impact and sustainability (Zeller 2001, Zeller et al. 2000). Their relation can be illustrated in a critical triangle of microfinance, as shown in figure one.
Is there a trade-off between financial sustainability and outreach to the poor?

Most broadly discussed in the literature is the relationship between sustainability and depth of outreach. While authors generally agree that there is no trade-off between sustainability and breadth of outreach, or even stress the synergies between sustainability and service expansion, much debate exists on whether financial self-sufficiency and reaching the poorest families are mutually exclusive goals (Gulli 1998).

The reason for a trade-off is mainly seen in the high costs associated with lending to the poorest (Fruman et al. 1998, Hulme et al. 1996, Paxton et al. 2001, Woller et al. 1999). Disbursement of very small credits implies higher costs for the MFI as the fix-cost component of lending affects smaller loans to a greater proportion than larger loans (Zeller et al. 2000). Moreover, the risk of failure in loan repayment is perceived to be higher among the very poor, who are more risk-prone to economic shocks. Financial sustainability implies that the high costs of lending have to be passed on to clients, which is supposed to prohibit participation of the poorest.
But there are also authors who argue that financial sustainability and depth of outreach are compatible goals (Gibbons et al. 2000, Rhyne 1998). Emphasis lies on the absolute number of poorest reached, which might be higher for sustainable institutions that serve a mixed clientele than for donor financed institutions with narrow outreach. Serving not exclusively the poorest but a mixed clientele is supposed to allow institutions to diversify risks and to cross-subsidize across clients from different poverty levels (Garson 1997). Lower returns on equity from lending to poorer clients could be compensated by higher returns from lending to better-off clients (Gibbons et al. 2000, Simanowitz et al. 2000).

According to Gulli (1998) it remains still inconclusive whether there is a trade-off between sustainability and outreach to the poor. More empirical research is needed addressing this question. From the actual state of discussion it can be inferred that sustainable institutions are likely to reach absolutely more clients than subsidized credit schemes. It is further likely that sustainable institutions will tend to serve a mixed clientele resulting in a smaller share of their total client base being among the poorest, as compared to donor financed institutions. Whether that indicates a trade-off, depends on the combination of depth and breadth, i.e. the absolute number of poorest borrowers reached by the MFI.

Institutional features that influence outreach to the poor

At the institutional level, banking technology, targeting methods and product characteristics determine to a considerable extent how successful the MFI is in reaching the poor. Technological innovations, such as group lending, reduce transaction costs and thereby allow the institution to expand services to poorer clients. Direct targeting methods define selection criteria that have to be met by potential clients. Identifying the poorest and encouraging their participation in the program can improve depth of outreach, but is costly. Indirect targeting methods are requirements such as group formation, weekly meetings and compulsory savings, or conditions of the loan product such as small loan size, short loan terms and weekly repayments. These features are supposed to deter the better-off from participating in programs, and at the same time attract the poor by fitting loan products to their needs (Ledgerwood 2000). When designing financial products it is important to account for the specific needs of the target clientele. These indirect methods of targeting the poorest may be helpful or even necessary but often insufficient to enhance depth.

External factors determining the performance of microfinance institutions

As illustrated in figure one, there is a range of external factors that influence the performance of MFIs. An assessment of the performance of an MFI should take the external context in which it operates into account. Areas providing infrastructure and economic opportunities favour the achievement of outreach in both dimensions, breadth
Gurgand et al. (1994) mention the negative effects of a weak economic environment, especially in rural areas, on the outreach performance of MFIs. The absence of markets in poor regions hinders the development of economic activities. People living in remote areas may be able to expand production with the help of microcredit, but lack the possibilities to commercialise their products. Lower population density and lack of infrastructure in rural areas increase transaction costs of MFIs. This will often lead to the exclusion of very poor people living in remote areas (Gulli 1998, Gurgand et al. 1994).

Empirical studies have revealed that branch allocation is often positively influenced by population density, easy access, the existence of economic opportunities and finally the poverty level (Gulli 1998, Sharma et al. 2000). Only the last determinant is in accordance with the mission of MFIs to alleviate poverty. According to the first three criteria, branches will rather be located in better-off areas than in remote, poorly developed areas where poverty is most severe.

The fact that in some regions it is easier to reach the poorest than in others has to be taken into account when judging the outreach performance of an MFI. Therefore, the poverty level of an MFI’s operational area is of major importance for a concluding appraisal regarding depth of outreach at the household level.

3. Methodology

Depth of outreach can be measured by the poverty level of clients. Different poverty concepts and measurement approaches exist in the literature (Hulme et al. 1996, Maxwell 1999). Poverty is not only a matter of material deprivation but is reflected in many aspects of life. While the concept of income-poverty is still relevant in theory and practice, many scholars criticise it for reducing a complex phenomenon (poverty) to a single aspect (income) (Hulme et al. 1996). Dimensions like food, health, education and housing are partly reflected in the economic situation of the household, but they also directly influence the well-being of household members. Moreover, people living in poverty suffer from vulnerability due to their inability to protect themselves against risks, and from social discrimination by society and public institutions (The World Bank 2000). Multi-dimensional approaches try to cover the complex reality of poverty. In order to deal with complexity, a range of indicators reflecting the different dimensions is used to assess the poverty level of households.

3.1. Measuring the poverty level of households

The methodology used in this study was especially developed by Henry et al. (2000) to evaluate the outreach of MFIs. It measures the poverty level of clients at the household
level and compares their results to a sample of non-client households (control group) living in the same operational area of the MFI. The development of the tool was commissioned by the Consultative Group to Assist the Poorest (CGAP) and carried out by the International Food Policy Research Institute (IFPRI) in response to the need for a simple and operational tool that could be used by donors and practitioners to assess the poverty outreach of MFIs (Henry et al. 2000).

