

ACCION Poverty Outreach Findings: Apoyo Integral, El Salvador

By David Dewez, Sandra Neisa and Rekha Reddy

Introduction

This *InSight* examines the poverty outreach for Apoyo Integral, ACCION's partner in El Salvador. The objective of evaluating poverty outreach is to understand the characteristics and poverty distribution of microfinance clients and their households. ACCION uses this information to develop more effective means for its affiliate microfinance institutions (MFIs) to assess outreach to poor clients at a low cost and on a regular basis. Additionally, this research informs ACCION's on-going efforts to develop products that reach poorer levels of microentrepreneurs. This report is one of a series of poverty analyses conducted for ACCION affiliate microfinance institutions.¹

This report evaluates the poverty levels of Integral's clients relative to national and international poverty lines. The study also describes certain client characteristics and how they vary with poverty level. Finally, the authors describe the tool developed for Apoyo Integral to monitor the poverty distribution of clients on a regular basis, using data collected during the credit evaluation process.

As shown in Table 1, 35 percent of Apoyo Integral clients live below the relative poverty line of El Salvador, as compared to 40 percent of the urban population and 46 percent of El Salvador's population nationally.

Table 1. Percentage of Clients and General Population Below Relevant Poverty Line

Population Sample	% Below El Salvador Relative Poverty Line	% Below El Salvador Extreme Poverty Line	% Below 1\$/day Poverty Line	% Below 2\$/day Poverty Line
Apoyo Integral Clients	35	8	4	30
El Salvador Urban Population	40	12	9	34
Total Population of El Salvador	46	15	19	50

Source: ACCION estimates (2005) and EHPM (El Salvador national household survey data) (2004)

¹ For further details, please refer to the ACCION InSights # 1, # 5, # 13, which detail the framework for ACCION's poverty analysis and the poverty outreach findings for Mibanco in Peru, SOGESOL in Haiti and BancoSol in Bolivia.

Of the 35 percent clients who are poor according to El Salvador's relative poverty line; 8 percent are classified as extremely poor. Four percent of Apoyo Integral's clients live below the international poverty line of US \$1/day.

Section 1. Background: El Salvador and Apoyo Integral

El Salvador and the Market for Microfinance

El Salvador is one of the poorest and most unequal countries in Latin America with a GNP per capita (US\$2,350) at barely half of countries such as Brazil, Argentina and Chile. In the past ten years, the Salvadoran economy grew very slowly. As with other countries in Latin America with weak economies; the microenterprise sector provides a valid economic option for many individuals who are continuously searching for employment. In response to the needs of microentrepreneurs, microfinance institutions have developed rapidly. To date, El Salvador has one of the most advanced microfinance markets in the region.

There are many organizations that participate in the microfinance market: savings and lending cooperatives, commercial banks and non-profit organizations. According to some estimates,² 27 percent of the microfinance sector has access to credit. This is one of the highest percentages in Latin America, and is especially high given the relative youth of the microfinance sector in El Salvador. Still, a majority of the population lacks access to credit.

Apoyo Integral

Apoyo Integral is a microfinance institution that was established in 1990 with the mission of supporting the inclusion of the sectors, actors and regions of El Salvador with the least access to the benefits of development. Currently, Apoyo Integral is developing and expanding its credit program and is on the path to transforming into a regulated financial organization.

Apoyo Integral has a network of 14 branches located in nine regions of El Salvador. It has an portfolio of nearly US\$15 million in active microfinance loans. It offers five financial products to 20,989 active clients as of December 2005. Apoyo Integral offers credit mainly in urban areas (7 percent of its client base is rural), using both individual and group lending methodologies.

Section 2. Data and Sources Used in this Study

To examine the poverty levels of Integral's clients, ACCION analyzed three different sources of data:

1. ***Credit Evaluation Data for Apoyo Integral Clients:*** This data comes from the in-depth analysis of clients, their microenterprises and their households conducted by loan officers as part of the credit evaluation process at Apoyo Integral. This database includes complete information for 10,455 clients, all of whom were active as of October 2005, except for housing solidarity group loan clients who were excluded because accurate data did not exist for them. If these clients were included in this report, the results may have differed.
2. ***Household Survey Data of Apoyo Integral Clients:*** Clients of Apoyo Integral were surveyed during August and September 2005 by Herrarte Marketing³ under the direction

² "Geographic distribution of credit," *Revista Micro enfoque*, Volume 5, Number 1, Issue 17, May 2005.

³ Herrarte Marketing is a research firm based in El Salvador.

of ACCION International and Apoyo Integral. This study collected detailed information on household income and expenses. This enabled ACCION to determine the poverty levels of the clients and to compare the quality of Apoyo Integral’s data with that of the national survey. 365 households were randomly sampled with a confidence level of 95% and a margin of error of 4 percent.⁴ The 365 households belonged to the regions of: San Salvador, Ahuachapán, Santa Ana, Sonsonete, Soyapango, Usulután y Zacatecoluca.

