

Microfinance Technical Note

A series of technical notes related to microfinance
in Sri Lanka by GTZ PROMIS



Social Performance Monitoring – A Pilot

November 2009



Ministry of
Finance and
Planning



gtz

About GTZ

Our Organisation

As an international cooperation enterprise for sustainable development with worldwide operations, the federally owned Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH supports the German Government in achieving its development-policy objectives. It provides viable, forwardlooking solutions for political, economic, ecological and social development in a globalised world. Working under difficult conditions, GTZ promotes complex reforms and change processes. Its corporate objective is to improve people's living conditions on a sustainable basis.

Our Clients

GTZ is a federal enterprise based in Eschborn near Frankfurt am Main. It was founded in 1975 as a company under private law. The German Federal Ministry for Economic Cooperation and Development (BMZ) is its major client. The company also operates on behalf of other German ministries, the governments of other countries and international clients, such as the European Commission, the United Nations and the World Bank, as well as on behalf of private enterprises. GTZ works on a public-benefit basis. All surpluses generated are channelled back into its own international cooperation projects for sustainable development.

Worldwide operations

GTZ has operations in more than 130 countries in Africa, Asia, Latin America, the Mediterranean and Middle Eastern regions, as well as in Europe, Caucasus and Central Asia. It maintains its own offices in 87 countries. The company employs nearly 13,000 staff, almost 10,000 of whom are national personnel. About 1,700 people are employed at Head Office in Eschborn near Frankfurt am Main and at various locations within Germany.

About Promotion of the Microfinance Sector (ProMiS)

Promotion of the Microfinance Sector (ProMiS) is a comprehensive programme implemented by the Sri Lankan Ministry of Finance and Planning in partnership with the German Technical Cooperation (GTZ) on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ).

In the current phase (December 2009 to November 2012), ProMiS strives for an inclusive financial system in Sri Lanka, in which marginalised groups are included into society and hence gain economic security and social participation beyond welfare. ProMiS promotes the Microfinance sector (MFI and consultancy-, research- and training institutions) through capacity development measures as well as the beneficiaries through training, Business Development Services (BDS) and Financial Literacy programmes.

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Introduction

For many in the Microfinance industry, while financial growth and sustainability is important, it is equally important that poor and very poor people are reached, that quality services are provided, and that microfinance eventually improves client lives. In other words, both financial performance and social performance matter. This is especially true for some donors and social investors who explicitly aim for broader social objectives. The following report will draw light on the experiences and challenges faced in the implementation of the Social Performance Monitoring pilot in Sri Lanka.

In this report we deliberately use the term *Social Performance Monitoring* instead of *Social Performance Management*, because we address only one aspect of the wider range of aspects of Social Performance Management, defined as the effective translation of a microfinance institution's (MFI's) mission into practice in line with commonly accepted social values. The pilot described in this report specifically focused on the aspect of monitoring clients' welfare by using a scorecard to assess the probability if a client is poor or not poor. From our judgment this is however the most important aspect of Social Performance Management.

Why monitor Social Performance

There's a myth and an expectation that through microfinance, the social objectives and missions of an MFI are automatically achieved. Latest evaluations show that this may not always be the case. Thus we recognized that it is time to develop a balance between Financial Performance and Social Performance in order to maintain the double bottom line.

The presence of an efficient monitoring system supplies a strong foundation on which to base more in-depth assessment. The development of such systems can improve the overall effectiveness of the MFI in terms of both social objectives and increased financial efficiency. Social Performance Monitoring systems therefore need not be a financial burden for the organization and make sense as part of good business practice. On the contrary, Social Performance Monitoring in fact is an opportunity for MFIs to adjust their customer files (with or without IT) accordingly and hence know their customers better than before and to eventually offer products that are better catered to the client. In the long run software providers could and should include the possibility to enter such information into their software automatically.

Furthermore, if we say that we are reaching the poorest, then we should provide the evidence to back it up. Many individuals, donors, foundations, and governments put money in microfinance with the belief that microfinance helps poor people. To be accountable to these funders we must be able to report on how (or whether) microfinance helps poor people.