Selection of indicators

The tool provides a recommended questionnaire incorporating various quantitative as well as qualitative indicators in order to embrace the multi-dimensionality of poverty (Henry et al. 2000). The final selection of these indicators was based on a rigorous consultation process and empirical testing of more than 300 potential indicators. Approximately 30 indicators were selected for the final questionnaire covering the following dimensions of poverty: human resources, dwelling, food security, vulnerability and assets. The pre-coded responses given for each indicator have to be adapted to local conditions. The method further allows the inclusion of some additional indicators that are locally relevant for the description of poverty. An important characteristic of the method is the collection of data on a poverty benchmark indicator - per capita expenditures on clothing and footwear - which is closely correlated with total consumption expenditures of the household (Henry et al. 2000). Total consumption expenditures are a widely accepted measure for the poverty level of a household. With the benchmark indicator, a “bridge” can be built between income-based poverty measures and the proxy indicators used by the tool (Parker 1998).

Construction of the poverty index

The wide range of indicators incorporated in the assessment yields a more comprehensive picture of poverty. However, the variety of indicators complicates the task of drawing comparisons between households. To overcome this difficulty, a composite index is created. In the construction of indices, weighting of indicators can be easily subject to arbitrariness (Maxwell 1999). Henry et al. (2000) resolve the problem by applying a rigorous statistical procedure - the principal component analysis (PCA) - for the creation of the index. First, each indicator is correlated against the benchmark indicator, per capita expenditure on clothing and footwear. If the correlation is significant, the indicator qualifies for the PCA. By this procedure it is assured that only those indicators are included in the index that are identified to be the strongest measures of poverty within the specific country and its poverty context. In the next step, PCA is used to aggregate the indicators to form a single household-specific index of poverty. The PCA assigns weights to each indicator included in the analysis according to its contribution to the poverty
measure, i.e. its relative relevance in measuring poverty in the specific context (Zeller et al. 2001). Various underlying components are extracted by the PCA, where each component explains a share of the common variance among the indicators. Components are linearly related to the original indicators, but are not correlated with each other. As the indicators are selected on the criterion of being very strong poverty measures, the first underlying component, accounting for the greatest share of common variance, is assumed to be poverty. From this poverty component a poverty index score is assigned to each household. It is estimated on the basis of standardized indicator values, resulting in a standardized poverty index with mean zero and standard deviation equal to one (Zeller et al. 2001).

In order to create a strong poverty index that reliably measures the level of poverty among households, indicators have to be carefully screened (Henry et al. 2000). As mentioned above, the first step is to select only indicators that are significantly correlated with the poverty benchmark. Second, indicators from the different dimensions of poverty should be included in the index in order to reflect the multi-faceted nature of poverty. The number of indicators should be limited to not more than twenty. Third, various test-models of the PCA should be run to test for the best combination of potential indicators. The Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy is recommended to be above 0.6. Furthermore, there should be no indicator with a communality value below 0.2, because in that case the contribution to the index would be very low. It should also be checked that the component loading for each indicator has the expected sign (Zeller et al. 2001). Test-models are run only with the non-client populations, as the sample of clients is probably biased and does not represent the general population. Later, the refined model is expanded to the whole sample and the index is assigned to all households.

Defining poverty groups

Once the poverty scores are assigned, households can be compared to each other. A lower score indicates that a household is poorer. Drawing a comparison between microfinance clients and the general population requires the definition of different poverty levels. For this purpose the control group is sorted from lowest to highest score and divided into three groups, each accounting for 33% of the households. In accordance with the poverty index the lowest tercile represents the poorest group within the population. Each tercile is defined by cut-off scores. The client households are then sorted into the different poverty groups according to their poverty score. To evaluate the depth of outreach of an MFI the share of clients within each poverty tercile is compared to the share of non-clients. If there is one third of the client population falling into each of the groups, the households reached by the MFI represent the general population living in the
operational area. However, if there is a greater share of clients within the poorest (least poor) tercile, the outreach of the MFI can be considered deep (shallow) (Zeller et al. 2001).

The characteristics of the method presented above make it a rigorous tool to assess the poverty level of clients. The statistical procedure and the definition of relative poverty groups vanquish the common issues of weighting and determining the poverty threshold. One limitation of the method is that it does not account for inequalities in resource allocation within the household as information is gathered at the household level. Assuming an equal distribution of resources among household members disregards the fact that women are often disadvantaged (The World Bank 2000). It could be further criticised that the method does not provide information concerning absolute poverty, however, the depth of outreach achieved by a given MFI should be considered relative to the population living in its operational area. It is critical that the institution reaches the poorest segments of the population within a given country or region. For a complete picture, achievements in poverty outreach at the household level should be related to the poverty level of the operational area.

3.2. Data collection

Empirical data were collected using the questionnaire recommended by Henry et al. (2000) with minor adaptations to the Mexican context. The survey team was composed of twelve interviewers from the Mexican research institute “Logistica”. Four supervisors accompanied the fieldwork carried out from February 22\textsuperscript{nd} to March 2\textsuperscript{nd}, 2001. Subsequently, data were entered, cleaned and analysed in SPSS.