3. **Secondary source data from El Salvador’s national living standards survey:** The national data used to analyze the general population of El Salvador comes from the 2004 EHPM (household living standards survey) carried out by the country’s Bureau of Statistics and Census. This survey includes data on demographics, education, health and economic activity for individuals and households. This survey was conducted for 1,400 households in every region of the country, both rural and urban.

Section 3. Comparing Apoyo Integral Clients to Poverty Lines

This section describes the poverty lines used in this study and the poverty distribution of Apoyo Integral clients as compared to the population of El Salvador.

Poverty Lines

ACCION measured poverty according to the official poverty lines in El Salvador⁵ and the international poverty lines of US\$1 and US\$2 per day, which represent the purchasing power of US\$1 and US\$2 per person, per day.⁶ The percentage of poor clients can change dramatically according to the poverty line applied. For this reason, ACCION favors emphasizing the degree of poverty of the clients of microfinance institutions, i.e. the distribution of poverty, rather than focusing on the number of microfinance clients below a given poverty line.

As in many other countries, El Salvador does not have a single poverty line. Rather it has separate poverty lines for rural and urban areas as defined by its national census. It also has extreme and relative poverty lines that distinguish between clients who lack the resources to satisfy even the most basic needs (extreme poverty) and clients who are considered poor but have a greater ability to satisfy the basic needs of food, clothing and shelter. Table 2 summarizes the poverty lines used in this study.

⁴ The following formula was used to determine sample size:

$$n = \frac{t^2_{(1-\alpha/2, \infty)} p(1-p)N}{Nd^2 + t^2_{(1-\alpha/2, \infty)} p(1-p)}$$

N is the size of the population and in this particular case and refers to the number of Apoyo Integral clients on July 2005. The margin of error (d^2) was set at 4%. The proportion p refers to the variance of a finite population with unknown variance taking into account the maximum variability possible (p=0.5).

⁵ The Methodological Considerations of the EHPM 2003”, General Bureau of Statistics and Census, El Salvador.

⁶ The World Bank created an international poverty line in its 1990 *World Development Report*. This international poverty line is based on purchasing power parity (PPP) and represents the purchasing power of \$1/day across countries. It was constructed based on 1993 price data and PPP estimates⁶ and calculated as the median of the 10 lowest poverty lines. It equals \$1.08/day in 1993 PPP terms, although it is commonly referred to as “\$1/day.” The upper international poverty line or “\$2/day” poverty line is simply twice the \$1/day poverty line. The international poverty line, theoretically, represents a standard of poverty that is consistent across all countries and allows for cross-country comparisons. It tests for the ability to purchase a basket of commodities that is roughly similar across the world.

Table 2. Poverty lines Used to Analyze El Salvador Samples

Poverty Lines	Monthly Expenses (US \$ per capita)
<i>National Poverty Lines</i>	
Relative poverty for urban areas in El Salvador ⁷	69
Relative poverty for rural areas of El Salvador	44
Extreme poverty urban areas in El Salvador	34
Extreme poverty for rural areas of El Salvador	22
<i>International Poverty Lines</i>	
International \$1/day line (PPP adjusted)	30
International \$2/day (PPP adjusted)	59

Source: DIGESTYC (El Salvador’s Bureau of Statistics) with adjustments for inflation made by ACCION.

Using Household Expenditure to Measure Poverty

ACCION’s poverty analysis approach uses consumption as an indicator of welfare to measure absolute poverty, that is, poverty is defined according to a fixed standard of what a household needs to cover basic necessities. We compared the per capita expenditure level of client households to the poverty line. We also analyze results based on income. When the income level of households is used to measure poverty, 13 percent of Apoyo Integral clients are classified as poor according to the El Salvador relative poverty line, as compared to 35 percent when expenditure is used.

Poverty Distribution

The goal of this poverty evaluation is to analyze the distribution of poverty and not just the incidence of poverty, i.e. the percentage of poor clients because distribution gives a richer picture of the level of poverty of the whole client population without resort to arbitrary cut-off points. Households were sorted into four categories. Very poor (Level 1) and poor (Level 2) clients fall below the poverty line. Vulnerable (Level 3) and non-poor (Level 4) clients are above the poverty line. All households are categorized based on per capita expenditure. Levels 1 (very poor) and 2 (poor) represent the households that fall below the relative poverty line of El Salvador, while levels 3 and 4 describe households classified as “vulnerable” and “non poor.” Table 3 shows that very few Apoyo Integral clients fall in the “very poor” category (8 percent).

More than half of the clients (52 percent) fall into the “poor” and “vulnerable” categories (28 percent and 24 percent respectively). A large percentage of clients in the sample are classified as “non poor” (41 percent). When categories 1, 2, and 3 are totaled, we find that 59% of the institution’s clients are either poor or vulnerable non-poor.