Available tools used to measure Social Performance

After researching about the benefits of Social Performance Monitoring to MFIs and the Micro Finance Sector, we researched the available tools for measuring the Social Performance of an MFI.

Some of the available tools are as follows:

- CGAP Poverty Assessment Tool
- The Grameen /CGAP PPI (Progress Out of Poverty)
- CERISE Social Performance Indicator Tool
- M-CRIL Social Rating
- ACCION's SOCIAL Tool

Having determined their relevance and accessing their practicality, we decided to use ACCION International's Social Performance Monitoring tool which is called SOCIAL . This tool evaluates a microfinance institution's aspects with respect to: Social Mission, Outreach, Clients, Information Transparency, Association with the Community and Labor Climate. It finally enables microfinance institutions to evaluate themselves using a checklist of key indicators. The SOCIAL tool focuses through 6 dimensions within which relevant information would be collected, and the dimensions are as follows:

1. Social Mission
2. Outreach
3. Clients
4. Information Transparency and Consumer Protection
5. Association with the Community
6. Labor

At first glance, the number of dimensions and the included indicators might be intimidating and a bit too overwhelming to initiate as a pilot study. However the advantage is that the tool allows one to customize the data that will be collected and limit it to a basic yet effective form of data collection. This means that not all the indicators in all the dimensions need to be addressed. The MFI / MF promoter can chose to collect some basic information which could be categorized into a few indicators within the tool. Once the procedure of monitoring is established and well running, then more data could be collected in order to make the monitoring more qualitative and effective.

The following is an example of a pilot done in Uganda where only a few of the indicators within the tool was selected to be monitored. The image following the chosen indicators is a pictorial representation of the collected data.

Component of the Social Scorecard	Social Dimension
Text of an institution's mission	Social Mission
Number of active clients	Outreach
Number of branches	
% Growth rate of clients in the last year	
% Female clients	
% Clients with a certain education level	
% Rural clients	
% Poor clients (<i>compare to % poor nationally</i>)	
% Clients with loans not requiring the pledge of traditional collateral	
Average loan size (annualized)	
Average loan size as a % of annual GNI (gross national income) per capita	
% Client retention rate (year/year)	
% Clients with credit	
% Clients with savings or insurance (if offered)	
% Average annual effective interest rate	Clients/Information Transparency
Number of people served or amount donated through community projects	Association with the Community
% Staff retention rate (year/year)	Labor
Average annual hours of training per employee	

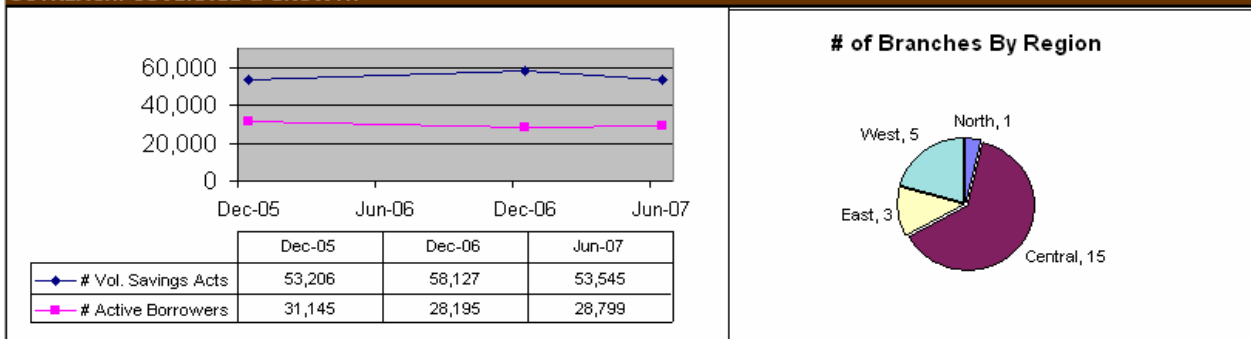
Example of the customized Indicators used by Uganda Microfinance Limited.