Questionnaire adaptation for the field survey

In order to warrant the accurate implementation of the empirical methodology, adaptation of the questionnaire to the local context is necessary. The adjusted version of the questionnaire can be found in the annex. Section A - household identification - remains so far unchanged with only one question about the loan cycle of clients added. In Section B - family structure - some pre-coded responses are adjusted to local conditions. For the variables “main occupation” and “maximum level of schooling” two more response categories are included. Furthermore a new client-specific variable is added to Section B asking for the number of loan repayments to cross-check the loan cycle stated in Section A. In Section C - food-related indicators - adaptations to the Mexican nutritional habits are necessary. As revealed by the pilot test, luxury food includes beef, pork and chicken, which are listed in the questionnaire in a descending order. Inferior food in Mexico consists of tortillas (thin corn bread), beans and chilli. The local staples that are included
are chilli (necessary for the basic Mexican sauce), beans and rice. Tortillas, the basic food of Mexican families, was first included as staple food but proved to be inconsistent in the pilot test due to differences in the acquisition of tortillas between households. Two additional questions are posed concerning tortillas. The first variable explores if the household buys corn, corn dough or readily prepared tortillas. This is supposed to be a strong indicator for the poverty level of households, as poorer households buy corn to make tortillas themselves, whereas better-off families can afford to buy prepared tortillas. The second question asks for the frequency of purchase. In Section D - dwelling-related indicators - adaptations have been realized mainly with respect to response categories. Pre-coded responses for the type of material of roof, walls and floor correspond to locally used materials. Responses for sanitation, electricity supply and cooking fuel are chosen according to the local conditions. In Section E - asset-based indicators - some indicators are added. Households owning agricultural land are asked whether their land is irrigated. Two additional variables are included in the list of assets - microwave and water boiler - that are supposed to be important indicators to distinguish between different poverty levels in the Mexican context.

**Sampling procedure for the selection of households**

A multi-stage random sampling procedure was used to select households ensuring that the final set of households be representative of the entire population. The population is defined as all new clients of Compartamos and non-clients living in the same area (Henry et al. 2000). The non-client sample serves as the control group representing the general population living in the operational area of the MFI. „New clients“ refers to all clients being member of a credit group that has been formed within the last six months. This rules out potential impact of the MFI’s services on its clients (Matin et al. 1999, Remenyi 2000).

New clients of Compartamos were selected using a three-stage cluster approach. In the first stage, branches were defined as clusters. Compartamos has 32 branches of which 27 have new client groups. Information on these groups had to be gathered from two different information systems, one of them still operating with only 23 branches. As new branches had been derived from the older ones, it was appropriate to aggregate information to those 23 branches. The Federal District of Mexico was excluded from the sampling frame due to different lending methodologies applied and much higher loan amounts disbursed in that area. Accordingly, the sampling frame was composed of 22 clusters. To provide a proportional distribution of the sample, probability proportionate to size sampling was applied to select clusters (Henry et al. 2000). Branches were assigned a sampling interval proportionate to their share of total new clients. As a result, larger clusters had a higher probability of being selected than small ones. Using a random-number table the following
six branches were selected out of 22 clusters: Puebla, Córdoba, Jalapa, Puerto Escondido, Miahuatlán, and Huajuapán de León. In the second stage, an equal number of new client groups was drawn from each cluster. For each of the six branches a list containing the names of new client groups was prepared weighting them according to their size. From each list seven groups were randomly selected, resulting in a total number of 42 groups. In the third stage, clients were selected through systematic sampling. Five clients were drawn from each of the client lists prepared for the groups, resulting in a total number of 210 clients.

In each community, seven to eight non-clients were interviewed in addition to the five clients. Non-client households were randomly sampled using the random walk method (Henry et al. 2000). First, the boundaries of the survey site were defined, second, the site was divided into quarters using its centre as a reference point, and third, a direction was randomly chosen. Following this direction, households in a predetermined interval were selected and interviewed. It was ensured that the random walk reached the outer boundaries of the area, because households living farther away from the centre are likely to be poorer. Ignoring them in the sampling would introduce a systematic bias.

The final set of surveyed households is composed of 210 new clients representing all new clients of Compartamos (except new clients in Mexico City) and 317 non-clients representing the general population living in the operational area of Compartamos. The ratio of clients to non-clients is two to three. Proceeding on the assumption that clients are a more homogeneous group with respect to the level of well-being, the client sample can be smaller. In the general population, in contrast, there is more variability of socio-economic characteristics, requiring a larger sample that controls for that variability (Henry et al. 2000).

4. The case study MFI *Financiera Compartamos*

The following section provides information about performance, strategy and institutional mission of the MFI Compartamos. The information presented here was obtained mainly from the institution itself through direct interviews and e-mail correspondence and partly from former evaluations.

*Financiera Compartamos* is an MFI committed to providing financial services to enterprising people who live in conditions of disadvantage. The objective is to create opportunities of economic growth, personal and social development for their clients. Clients are mostly rural self-employed women without access to the formal financial sector due to lack of collateral. Compartamos’ vision is to expand its services and accordingly the financial frontier in Mexico. The emphasis put on institutional growth and the definition
of the target group requiring clients to be engaged in some kind of income-generating activity indicates that Compartamos is a sustainability-focused MFI.

Compartamos started as a pilot project of Gente Nueva, a large Mexican NGO, in 1990. Besides a microcredit program there were other projects under the auspices of Gente Nueva, including food-for-work and health clinics. In 1995 the microcredit program was separated from the other projects, assuming responsibility for its accounting. Since then, the program has grown rapidly and achieved full self-sufficiency in 1997. The rapid growth and good financial performance led to the transformation of the non-profit organisation Asociación Programa Compartamos into the regulated financial institution Financiera Compartamos in 2000. Main shareholders are Mexican investment funds and individual investors as well as international funds including ACCION’s Gateway Fund (20%) and Profund (6%). The main advantage of transformation is that it allows Compartamos to obtain commercial funds. Non-profit organisations in Mexico are not permitted to access commercial sources of funding. Through transformation the institution overcame these restrictions and is now able to further grow and expand its financial services.