Table 3: Poverty Distribution by Levels

Poverty levels	Definition of Poverty Level	% of clients below the El Salvador Relative Poverty Line
<i>Very Poor</i>	0–50% of the poverty line	7
<i>Poor</i>	50–100% of the poverty line	28
<i>Vulnerable</i>	100–150% of the poverty line	24
<i>Non Poor</i>	> 150% of the poverty line	41
Total (N= 365)		100

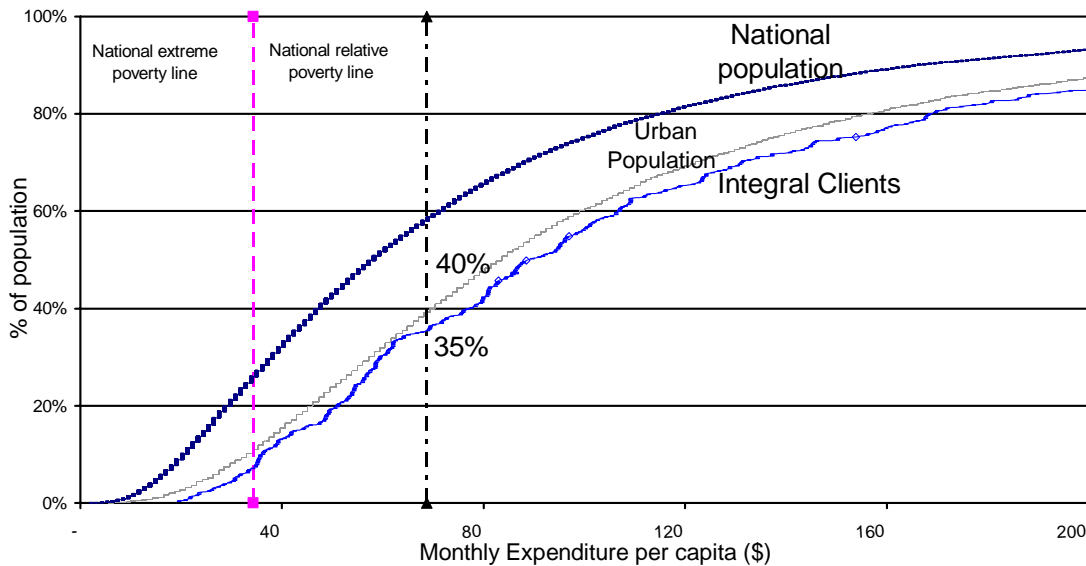
Source: ACCION Household Survey of Apoyo Integral clients (2005)

⁷ The official lines have been updated as of March 2005 using inflation data from the International Labor Organization.

A Graphic Representation of the Poverty Distribution

The Cumulative Distribution Function (CDF) illustrated in Figure 1 provides a graphical representation of how our three samples (national data from El Salvador, urban population data for El Salvador⁸ and household survey data of the clients of Apoyo Integral) compare to the poverty line. The two vertical lines represent the relative poverty and extreme poverty lines for urban areas in El Salvador. A higher distribution curve (in relation to the horizontal axis) indicates a higher number of households in poverty.

Figure 1: Comparing Apoyo Integral Clients to the Salvadoran Population



Sources: ACCION International Household Survey Data of Apoyo Integral Clients (2005) & EHPM Data (2004)

The curve representing the population of El Salvador is continuously higher than the curve of the urban population and the curve of Apoyo Integral clients. This illustrates that the general population of El Salvador has a greater percentage of poor households than the other two populations. This result shows that the rural population of El Salvador is poorer than the urban population. The urban population is quite similar (although slightly poorer) than the sample of Apoyo Integral clients.

Although 46 percent of the El Salvadorian population fall below the national relative poverty line, this graph makes it seem as if 58 percent of Salvadorans are poor. This occurs because only the urban poverty lines are shown on this chart, and these poverty lines are applied only to people living in urban areas. The total Salvadoran population includes individuals in rural areas whose poverty is measured according to poverty lines, which capture the lower cost of living in these rural areas.