UGANDA MICROFINANCE LIMITED SOCIAL SCORECARD

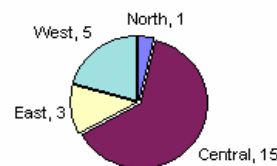


Mission: To provide quality financial services to microfinance clients and other stakeholders in a courteous, efficient and transparent manner

OUTREACH: COVERAGE & GROWTH



of Branches By Region



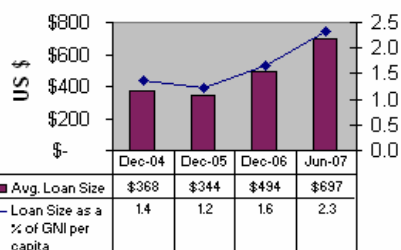
OUTREACH: KEY STATISTICS BY POVERTY LEVEL (November 2006 data of 7 branches and IMF Uganda data)

	% of Clients	% of Group (WC) Clients	% of MCC Clients	% of New Clients	% of Rural Clients	% Female	Monthly HH Expend. Per Capita (U.Shg)	Average loan size	All Uganda
Poor (below nat'l pov. line)	13	17	5	17	18	50	18,952		38%
Vulnerable Non-Poor	13	14	9	13	13	60	41,844		62%
Non-Poor (>150% of nat'l pov.)	74	69	86	68	70	48	139,687		

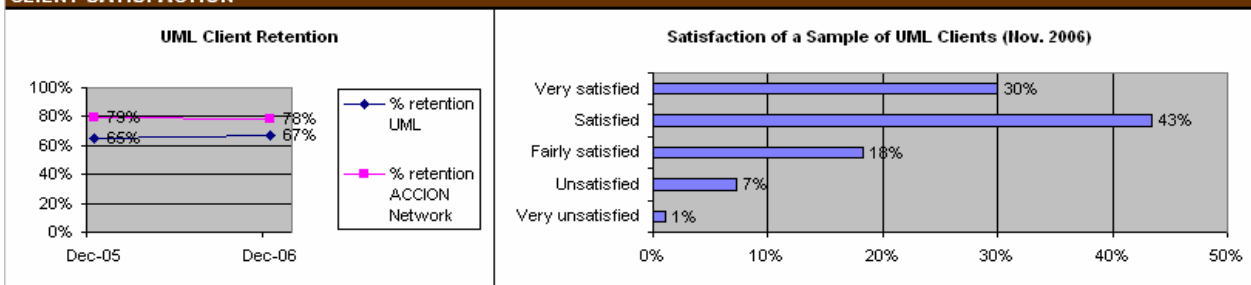
CLIENT CHARACTERISTICS

	UML	All Uganda
Demographic Characteristics		
% Female	50	51
% Rural	59	75
Average household size	4.7	5.8
% with no education	4	4
% with completed primary school	24	13
Living Conditions		
% with electric energy	58	14
% with radio	96	69
% with TV	58	3
% with refrigerator	34	

Loan Size as a % of GNI per capita



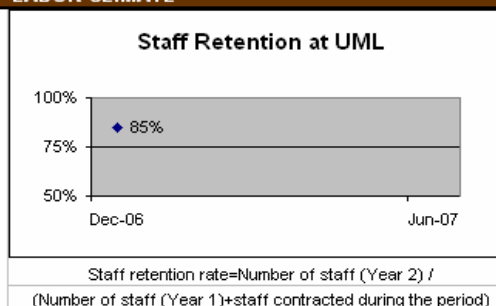
CLIENT SATISFACTION



PRODUCTS AND SERVICES

	% Client Distribution	Portfolio Distributi	Avg Loan Size (U 000)	Effective Interest Rate
Working Capital	61%	14	110	63.7
Capital Asset	0	0	1,267	51
Rural Employment Guarant	12	12	472	53
Back to School	7	1	59	51.3
Micro-Corporate	18	47	1,302	63.7
Employer Guarantee	2	10	2,822	53
Home Investment Loan	1	6	3,065	
SMEs	0	9	32,067	
Microleasing	0	2	11,453	

LABOR CLIMATE



Need for poverty analysis

However in order for this tool to generate a successful and accurate representation of the Social Performance of an MFI, there needs to be a simple and user friendly method of accessing client poverty levels and this was the main challenge we faced. After looking for some easy poverty assessment method we discovered the Progress out of Poverty (PPI) devised by the Grameen Bank.