The credit delivery method used by Compartamos is a group-based approach providing individual loans to group members. The solidarity groups are formed by approximately 25 women. As groups are self-selected, decisions of who is creditworthy and who is not is left mainly to the group members. Before receiving the first loan women must attend training sessions with the responsible loan officer. Loan officers assist them in credit application and teach them how to manage the group, recollect loans and keep accounts. These skills are necessary because groups are self-governed. Initial loans vary between US$ 90 and US$ 140 per person; subsequent loans depend on the amount of savings deposited in an extra bank account. Clients are obliged to save ten percent of the loan amount they wish to apply for, and cannot withdraw savings before recovering the loan. Compulsory savings serve as a kind of guarantee for Compartamos. No traditional collateral is required; instead it is replaced by the solidarity of group members. If one woman fails to pay back her loan the others are bound to help her out. Repayments are made in weekly group meetings during a term of four months. In Mexico City, where the institution operates only since March 1999, loan products vary from the rest of the operational area. Loans are delivered to individual borrowers and small solidarity groups of four to six members. The main difference is that in Mexico City men are served as well and significantly larger loans are offered, especially to individual borrowers.

4.1 Outreach

Compartamos has 32 branches located in ten different states of Mexico and in the Federal District of Mexico City. Compartamos initiated its operations in Oaxaca and Chiapas,
which is reflected by a larger active client base in these states. The following graph indicates the number of clients by state.

**Figure 2: Active client base by states**

![Active client base by states graph]

In 2001, Compartamos serves about 67,000 clients, with an increasing tendency. Growth of its active client base and of its total loan portfolio during the preceding years has been impressive. Table one shows the total loan portfolio and the total number of active borrowers for the years 1995-1999 and as of March 2001.

**Table 1: Outreach performance indicators of Compartamos**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of active clients</th>
<th>Total loan portfolio (US$)</th>
<th>Average outstanding loan balance (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>17,500</td>
<td>547,176</td>
<td>31</td>
</tr>
<tr>
<td>1996</td>
<td>26,716</td>
<td>1,448,453</td>
<td>54</td>
</tr>
<tr>
<td>1997</td>
<td>32,254</td>
<td>2,150,757</td>
<td>67</td>
</tr>
<tr>
<td>1998</td>
<td>43,401</td>
<td>2,864,122</td>
<td>66</td>
</tr>
<tr>
<td>1999</td>
<td>48,835</td>
<td>6,223,000</td>
<td>127</td>
</tr>
<tr>
<td>3/2001</td>
<td>67,029</td>
<td>13,674,150</td>
<td>376</td>
</tr>
</tbody>
</table>

Source: Based on data from ACCION Network Mexico. Data for 3/2001 provided by Compartamos.

While it is safe to say that Compartamos’ outreach is of notable breadth\(^1\), no reliable statements can yet be made about the depth of outreach. Referring to the average outstanding loan balance, which is often used as a proxy for depth of outreach, Compartamos experienced a significant increase since 1998. As shown in table one, average loan size rose from US$ 127 in 1999 to US$ 376 in March 2001, i.e. an increase of 200% in only fifteen months. Accordingly, the recent growth of total loan portfolio is not

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\(^1\) According to the criteria set by the MicroBanking Bulletin (Churchill 2001), Compartamos has achieved large scale (total loan portfolio >US$ 10 million).
explained solely by the increase in breadth of outreach but also by larger loans granted to borrowers. However, average loan size varies largely between branches, as can be seen in table two. In Mexico City, where different loan products are offered, the average loan balance is remarkably higher than in the rest of the operational area.

Table 2: Average loan size by regions

<table>
<thead>
<tr>
<th>State</th>
<th>Average outstanding loan balance (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>North (Monterrey, Coahuila)</td>
<td>177</td>
</tr>
<tr>
<td>South (Oaxaca)</td>
<td>164</td>
</tr>
<tr>
<td>Southeast (Chiapas, Yucatán)</td>
<td>130</td>
</tr>
<tr>
<td>Centre (México State, Michoacán)</td>
<td>138</td>
</tr>
<tr>
<td>Metropolitan (Mexico City)</td>
<td>424</td>
</tr>
<tr>
<td>West (Puebla, Tlaxcala, Veracruz)</td>
<td>213</td>
</tr>
</tbody>
</table>

Source: Data provided by Compartamos.
a) Average outstanding loan balance = total loan portfolio / number of active clients

According to the MicroBanking Bulletin, Compartamos is classified as an institution with a low-end target group (Churchill 2001). The average outstanding loan balance is far less than 20% of the Mexican GNP per capita\(^2\), particularly when disregarding the special case of Mexico City. Yet, this approach of estimating the poverty outreach of MFIs can only provide a rough idea. A rigorous poverty assessment is necessary to obtain more accurate information on Compartamos’ depth of outreach.

Compartamos does not target its services exclusively to the poorest. No direct targeting method is applied to identify the poorest households in the operational area. Yet, the MFI operates mainly in rural areas and accepts only female clients, with the exception of Mexico City. Both in rural settings and among women poverty is usually more severe. Moreover, the institution has tailored its financial products to the needs of the poor. Through relatively small loan sizes and short loan terms poorer clients are indirectly targeted. By requiring the attendance of weekly meetings, it is supposed that wealthier clients are discouraged from loan application. Yet, these inconveniences are sometimes accepted by better-off clients in the absence of other financial opportunities. Therefore, indirect targeting through product design does not guarantee that the institution reaches the poorest. In order to increase breadth of outreach, Compartamos has recently established a department for promotion and marketing and is planning to promote services in its operational area. This is in accordance with Compartamos’ growth strategy, however, it remains to be seen whether services will be promoted among the poorest of the poor.