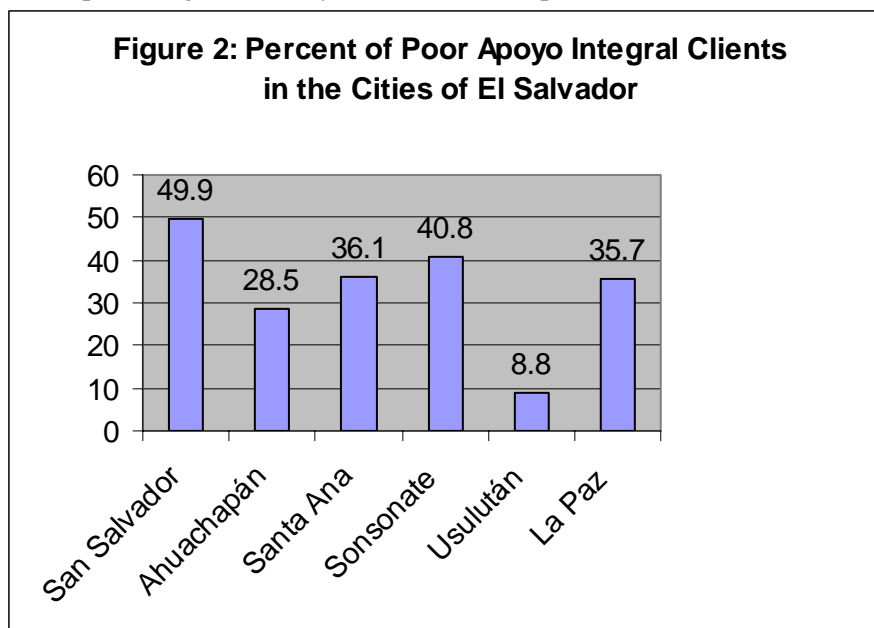
⁸ The curves of the national and urban population have been designed from the national survey database of the EHPM (2004). These two curves are estimates based upon data that was frequency weighted to ensure that it was representative of the Salvadoran population.

Section 4: Demographic and Poverty Information

This section shows how demographic characteristics of clients vary by poverty level. When variations in these characteristics exist by poverty level, institutions interested in moving downmarket can use this information to target their efforts to poor clients.

Poverty Incidence Differentiated By Geographical Area

Figure 2 shows the differences in the poverty profile of the clients of Apoyo Integral by region. We observe that the highest percentage of poor clients live in San Salvador (49.9 percent) and the lowest percentage in the city of Usulután (8.8 percent).⁹



Source: ACCION International Household Survey Data of Apoyo Integral Clients (2005)

A similar percentage of Apoyo Integral clients are poor in urban and rural areas (35 percent and 34 percent respectively). However, poverty for the general population of El Salvador is far more widespread in rural zones (59 percent) than in urban zones (40 percent), as shown in Table 4. This result indicates that further penetration of rural markets may be a sound strategy for Apoyo Integral to serve a greater percentage of poor clients.

Table 4. Poverty Incidence in Urban and Rural Areas

	Apoyo Integral	El Salvador
% Poor Clients in Rural Areas	35	59
% Poor Clients in Urban Areas	34	40

Source: ACCION International Household Survey Data of Apoyo Integral Clients (2005) and EHPM (2004)

⁹ The percentage of clients in Usulután was small (4% of the total sample) and not statistically significant.

Poverty, Sex, and Age

According to the ACCION household survey, the vast majority (73 percent) of Apoyo Integral clients are women, with an average age of 45 years and with an average household size of 4.3 members. Table 5 shows how these characteristics vary by poverty level.

Table 5. Gender, Age and Household size of Apoyo Integral Clients

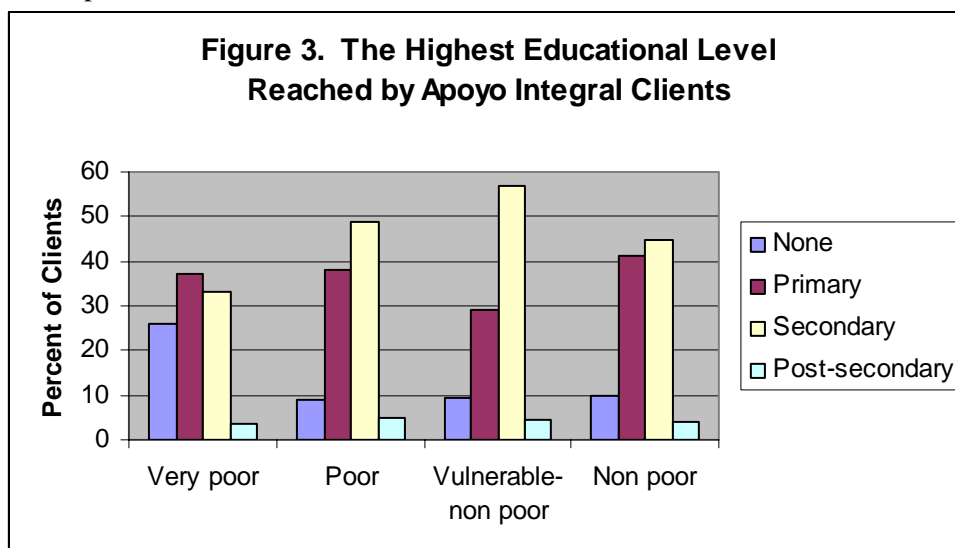
	% Women	Average Age	Average Household Size
Very poor	90	42	5.9
Poor	88	42	5.1
Vulnerable non-poor	86	41	4.4
Non poor	74	46	3.5
Total Apoyo Integral	78%	43	4.3
Total El Salvador	52%	N/A	3.9