The Progress out of Poverty Index™ (PPI™) is a simple and accurate tool that measures poverty levels of groups and individuals. It is a user-friendly tool that estimates the likelihood that clients fall below the national poverty line, the poverty line that defines the poorest half below the national poverty line or the \$1/Day/PPP and \$2/Day/PPP international poverty lines. However, while the PPI is built on a universal methodology, each PPI is country specific and based on that country's best nationally representative income and expenditure household survey. As of now the PPI has been developed for Bangladesh, Bolivia, Haiti, India, Indonesia, Kenya, Mali, Mexico, Morocco, Nigeria, Pakistan, Palestine, Peru, Philippines, Vietnam. However since one is not yet developed for Sri Lanka, we are unable to use the PPI as a poverty assessment for our pilot.

Thus we set out to look for something similar to the PPI in simplicity and with the aid of CEPA (Centre for Poverty Analysis) came across a Proxy means test of assessing poverty created by the World Bank for Sri Lanka in 2000 (excluding North & East). This proxy means test is basically a scorecard with 24 weighted indicators.¹ For instance if a household owns a car, they will get 40 "points". If they don't have a car, they get no points. Similar, if this household owns a television, they receive 8 points. If they have no television, they get no points. Hence the more points a household receives, the less the probability that they are poor.

The reason for working with such a proxy means test (or scorecard), is that it allows the user to quickly assess the welfare of a household based on certain criteria as explained above. The final score gives then an indication whether the household can be considered as "poor" or not, depending on the threshold inherent to the proxy means test. Though this approach has its advantages, it also has its limitations which will be highlighted also in this report.

Even though the initial idea was to carry out this pilot by using ACCION International's Social Performance Monitoring tool which is called SOCIAL, it was evident while carrying out the poverty analysis that this was not feasible. In order to produce accurate results within the SOCIAL tool, proper poverty data was required. Since the MFI's didn't collect any specific poverty data on their clients it was important to first establish this form of data collection prior to the other aspects of the broader concept of Social Performance Management. This way, the clients' poverty level could be analyzed upon entry level and then could be analyzed in an annual basis in order to monitor their progress if at any. Thus our pilot study shifted towards focusing on the poverty analysis of the selected MFIs.

¹ See Annex (b)

The Pilots

We carried out our pilot studies as a means of testing the Poverty Scorecards on our partner MFIs. The idea was to test it on 3 of our partner MFIs located within different areas of the country and then to analyze the results. Thus the three MFIs that we selected were Lakjaya Microfinance, SEEDS and YMCA Batticaloa. However due to security reasons and time constraints YMCA Batticaloa had to be removed from the pilot study. Instead we carried out three pilot studies on two SEEDS branches, one in Matale district and another in the outskirts of Colombo. Another branch was from Lakjaya situated again in the outskirts of Colombo. The Colombo branches were selected in order for it to be easy to travel and collect data.

Of the entire number of clients within the branch/society, we wanted to carry out the test on a representative sample size and thus decided to select 30 clients. Then the task of randomly selecting the clients arose. Initially we decided to take the client list with all the client names and randomly chose 30 clients from it. However in order to make the sample more accurate and reduce the amount of limitations in our test, we decided to use a statistical tool that would allow us to gather a representative random sample. Thus we utilized the table of random numbers in order to generate a representative random sample of 30 clients. We first obtained a list with all the names of the society's clients, next we followed the instructions given in the methodology of the table of random numbers and was able to select 30 unrelated clients. This method was used for all the three pilots.

The time taken for the questionnaire did not take more than 5-10 minutes, and was easily answered by most of the clients without much hesitation or thought.