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\(^2\) In 1999, Mexico had a GNP per capita of US$ 4,400 (The World Bank 2000).
4.2 Sustainability

The institution has been operating on a financially self-sufficient basis since 1997. At the end of 1998, its operational self-sufficiency ratio\(^3\) was 144%, and its ratio for financial sustainability\(^4\) was 122% (McDonald 1999). The wide gap between both ratios was due to high adjustments for inflation, because the loan portfolio was funded mainly by Compartamos’ own equity. Indeed, the costs of commercial funds would probably be even higher due to high nominal costs of funds in Mexico. Since its transformation to a regulated entity, Compartamos leverages its equity position with commercial funds, but unfortunately no actual data on financial sustainability is available for comparison.

Productivity of staff has slightly decreased during the last two years. At the end of 1998, one employee worked for an average of 198 clients, while in March 2001 the ratio was only 1 to 168. In this context it must be noted that staff almost doubled within the past two years due to Compartamos’ expansion strategy. A similar picture arises with regard to the number and productivity of loan officers. The number increased in the same period from 131 to 218. Productivity decreased from 330 clients to 308 clients per loan officer. Nevertheless, productivity is still high and has to be seen against the background of Compartamos’ growth strategy. Recently recruited field staff forms the basis for expansion, but is still trained on the job (McDonald 1999). To reduce operating expenses and scale up operations, Compartamos introduced an innovative management information system including a new loan processing technology that simplifies approval and monitoring of loans. A bonus scheme has been developed to remunerate loan officers according to their performance. The incentives offered to loan officers for efficient work are expected to lead to more efficiency of the institution’s operations as a whole.

The main pillar in the achievement of sustainability is Compartamos’ interest rate policy. Management decided to pass on the high costs of providing small loans to clients. In 1995, when inflation rose up to 35% due to the financial crisis in Mexico, Compartamos raised monthly nominal interest rates from 3 to 5%. In the following years, when interest rates in general declined in Mexico, Compartamos’ rates remained the same and were recently raised to 6%. Also compared to other similar Latin American programs, the institution’s interest rates are high. This policy was guided by the decision to cover the full costs of loans. Clients seem to be able to pay that price, at least according to management credit demand has not been affected. The loan repayment rate is

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\(^3\) Operational sustainability indicates if an institution is able to cover its operating costs, provision for loan losses and financing costs through its operating revenues.

\(^4\) Financial sustainability indicates if an institution is able to cover the costs mentioned above plus the adjusted cost of capital through its operating revenues.
remarkable: at the end of March 2001, the portfolio at risk\textsuperscript{5} was 0.5%. So far, Compartamos holds nearly a monopoly position not facing significant competition in any of its branches, so that alternative lenders for most of the poor borrowers are informal moneylenders charging much higher interest rates (Mc Donald 1999).

In accordance with its mission and strategy Compartamos is an MFI with a focus on sustainability. It aims at delivering income-generating credits to mainly women living in conditions of disadvantage, i.e. it does not target explicitly the very poor. The institutional vision is to reach over one million clients in future while operating on a sustainable basis. Given these factors it is expected that Compartamos does not reach the poorest of the poor within its operational area. Furthermore, striving for sustainability the institution is likely to locate its branches in better-off areas.

5. Regional level assessment

This section aims at revealing variations in poverty incidence across the geographical divisions of Mexico in order to assess if Compartamos operates in poorer or better-off areas within the country. The regional level assessment will provide a basis for judging Compartamos’ depth of outreach at the household level. If branches are located in better-off areas, reaching the poorest households within the operational area is relatively easy. If Compartamos has a deep outreach at the regional level, the institution faces more external factors that restrict its depth of outreach at the household level.

5.1 Classification of Mexican regions

The regional assessment is based on secondary data from the National Institute of Statistics, Geography and Informatics (INEGI). The institute classifies the Mexican states and municipalities according to the level of well-being of their population based on data from the national census in 2000. The methodology applied combines indicators reflecting several dimensions of well-being, including education, health, occupation, dwelling, etc. This multi-dimensional indicator-based method is consistent with the methodological approach used for the household level assessment.

The classification is based on a total of 36 variables selected from the census data that describe the level of well-being of the population. The concept of well-being underlying the classification focusses on the individual or household. Indicators are selected to reflect the actual living standard (in terms of housing indicators, mortality rate, etc.) and the capabilities (in terms of education, demography, etc.) of the population. The classification

\textsuperscript{5} More than 90 days past due.
does not include economic or geographic factors, such as regional output or resource endowment, which represent the opportunities a region offers to its inhabitants. To some degree these opportunities are reflected in the living standard of the resident population.

INEGI uses a two-step procedure to assign regions to different categories of well-being (see INEGI 2000). In the first step, principal component analysis is used to extract common components underlying the 36 indicators selected for the analysis in order to reduce data complexity. In the second step, cluster analysis is used to identify groups of regions that are homogenous with respect to the extracted components. This grouping method results in seven groups of differing size, which can be ordered hierarchically from lowest living standard (level 1) to highest (level 7). The poverty classification is visualised in a so called “poverty map” representing the spatial distribution of poverty within Mexico.

The analysis has been conducted at two geographical levels: state and municipality. The following table shows the distribution of states and municipalities across levels of well-being.