Source: ACCION International Household Survey Data of Apoyo Integral Clients (2005) and EHPM (2004)

On Table 5, we observe that the vast majority of clients in the poor categories are women, while they make up a slightly lower percentage of the non-poor category. We do not find a strong correlation between poverty level and age; however, we observe that poorer households have larger households (5.9 for the very poor vs. 3.5 for the non poor). Additionally, we observe that the women and older individuals are more highly represented among clients of Apoyo Integral than in the general Salvadoran population. The household size of Apoyo Integral clients is slightly larger than the household size of the average Salvadoran.

Poverty and Level of Education

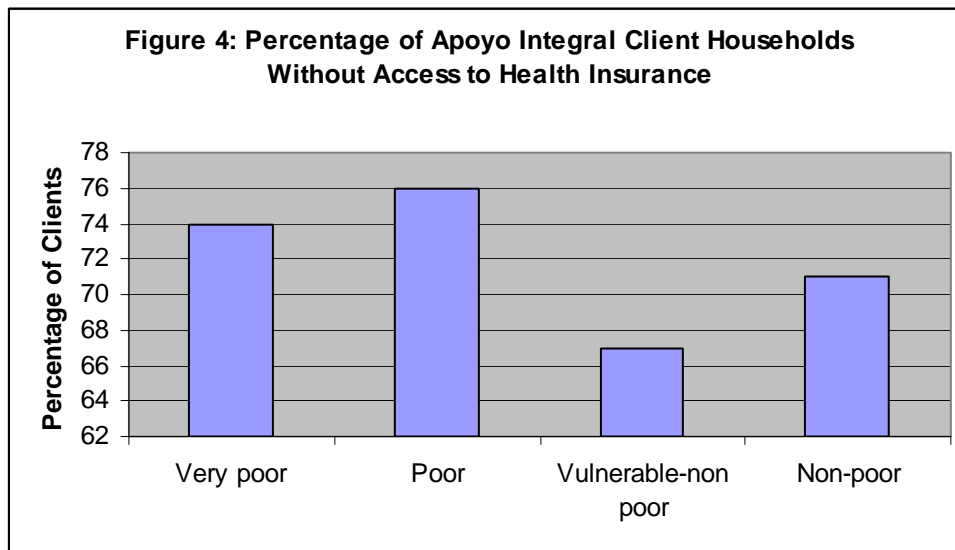
Figure 3 shows a negative correlation between poverty and highest educational level attained. The percentage of clients who have not completed any formal education decreases in less poor households. Twenty six percent of Apoyo Integral clients who have not completed any formal education live in households that were classified as very poor clients as compared to ten percent of non-poor clients.



Source: ACCION International Household Survey Data of Apoyo Integral Clients (2005)

Poverty and Health

Seventy-two percent of clients surveyed said that no one in their household had any type of health insurance. Figure 4 demonstrates that although poor client households have a slightly higher percentage of clients without health insurance than non-poor client households, the variation across poverty levels is not large.



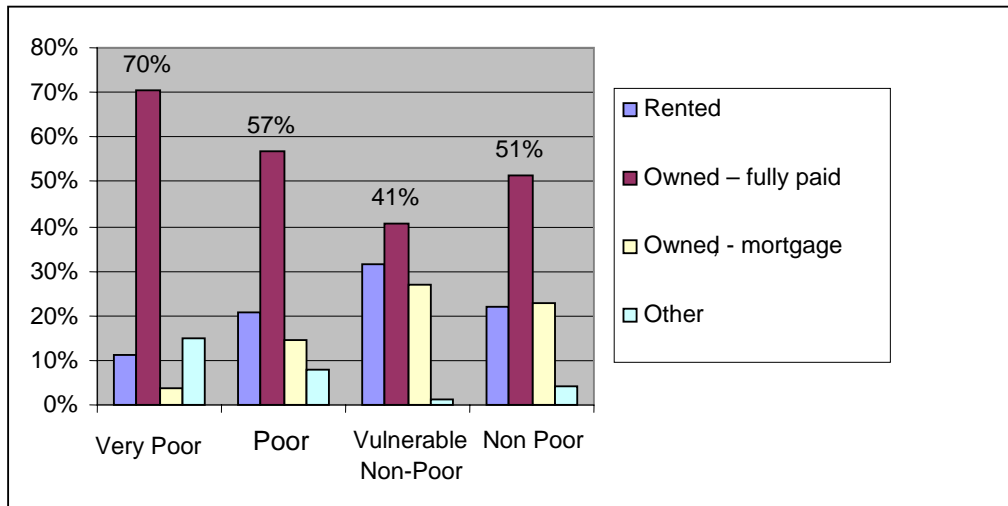
The percentage of households in which *all* the members of the household have some sort of health insurance is barely seven percent, showing the high level of vulnerability of this population. The majority of clients went to a government health center when they became ill.