Looking at the households in the two pilots carried out within the outskirts of Colombo, the overall perception was that except a very few number of clients, most of the others couldn't be classified as poor or below the poverty line. They have more or less majority of the good basic household necessities such as fans, fridges, walls made out of proper bricks and more than one bedroom for a house. There were only 2 or 3 houses within both tests that I perceived which fell below the common standard of the other homes. These houses weren't fully built, and lacked some of the basic necessities that the other houses had. In contrast one house even had tiled rooms with new kitchen appliances such as microwaves and ovens.

However the results obtained from the Matale district were quite different. After calculating the scores for all the households it was evident that unlike in the other pilots where none of the tested households could be classified as "poor," this pilot indeed had three households which were well below the score that determines poverty - 709 which is classified as the cutoff point for the 30th percentile, while some households were border lining. It should be noted that compared to the average scores of the three pilots carried out, this pilot held the lowest average. This number complements the perceived notion that the standard of living in this area was indeed quite low. What set the three households with the lowest scores apart from the other seemingly similarly poor households, was the fact that these households had large numbers of family members living in the house, depending on only a few or sometimes even one breadwinner. Another factor was that the household heads' education levels were much poorer than those in the other two societies.

Limitations

While most households' walls were made out of bricks and durable material, there were a good number of households within the sample that was constructed incompletely. E.g.: Some houses were not plastered; some windows were not fixed or fixed incompletely. For such instances there were no ways of differentiating the scoring system and households received the same scores as a fully well made house.

Finally the biggest limitation seen is the fact that the questionnaire is unable to give a probability of poverty likelihood and is only able to determine if a household is poor or not. Thus some more analysis needs to be given in order to make the scorecard a bit more informative thus being able to increase its productiveness.

Recommendations

Since the poverty scorecards have been tested, the recognized limitation of developing probabilities of poverty likelihoods needs to be addressed and should be solved with the aid of a person who is familiar with regression statistics and/or with the further assistance of CEPA.

Once the poverty analysis method is well established, we can proceed with the other quite straightforward elements of Social Performance Management, which can be customized according to our needs and capacity. A workshop should be conducted to provide MF practitioners information on how to incorporate Social Performance Management into their annual procedures and to carry out the data collection independently. As this report is being finalized, such a workshop is in fact being carried out for MFI and other development partners.

In case it is recognized that the MFI is not have the capacity to monitor Social Performance independently, then the option of a Social Rating is very promising. Specialized microfinance rating agencies have started to offer social ratings as a complementary rating to the normal financial, organizational appraisal of a credit rating. This way an exterior body would carry out the rating and opportunities for a biased data collection can be reduced, if not eliminated.

Conclusion

Social Performance Monitoring no doubt reaps many benefits such as the ability to evaluate if an MFI reaches out to the poor or not. In the Sri Lankan context, the main need is to establish a proper, accurate yet simple poverty analysis method. Currently the Grameen Foundation together with Samurdhi are in the process of developing the PPI for Sri Lanka. However, the process seems to be slow so far. The proxy means test that was developed by World Bank for Sri Lanka, can be used in the meantime as an alternative scorecard. However, it is rather questionable whether this scorecard still can be used today, since the data are from 1999-2000 and exclude the North and East of the country.

Literature

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Dimension 1: Social Mission

Principle: Evidence of understanding and commitment to institutional mission should be present at all levels of staff and in all aspects of the MFI’s work. Fulfillment of social mission should be evaluated regularly.

Key Social Mission Indicators

Articulation of and commitment to institutional mission

- The MFI has a clearly articulated mission and/or vision statement that describes the social goals and core values of the MFI.
- The MFI’s mission includes a focus on reaching clients without access to financial services in a sustainable manner.
- The institution’s strategic plan reflects a clear plan to implement the institution’s social mission.
- The Board of Directors addresses both social and financial issues during their meetings.
- Knowledge of and adherence to the MFI’s mission is actively promoted among staff members at all levels through training and properly aligned incentives.
- Senior management and the Board of Directors are diverse with respect to gender and experiences.

Efforts to measure mission fulfillment

- The MFI sets targets for social performance goals and regularly presents key indicators and other indicators relevant to social performance to its board.
- The MFI conducts or commissions periodic surveys to assess impact, using quantitative or qualitative research techniques.
- The MFI actively considers and uses measurements of social performance in management decisions.