### Table 3: Distribution of geographical units across seven levels of well-being

<table>
<thead>
<tr>
<th></th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Level 4</th>
<th>Level 5</th>
<th>Level 6</th>
<th>Level 7</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>State level classification</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of states</td>
<td>3</td>
<td>6</td>
<td>3</td>
<td>9</td>
<td>1</td>
<td>9</td>
<td>1</td>
<td>32</td>
</tr>
<tr>
<td>% of national population</td>
<td>10.72</td>
<td>19.73</td>
<td>10.38</td>
<td>17.93</td>
<td>0.90</td>
<td>31.46</td>
<td>8.87</td>
<td>100</td>
</tr>
<tr>
<td><strong>Municipality level classification</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of municipalities</td>
<td>268</td>
<td>640</td>
<td>396</td>
<td>316</td>
<td>251</td>
<td>330</td>
<td>242</td>
<td>2443</td>
</tr>
<tr>
<td>% of national population</td>
<td>3.69</td>
<td>6.22</td>
<td>9.05</td>
<td>4.12</td>
<td>12.40</td>
<td>6.02</td>
<td>58.50</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Based on data from INEGI (2000). Units of reference are all Mexican municipalities.

a) Level 1 = lowest living standard

### 5.2 State level assessment

Mexico is divided into 32 states (including the Federal District of Mexico City). The following map illustrates the classification of Mexican states according to their level of well-being. It can be seen that the living standard in the states located in the north of Mexico is higher than in the south. Chiapas, Oaxaca and Guerrero, the southern states of Mexico, have the lowest living standard. The Federal District of Mexico is the only region with a very high living standard being classified as level seven.
In order to evaluate Compartamos’ poverty outreach at the state level, the seven levels are reduced to three groups of living standards. States that fall in level one and two are combined in the group of states with low living standard, states of level three, four and five are summarized in the group with middle living standard, and states classified as level six and seven are considered to have a high living standard. The newly formed groups are more balanced with respect to their size and share of national population. In the next figure, the distribution of states where branches are located is compared to the distribution of all states across the three levels of well-being.
The states in which Compartamos operates are relatively equally distributed across the three poverty classes. States with middle living standard are somewhat under-represented when compared to the national distribution, but the MFI operates equally in poor as well as in better-off states. Taking into account the number of branches per state, it can be seen that the intensity of operations is higher in poorer states. Figure five shows the distribution of branches across the three poverty groups.

Roughly 50% of branches are located in states with low living standards. The contrast is even sharper when considering the number of branches per ten million persons living in states with low, middle and high living standards, respectively. The provision of services is best in poorer states. As branches may have varying breadth of outreach, figure six illustrates the distribution of Compartamos’ clients across levels of well-being.
73% of clients are served by branches located in states with low living standard. The fact that branches located in poor states have a broader outreach than branches located in middle or high living standard areas can be explained to some extent by the fact that Compartamos started its operations in low living standard areas (Chiapas and Oaxaca). As mentioned before, both states have a very large client base. However, a look at the distribution of new clients across different levels of well-being shown in figure seven reveals a similar picture.

The distribution of new clients across states with different living standards represents roughly the same pattern as the distribution of all clients, but is slightly more balanced. There is a somewhat greater share of new clients recruited by branches in middle and high living standard areas, but branches located in poor states still recruit 62% of new clients.

Based on the evaluation at the state level it can be concluded that Compartamos operates in poor as well as in wealthy regions, but is more active in regions with low living standard. Decisions of branch allocation seem to be guided by the objective to reach the poorest as most branches are located in states with low levels of well-being. In addition, branches in
poorer states have a broader outreach. Although this is likely to be at least partly due to the fact that branches in poor areas have been operating for a longer time, the same is true for new clients: they are recruited to a greater extent by branches in poor states.

However, a state level assessment runs the risk to hide major disparities within the studied units. Variability of characteristics within a region are expected to be less at lower hierarchical levels and increase with the hierarchical level of regions (Jesse 1982). Municipalities are therefore likely to be more homogenous units and an assessment at the municipality level renders more accurate information about branch allocation.

5.3 Municipality level assessment

The following assessment is based on the municipality level categorization of INEGI taking all 2,443 Mexican municipalities as a basis for analysis. The map of Puebla, a Mexican state that was classified as “level two” at the state level, reveals that there are major variations in the levels of well-being within a state. The municipalities differ substantially ranging from highest to lowest living standard. As data aggregated to the state level conceals this variation, an analysis at the municipality level will render more exact information.

Figure 8: Classification of municipalities: the example of Puebla

Adapted from: INEGI (2000): Niveles de bienestar
For the purpose of comparison the seven levels of well-being are again reduced to three levels. Reclassification in this case does not lead to a reasonably more balanced distribution of municipalities and population across the groups. There are less municipalities with high living standard, but these are densely populated accounting for two thirds of the Mexican population. Figure nine compares the distribution of municipalities in which Compartamos operates to the distribution of all municipalities.

**Figure 9: Distribution of municipalities across levels of well-being**

![Bar chart showing distribution of municipalities across levels of well-being](chart.png)

Almost two thirds of the municipalities in which the MFI operates are wealthy and only a minute share is poor. This imbalance gets even more pronounced when comparing Compartamos’ operational area to the distribution of all Mexican municipalities. Less than one fourth of all municipalities is categorized as having a high living standard. The remaining three fourth are municipalities with middle and low levels of well-being. Given the fact that there is only one branch per municipality, the number of municipalities with branch per level of well-being is equivalent to the number of branches per level of well-being. Therefore, figure nine allows inference on branch allocation indicating that Compartamos’ branches are mainly located in areas with high living standard.