Clients were also asked if any of their household members were unable to seek medical care for an accident or illness due to inability to pay. Just a small fraction of those surveyed, 4.7 percent, indicated having been in such a situation, with minimal variation by geographic region.

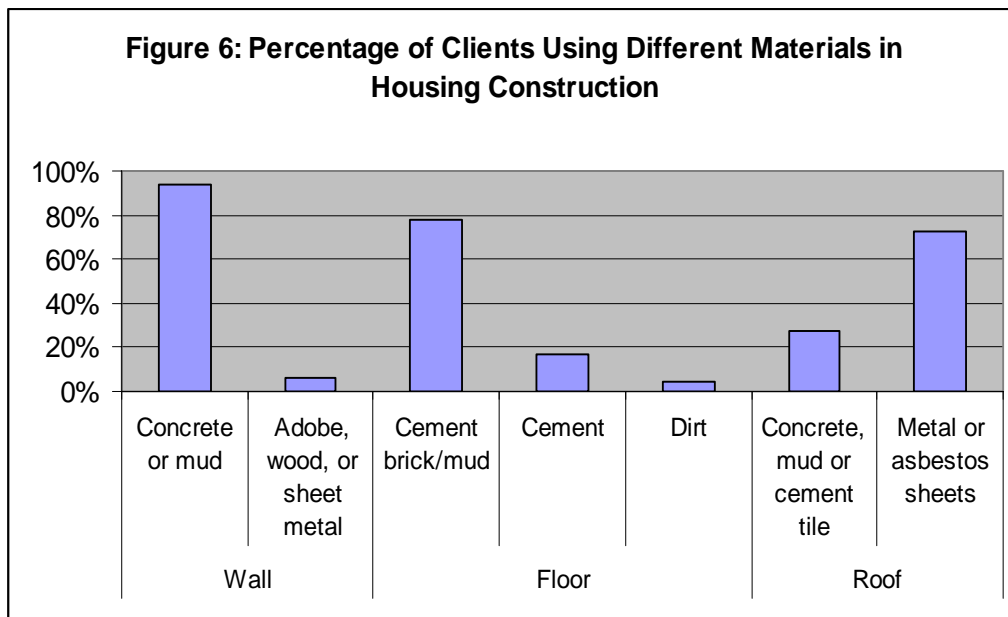
Housing and Living Conditions

Fifty-two percent of Apoyo Integral clients live in homes that are fully paid for, while 20 percent are paying off mortgages. Twenty-three percent of clients rent their homes. The percentage of clients who own their own home is lower than the percentage of Salvadorans who own their own home. Sixty-five percent own their own homes according to the 2004 El Salvador national household survey. Even though Apoyo Integral clients are less poor on average relative to the Salvadoran population, a smaller percentage owns their own home, possibly because they are more likely to be microentrepreneurs (i.e. informal) rather than primarily salaried workers. Figure 5 also shows unexpected results: the percentage of very poor clients who own their homes is higher than the percentage of non-poor clients, perhaps because they were living in a home that was paid for, but shared among a greater number of family members.

Figure 5. Home Ownership by Poverty Level
Source: ACCION International Household Survey Data of Apoyo Integral Clients (2005)



The materials used for housing construction often reflect household living conditions. Figure 6 shows that the most commonly used materials for the walls in the homes of clients were concrete and mud. Floors were predominantly made of brick and concrete, and ceilings were mainly asbestos and metallic sheets.



Source: ACCION International Household Survey Data of Apoyo Integral Clients (2005)

Clients had walls and floors similar to that of the total El Salvador population as measured by the 2004 national data survey (EHPM). However, there exists a large difference in the material used for the ceiling. In homes of microentrepreneurs the asbestos sheet, thought to be a higher quality material, predominates, while in the national household survey, it occupies fourth place on the list.