Dimension 2: Outreach

Principle: Microfinance institutions should broaden access to financial services, particularly to poor and underserved populations.

Key Indicators: Outreach

Geographic Coverage and Growth

- Number of active clients
- Number of branches
- Percent growth rate of clients in the last year
- Map: Geographic coverage of the country

Demographic and Poverty Information on Clients

- Percent female clients
- Client education levels
- Percent rural clients
- Percent poor clients (compare to % of poor nationally)

Efforts to Reach Underserved Clients

- Percent clients with loans not requiring the pledge of physical assets or monetary collateral
- Average loan size (annualized)

- Average loan size as a % of annual GNI (gross national income¹¹) per capita
- The MFI makes efforts to promote access to its services to poor clients and/or clients without access to financial services. (ex: targeting or operating in areas of high need)

Dimension 3: Clients

Principle: Microfinance institutions should offer quality services that fulfill the financial needs of clients.

Key Indicators: Clients

Products and Services

- Percent of clients with credit
- Percent of clients with savings
- Percent of clients with insurance
- Percent of average annual effective interest rate charged (includes commissions and fees¹³)

Efforts to Promote Client Satisfaction

- The MFI provides incentives to keep its best clients, such as preferential interest rates, gifts, or automatic loan renewal.
- The MFI promotes quality customer service to staff by offering training on this topic and by providing adequate resources to promote prompt and courteous service to clients.
- The MFI measures response times: such as, the time it takes between the end of the credit evaluation and disbursement.
- The time spent in the branch by clients does not represent an undue burden on clients.

Feedback mechanisms

- Percent of client retention rate.
- The MFI regularly conducts exit surveys to understand who drops out and why, and uses this information to improve operations.
- The MFI solicits feedback from clients (through client satisfaction surveys or focus groups) at least once per year.
- The MFI has mechanisms in place to receive feedback and resolve complaints (ex: a publicized telephone number, e-mail, suggestion box).
- The MFI informs customers of any external consumer protection authority, and publicizes how and when to contact them.

Dimension 4: Information Transparency and Consumer Protection

Principle: The ideals of transparency and consumer protection should govern the actions of MFIs.

Key Indicators: Information Transparency & Consumer Protection

Promoting Transparency

- The MFI actively discloses and promotes client understanding of loan terms.
- The MFI provides clients with understandable receipts of all transaction.
- The MFI provides specific sessions that explain loan terms to each client before the loan is disbursed.
- Effective interest rates (including all commissions and fees) are disclosed to clients.
- The MFI publishes comprehensive regular reports of its activities and makes this information available to key stakeholders and other community actors.

Consumer Protection

- The MFI has developed a code of ethics and disseminated it to its staff.
- The MFI does not have any discriminatory practices in its provision of credit.
- The MFI has developed policies to safeguard client privacy, disseminated them to staff and verified them through internal audit procedures.
- The MFI has established policies to prevent unethical treatment of clients (particularly delinquent clients), disseminated them to staff and verified them through internal audit.
- The institution has developed policies to avoid creating over-indebtedness in clients and disseminated them to staff.

Dimension 5: Association with the Community

Principle: Microfinance institutions should maintain positive relations and strive to improve the communities in which they operate.

Key Indicators: Association with the Community

Social Responsibility

- The MFI participates in national or international microfinance advocacy efforts (ex: participated in national microfinance networks, promoted microfinance among regulatory bodies.)
- Number of individuals served or amount donated to projects that aid the surrounding community (ex: volunteer work, donations, etc.)
- The MFI links clients to providers of non-financial services in the community (ex: health, education etc.)

Sustainable Growth

- The institution has established clear policies prohibiting the financing of businesses with adverse effects on its surroundings (ex: harmful to the environment, illegal, use of child labor).
- The institution has demonstrated evidence of environmental responsibility in both its headquarters and branches, and has worked to foment this same sense of responsibility in its clients.