Figure ten illustrates breadth of outreach by category of well-being at the municipality level. In addition, the distribution of clients is compared to the distribution of the national population allowing to draw conclusions about Compartamos’ market penetration at the different levels of well-being.
The distribution of clients is quite similar to the distribution of branches across areas with different living standards indicating that the average number of clients reached does not vary much between branches located in municipalities with low, middle or high levels of well-being. 61% of clients are served by 63% of branches located in wealthy municipalities, 34% of branches located in areas with middle living standard serve 38% of clients, thus, having a slightly broader outreach, and 3% of branches located in poor municipalities serve only 1% of clients.

Branch as well as client distribution at the municipality level support the hypothesis that Compartamos operates in better-off areas. Yet, population density varies significantly across the three levels of well-being. In order to avoid a biased statement, the percentage of clients in each category of well-being should be related to the percentage of the national population. Figure ten shows that there is a disproportionately large share of clients living in areas with middle living standard as compared to the share of national population. While in high living standard areas the share of clients is only slightly smaller than the share of the national population, the share of clients in low living standard areas is disproportionately small. Based on the degree of market penetration Compartamos is not disproportionately active in high living standard municipalities. However, altogether 99% of Compartamos’ clients are recruited in high or middle living standard areas as compared to 90% of the national population living there. With only 1% of clients served in the poorest municipalities, these regions are clearly under-represented.
Interestingly, the results of the state level assessment on the one hand and of the municipality level assessment on the other hand diverge substantially. The MFI has established more branches in poor states, probably guided by the objective of reaching the poorest. Within states, Compartamos has a preference for allocating branches in municipalities with high living standards. At this level, the decision is probably influenced by the availability of infrastructure, economic opportunities and higher population density. When taking the distribution of the Mexican population across municipalities of different levels of well-being into account, it becomes evident that Compartamos’ market penetration is higher in the better-off areas, while the poor areas are clearly under-served. For the household level assessment these results imply that it should be relatively easy for Compartamos to reach the poorest parts of the population within its relatively better-off operational area.

6. Household level assessment

Using the methodology introduced in section three a poverty assessment is conducted to assess Compartamos’ depth of outreach at the household level. The household level assessment compares the poverty level of Compartamos’ clients to the non-clients living in the same communities.

6.1 Socio-economic variables

Clients and non-clients are first compared with respect to their socio-economic characteristics. Differences between the two groups would indicate a selection bias and could possibly explain variations in poverty levels. T-tests for independent samples on the differences between means are run for each socio-economic indicator. Test results are presented in table four. According to household variables such as household size, age of household members, gender of the household head and child dependency ratio there are no significant differences between client and non-client households. Differences can be identified with respect to the educational level: client households attained higher levels of education than non-client households. Significantly more members of client than of non-client households completed primary, secondary, technical and high school. A greater percentage of adults belonging to client households are literate, although there are no significant differences between clients and non-clients regarding the percentage of household members who attended school at all. With respect to employment, non-client households have a higher percentage of unemployed members. More client households have members that are self-employed in a non-agricultural activity, whereas non-client households have more members working as “jornalero” (day-labourer in agriculture).
These results indicate that (self-)selection of clients is biased such that more educated, self-employed persons are participating in the program. This can be attributed to the fact that Compartamos aims at providing income-generating credit to enterprising people.

**Table 4: Socio-economic differences between client and non-client households**

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Non-client households, mean</th>
<th>Client households, mean</th>
<th>Sign.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demographic variables</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Female headed households</td>
<td>0.2</td>
<td>0.3</td>
<td></td>
</tr>
<tr>
<td>Average age of adults</td>
<td>35.7</td>
<td>35.3</td>
<td></td>
</tr>
<tr>
<td>Average age of children</td>
<td>7.9</td>
<td>8.2</td>
<td></td>
</tr>
<tr>
<td>Family size</td>
<td>4.3</td>
<td>4.2</td>
<td></td>
</tr>
<tr>
<td>Child dependency ratio</td>
<td>0.7</td>
<td>0.8</td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% of adults who did not attend school</td>
<td>19.7</td>
<td>14.7</td>
<td></td>
</tr>
<tr>
<td>% of adults who can write</td>
<td>82.1</td>
<td>88.3</td>
<td>*</td>
</tr>
<tr>
<td>% of adults who completed primary school</td>
<td>58.0</td>
<td>66.2</td>
<td>*</td>
</tr>
<tr>
<td>% of adults who completed secondary school</td>
<td>25.7</td>
<td>36.0</td>
<td>**</td>
</tr>
<tr>
<td>% of adults who attended technical or high school</td>
<td>13.7</td>
<td>21.2</td>
<td>**</td>
</tr>
<tr>
<td>% of adults who completed high school</td>
<td>8.6</td>
<td>13.1</td>
<td>*</td>
</tr>
<tr>
<td>Employment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% of adults self-employed in agriculture</td>
<td>10.26</td>
<td>9.83</td>
<td></td>
</tr>
<tr>
<td>% of adults working as jornalero</td>
<td>6.01</td>
<td>3.38</td>
<td>*</td>
</tr>
<tr>
<td>% of adults self-employed in non-agr. activity</td>
<td>16.34</td>
<td>22.04</td>
<td>*</td>
</tr>
<tr>
<td>% of adults not working</td>
<td>38.8</td>
<td>30.9</td>
<td>**</td>
</tr>
</tbody>
</table>

a) Adults are all persons older than 14 years.

(*(**)) Differences between means are significant with a probability of error of 5%(1%).