As for basic services, 90 percent of surveyed Apoyo Integral clients had running water, electricity and garbage collection services, while 67 percent have fixed phone service and 87 percent have

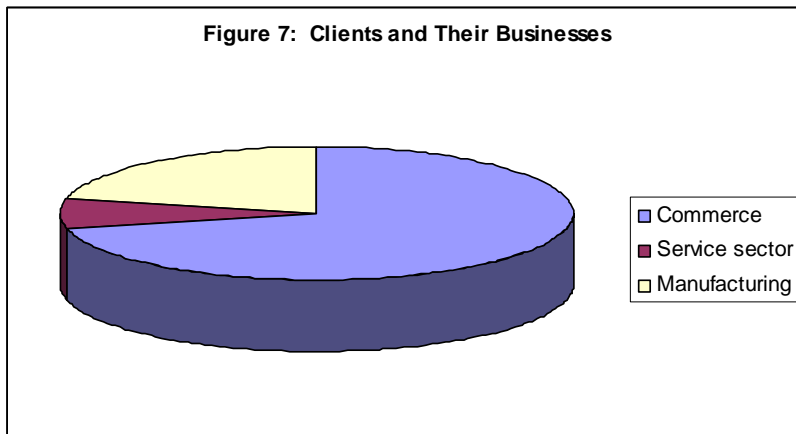
toilets in their homes. These percentages were fairly similar to the level of basic services in the general Salvadoran population. However, a higher percentage of Apoyo Integral clients had garbage collection services than the average Salvadoran (90 percent 79 percent).

Section 5. Economic Activity of Apoyo Integral Clients

Business Characteristics

According to the ACCION survey, the majority of clients (71 percent) work in activities related to commerce as shown in Figure 7. The remaining clients participate in the service sector or other activities. This figure differs from the general population of El Salvador where 20 percent work in the commerce, 24 percent work in industry, and 21 percent work in the service sector.

The survey also reveals that the majority (59 percent) of businesses operate from the client homes; while 39 percent have a separate business location and 31 percent function as mobile businesses.



A large percentage of these own their business site (73 percent), while 25 percent lease property and 2 percent borrow property. A common characteristic among micro entrepreneurs is the high level of commitment to their businesses. All Apoyo Integral clients work 12 months out of the year, 89 percent of these microentrepreneurs work 6 days a week and 40 percent of those surveyed have 11 hour work days.

The Importance of Remittances

A large percentage of Apoyo integral clients (39 percent) receive economic assistance from individuals abroad. The majority of these remittances (95 percent) are sent from the United States by family members (typically a spouse, parent, or child).

Table 6 disaggregates the percentage of households that receive remittances and the average monthly amount received, by poverty level. Few (3 percent) of very poor clients receive remittances; however, nearly half of non-poor clients receive remittances. Remittances are typically received monthly, and the average amount received is \$177 per month. Remittances make up a relatively small fraction of income, on average 2.5 percent of total household income.

Table 6. Recipients of Remittances and Amounts Received by Poverty level

Poverty Levels	% of clients with remittances	Amount received by remittances (US\$)	Remittances as a % of Total Household Income
0-50% (very poor)	2.8	18.80	.7
50-100% (poor)	28.9	171.20	3.2
101-150% (vulnerable)	21.8	166.30	3.5
>150% (non-poor)	46.5	196.50	2.5
Total	100	177	2.5

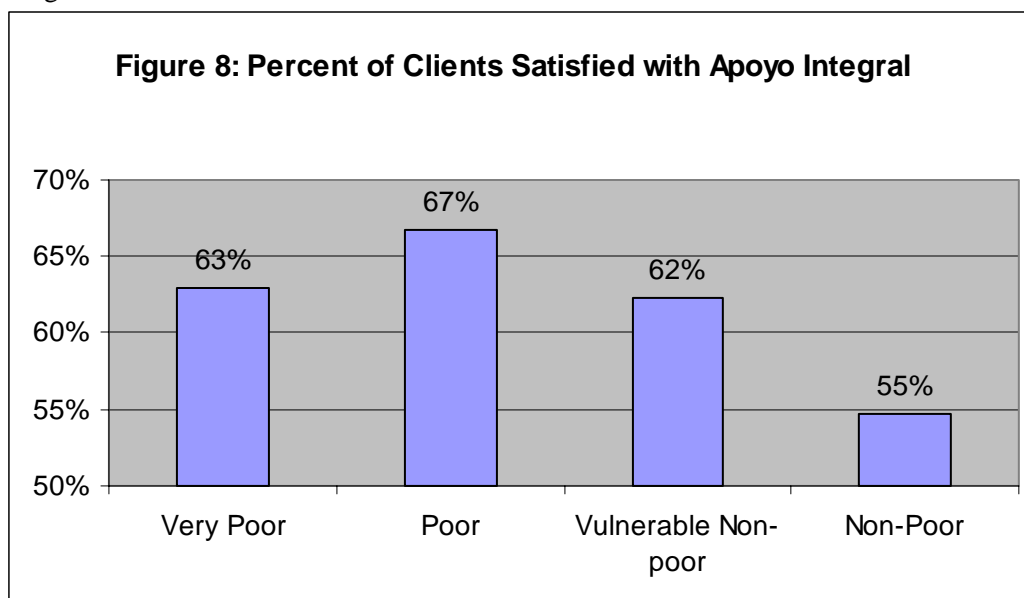
Source: ACCION International Household Survey Data of Apoyo Integral Clients (2005)

According to the national data for El Salvador (EHPM 2004), 22 percent of Salvadoran households receive remittances, a lower percentage than that of microentrepreneurs. The monthly amount received is very similar to the amount received by clients of Apoyo Integral (USD \$180 per month). A greater percentage of clients living in the metropolitan region of San Salvador receive remittances (33 percent) than those living in the more remote region of Usulután (5.6 percent). Salvadorans living in the Santa Ana region receive higher amounts on average (USD \$248) than the micro entrepreneurs of Usulután (USD \$120).