Dimension 6: Labor

Principle: Microfinance institutions should strive to develop their human resources and maintain active communication with staff.

Key Indicators: Labor

Human Resources Policies

- The MFI does not permit discrimination of any sex, race, ethnicity or religion in its hiring.
- Breakdown of employees according to gender
- A clear salary scale has been established that is based upon market salaries.
- Staff receives an attractive benefits package in conjunction with national norms.
- The MFI supports programs for skills management and lifelong learning that support the employability and career development of employees.
- Average hours of training per year per employee

Feedback mechanisms

- The MFI conducts exit surveys of all employees who leave, and compiles these surveys into reports shared with senior management.

- The MFI gathers employee opinions through a labor climate survey regarding compensation, workload, training, organizational culture once a year.
- The MFI solicits regular feedback between staff at all levels.
- Staff receives feedback from their supervisors, including an annual performance evaluation.

Annex (b)

Proxy means test for targeting welfare benefits in Sri Lanka

Proxy means test for targeting welfare benefits in Sri Lanka (English)

2005/07/01 33258 Working Paper (Numbered Series)

Ambar Narayan and Nobuo Yoshida July 2005

Report No. SASPR-7

<http://go.worldbank.org/JXUHPV73Z0>

Score of the selected Variables for the formula

Description of Variable	Score
Initial Score for the Household	707
Household Assets	
1. If Car / Van is available	40
Other wise	0
2. If Cooker (Kerosene/Gas/ Electric) is available	17
Other wise	0
3. If Bicycle is available	4
Other wise	0
4. If Fan is available	11
Other wise	0
5. If Refrigerator is available	12
Other wise	0
6. If Motorcycle/Scooter/Three Wheeler is available	8
Other wise	0
7. If Radio/CD/Cassette Player is available	4
Other wise	0
8. If Sewing Machine is available	7
Other wise	0
9. If Tractor is available	15
Other wise	0
10. If Television/Video Player is available	8
Other wise	0
Land and Livestock	
11. If any livestock is available	8
Other wise	0
12. If cultivable own land is not available or less than or equal to 1 acre	0
If cultivable own land is more than 1 acre but less than or	7

equal to 2 acres	
If cultivable own land is more than 2 acres but less than or equal to 4 acres	8
If cultivable own land is more than 4 acres	16
Household Head	
13. If household head is Widowed/Separated/Divorced Female	0
Other wise	5
14. If the age of household head is less than 70 years	0
If the age is between 70 to 79	-5
If the age is 80 and above	-13
15. If the Head of household has not passed O/L Exam.	0
If the Head of Household has passed O/L Exam.	7
If the Head of Household has passed A/L Exam.	10
If the Head of Household has Degree/PG/Diploma	16
16. If the Head of Household is engaged in Salaried Employment or in Business	5
Other wise	0
Household Demographics	
17. If the Household Size is 1 or 2 Members	0
If the Household Size is 3 to 4 Members	-23
If the Household Size is 5 to 6 Members	-39
If the Household Size is 7 to 8 Members	-52
If the Household Size is more than 8 Members	-59
18. If any Child in the age group 5 – 16 is not Attending School	0
Other wise	6
Housing Characteristics	
19. If Dwelling is Owned by the Household	4
Other wise	0
20. If Electricity or Gas is used for Cooking	13
Other wise	0
21. If the Toilet is Private and Water seal with Flush Type	16
Other wise	0
22. Rooms (Excl. Kitchen/ Bathroom) per Member: If one room is available per member	16
Other wise 16 multiplied by Average Number of Rooms per Member	16*Rooms/Members
23. If the wall is structured with better quality material like Bricks/Cement	6
If the wall is structured with poor quality material like Mud/Cadjan/Plank/Cabook/Wattle and Daub	0
Community Characteristics	
24. If a Public/Private Commercial Bank is located within the GN Division.	8
Other wise	0

25. If Divisional Secretariat is located within the GN Division.	9
Other wise	0

Note: The initial score and the scores for the variables are derived from "Regression Analysis" based on recent past Survey Data. The final score of a particular household will be the sum of initial score and scores of all the variables.

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