**6.2 The benchmark indicator**

The indicator “per capita expenditures on clothing and footwear” is used as a poverty benchmark given its strong correlation with total per capita consumption expenditures. The benchmark indicator is used in the construction of the poverty index to screen all other indicators to determine whether they are strong poverty measures. Households in the sample spent an average of 1,092 Mexican pesos per capita on clothing and footwear during the last twelve months prior to the survey. Maximum spending was 13,250 pesos per capita in one household, while others spent as little as 76 pesos per capita or nothing at all. 50% of households spent less than 760 pesos. The following figure demonstrates the cumulative frequency distribution of per capita expenditures on clothing and footwear.

The graph shows that at each point of the distribution client households spend more than non-client households (except for a few households at the high end).

**Figure 11: Cumulative distribution of clothing expenditures per capita by client status**

The graphs give some indication that client households are economically better situated than non-client households according to the benchmark indicator.

### 6.3 The poverty index

*Construction of the poverty index*

In order to derive an overall picture from the vast information provided by the multitude of indicators, a poverty index is constructed combining those indicators that are the strongest measures of poverty. From the original data obtained in the field survey several new indicators are created. Those indicators that are significantly associated with the benchmark indicator at a significance level of $p = 0.01$ are considered for the principal component analysis (for a list of correlated indicators see annex). By means of the PCA the indicators are integrated into an index. Various test models are run in order to identify the best combination. The final model includes fifteen indicators (results of the PCA are given in the annex). The KMO measure of sampling adequacy for the final model including clients is 0.838. A share of 34.1% of the common variance of the indicators included in the index is explained by the poverty component extracted. Indicators represent different dimensions of poverty to avoid over-emphasizing one aspect of poverty. Based on the poverty component, each household in the sample is assigned a poverty score. Figure 12 shows a histogram of the standardized poverty index.
The poverty index is used to distinguish between three levels of poverty. Non-clients representing the general population within the operational area of Compartamos are first divided into three relative poverty groups of equal size. Then, new clients are assigned to the groups according to their poverty index scores. This sorting allows for comparing the percentage of clients versus non-clients within each poverty tercile.

Comparison of poverty groups

Figure 13 compares the share of new clients and non-clients within the three relative poverty terciles.
Compartamos’ new clients are under-represented in the two poorer terciles and over-represented in the upper tercile in relation to the general population. This implies that Compartamos does not have a very “deep” outreach at the household level. More than half of its new clients are relatively wealthy, roughly a fourth is poor and another fourth is among the poorest tercile. In contrast to the classification in the MicroBanking Bulletin where Compartamos is categorized as an institution with a low-end target group, the findings of this study demonstrate that the MFI serves a mixed clientele with a preference for the less poor. This result is consistent with Compartamos’ mission to provide income-generating credit. The institution aims at reaching women living in conditions of disadvantage but not necessarily the poorest among them. Serving a mixed clientele is in accordance with the institutional focus on sustainability and growth.

7. Conclusion

The intention of the present study is to evaluate the outreach performance of Compartamos. MFIs are generally considered a promising instrument to alleviate poverty and to provide financial services to the poorest households. To what extent MFIs are really able to reach the poorest of the poor still remains unclear. Results of a household and regional level poverty assessment indicate that Compartamos does not have considerable depth of outreach. The MFI operates mainly in better-off municipalities and reaches to a great extent the less poor households within its operational area.

Yet, judging these findings requires a careful consideration of objectives and strategies of the MFI. I argue that a subsidy-dependent MFI should be committed to channel resources explicitly to the poorest. In contrast, for an MFI, which strives for independence from donors, it is necessary to find alternative ways to cover costs. If the institution is able to finance its operations and equity, there is no reasonable objection to providing credit also to the less poor. Ultimately, the combination of depth and breadth of outreach is critical for judging whether the MFI does its job well (in terms of contributing to the overall goal of poverty alleviation) and merits to receive financial support for expansion, staff training etc. In the case of Compartamos, though there is obviously no focus on the poorest, these constitute at least one fourth of the new client base. The sample for the poverty assessment had to be restricted to new clients to rule out any impact that could have taken place due to financial services obtained from Compartamos and that could have changed the poverty status of clients. But proceeding on the assumption that Compartamos has reached the same share of poorest borrowers at any time, it can be deduced that also one fourth of its total client base is very poor or has been very poor at the time of joining the program.
Taking into account the notable breadth of outreach achieved by the institution, even the relatively small share of very poor clients results in a considerable absolute number of very poor households reached by Compartamos. Under these circumstances it can be alleged that in the case of Compartamos breadth can compensate for depth.

An evaluation of Compartamos’ contribution to the overall goal of poverty alleviation linked to the decision on fund allocation should also take into account the impact generated among clients. Future research should be dedicated to the question whether Compartamos besides reaching the poorest is able to maintain the poorest borrowers in the program. If most of the poorest clients drop out after the first loan cycle, Compartamos, though reaching the poorest, does not contribute much to alleviating their poverty.

The example of Compartamos shows that financially sustainable institutions have the potential for reaching considerable numbers of very poor households within their areas of operation. Yet, these findings cannot be generalized. Mexico is relatively wealthy as compared to other developing countries. It remains questionable whether MFIs operating in very poor countries would be able to attain a similar level of poverty outreach while operating on a financially sustainable basis and without directly targeting their services to the poorest households.

Moreover, it is important that Compartamos stays committed to reaching the poorest when expanding its services. Breadth 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. As Matin et al. warn: “Ignoring the depth of outreach issues and concentrating solely on the scale [breadth] of outreach […] can lead to the unfortunate turning back of the achievements that have been made in the provision of finance to the poor” (Matin et al. 1999: 25).
8. References

1. ACCION Network: Mexico: www.accion.org/programs/mex_pr.asp (last date of access: 11-14-2001)


18. Microcredit Summit Campaign: http://www.microcreditsummit.org (last date of access: 11-14-2001)