Obviously, clients receiving larger amounts of remittances are less likely to be poor. Non-poor clients receive higher amounts (USD \$196 on average) whereas very poor clients receive an average of \$18.8.

The Relationship Between Client Satisfaction and Poverty

Overall, clients are generally satisfied with the services provided by Apoyo Integral. We also found a relationship between poverty levels of the client and their satisfaction with Apoyo Integral.



Source: ACCION International Household Survey Data of Apoyo Integral Clients (2005)

Figure 8 shows client satisfaction levels disaggregated by poverty level. Non-poor clients show the lowest level of satisfaction (55 percent are satisfied).

Section 6. Regular Poverty Monitoring by Management: ACCION’s Social Score Card

Objective

The objective of this project was to create a foundation for Apoyo Integral to use to generate regular reports on poverty, a Social Scorecard. ACCION developed a reporting tool that enables Apoyo Integral to monitor which segment of the market it serves. The tool also provides ongoing access to client information that can be shared with interested third parties, such as social investors and international donors. Finally, this tool provides information that could be used to develop new products and strategies to reach poorer clients.

Data Source

The source for the Social Scorecard is data collected by Apoyo Integral during the credit evaluation process that is stored in the institution’s MIS database. The Social Scorecard disaggregates variables commonly used in microfinance institutions by poverty levels. Table 7 shows an abbreviated model of a social scorecard where clients are divided into three levels (rather than the four levels used in this study). The categories are poor (with monthly expenditures below the national poverty line), vulnerable-non poor (expenditures 100-150 percent of the national poverty line) and non-poor clients (with expenditures above 150 percent of the national poverty line). Apoyo Integral can create specialized versions of the social scorecard as needed to report poverty data for a specific geographic region or type of product.

Uses

This report can be used regularly to monitor social performance, just as financial indicators are used to monitor financial performance. The Board of Directors of Apoyo Integral has requested that this report be produced on a regular basis. Managers can also use this report to set and monitor targets for outreach.

Table 6. Social Scorecard Model

Statistics by Poverty Level	% of clients	% of loan portfolio	% of female clients	Average household income	Disbursement Amount	Portfolio in Arrears (>30 days)	% of solidarity groups
Poor <i><poverty line</i>	55%	38%	78	\$615	\$758	12.5%	46%
Vulnerable non-poor <i>100-150% of the poverty line</i>	21%	24%	76	\$922	\$1175	13.5%	33%
Non-Poor <i>>150% of the poverty line</i>	23%	38%	71	\$1,744	\$1592	12.1%	24%

Source: Model prepared by ACCION International using the database of Apoyo Integral as of October 2005.

The distribution of poverty presented in the Social Scorecard example in Table 8 differs from the poverty outreach figures presented throughout this report. As discussed in section 5, this is due to the different data sources used. This Social Scorecard, which uses credit evaluation data, categorizes 55 percent of Apoyo Integral clients are poor, whereas the ACCION household survey categorized 35% of clients in the sample as poor. For purposes of comparison with other data sets – e.g. comparing Integral with another MFI or Integral with other population groups in El Salvador, the household survey data is preferred to the loan officer collected data. However,

for internal management purposes, the loan officer data is sufficient, as it can show changes over time. For internal purposes changes and their direction and magnitude matters more than absolute levels.

Evaluating the Accuracy of the Social Scorecard

We compared the poverty levels that clients were classified into using the two sources of data: ACCION household survey data and the credit evaluation data collected by loan officers. We found that:

- 42% of the microfinance clients were categorized in the correct (same) poverty level.
- 32% of clients were classified in poverty levels that differed by one category. For example, they were classified as poor when they were vulnerable non-poor.
- 26% of clients were classified in poverty levels that differed by more than one level of poverty. For example, they were classified as poor when they were non-poor or vice-versa.

While this level of accuracy is not ideal, this tool does not impose additional data collection costs on Apoyo Integral. Furthermore, its level of accuracy is comparable to other poverty assessment tools in the microfinance industry, such as Prizma’s poverty scorecard.¹⁰ We conclude that using the credit evaluation data to create a Social Scorecard provides Integral with a practical, low-cost tool for regular poverty monitoring.

¹⁰ Michal Matul and Sean Kline. “Scoring Change: Prizma’s Approach to Assessing Poverty” MFC Spotlight Note #4. November 2003

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