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OPENING UP THE IMPACT ASSESSMENT AGENDA

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Paper prepared for the Latin American Microfinance Meeting
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INTRODUCTION

Over the last few years impact assessment (IA) has been emerging from its status as marginal to the microfinance agenda. In the past it was seen:

- By donors as something they should undertake in order to document that their resources were having positive results;
- By many project managers as having no bearing on institutional sustainability. They saw high levels of loan repayment and repeat customers as the proxy measures of impact and evidence that the services provided are highly valued by the clients and therefore having a positive impact.

Since the inception of USAID's AIMS (Assessing the Impact of Microenterprise Services) Project in 1995, the microfinance industry's view of IA has shifted. The growing appreciation of the value of the client information generated by impact assessments for project management, coupled with the emergence of lower cost and credible approaches to assessing impact on clients and their households, mean that it is no longer a peripheral topic. Rather, as is reflected in the importance being given to IA in this meeting, impact is very much part of the microfinance agenda.

In this presentation, I want to examine the changing role of impact assessment in microfinance. Firstly, I want to look at the options for undertaking impact assessment. There is now a greater range of choices for those considering conducting an IA. Secondly, I want to move forward and look at how impact information can be used for not just proving the positive effects of microfinance programs but also as a management tool. More specifically, I want to consider the growing interest in product innovation within the microfinance industry and the overlap between impact and market research data. Finally, I will ask whether impact assessment can be used for market research?

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OPTIONS FOR UNDERTAKING IMPACT ASSESSMENT[2]

The existing approaches to credible IAs can be divided broadly in two groups:

- large scale, expensive and rigorous IAs which seek to prove that microfinance leads to certain prescribed client and household level changes; and
- Middle range and lower cost impact assessments which can serve as a management and accountability tool. Not only do these generate information that program managers can use to justify that their programs are having a developmental impact, but the results can also inform the management and improvement of programs.

The choices made will be based on criteria of purpose, budget and human resources, usefulness and the credibility of the results. It is with these criteria in mind that I would like to consider the two alternatives.

A. The High End Segment of the Impact Assessment Market.

For many microfinance experts, IA continues to be equated with large scale, rigorous and expensive studies. They fall in the domain of donors and policy makers, and researchers. The former fund them, the latter do them.

Both donors and policy makers want proof of the effectiveness of financial services in relation to their developmental objectives. In addition to measures of program sustainability, outreach, and deepening financial markets, they want to know whether these services are reaching the poor, helping to alleviate poverty and putting the clients and their households on the road to self-sufficiency. Positive results are indicative of the value of investment in microfinance services and indicate that they are helping the poor get out of poverty. Failure to demonstrate impact raises the prospect that funds for microfinance will be reprogrammed for other uses.

These rigorous impact assessments are designed and conducted by researchers. In a field requiring complex methodologies and plagued by conceptual problems (not unique to microfinance impact assessments) researchers have made key methodological contributions such as new approaches to address issues such as client self-selection bias, fungibility and attribution. These studies have generated a growing body of literature that is beginning to reveal what microfinance can and cannot do.

Yet our understanding of the relationship between microfinance and poverty alleviation remains limited. Moreover, for many practitioners, these types of studies tend to have limited applicability. When details about services accessed, length of program participation, levels of arrears, and the volume or size of loans are ignored, these impact assessments can appear disconnected from MFI operations.

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[2] This section has benefited from the contribution of Carolyn Barnes.

From a practitioner's perspective, such studies are also expensive and demand analytical methods that are difficult for them to replicate. They rarely generate results in a timely manner. Only occasionally do they serve a major interest of MFI management- to help improve the quality of the services provided.

B. Middle Range Impact Assessments.

Let us now focus on middle range IAs (i.e. lower cost, credible and useful impact assessments). Today, this is where much of the attention in the field is being directed. As we speak, the CGAP Working Group on Impact Assessment Methodologies is holding a virtual meeting. The participants, a mix of donors, researchers and practitioners, are debating guidelines for middle range impact assessment which meet these criteria.

A mix of accountability and management goals drives practitioners' interest in impact assessment. As recipients of grant funds, MFIs often are required to prove that their programs are contributing to the donors' strategic objectives and the funds have been 'well spent'. At the same time, practitioners' interests in ensuring that their products and services are responsive to client needs dictate a product improving or management purpose for impact assessments. Practitioners have argued that impact assessments have the potential to:

- identify which clients are receiving more benefits and which are receiving less, and why;
- provide information on the different sectors in which the clients are working;
- inform institutional understanding of client preferences in terms of products and services; and
- assess the key socioeconomic characteristics of the program's clientele to determine if it is reaching its intended targets.

The practitioner community, with and without donor support, has spawned the development of an array of impact information and measurement systems. As MFIs seek a middle range alternative to the high cost at one end and lack of reliability of results at the other end, there has been a push by numerous MFIs to undertake impact assessments that are within their resource capacity (i.e. to carry out some or all of the critical stages of an impact assessment: plan, direct, design, analyze and report on the results). Practitioners can either implement the assessments themselves or involve external evaluators. What is important is that the MFIs have the capacity to manage the assessment process.

An important initiative in this area has been the practitioner-led assessment tools developed under the AIMS Project. This package of five tools seeks to assess the impact of microfinance at the levels of the client, the household, the enterprise and the community. *Learning from Clients: Assessment Tools for Microfinance Practitioners* was developed by SEEP, a U.S. membership organization of microenterprise and microfinance institutions, together with its partners. Guided by the criteria of lower cost,

credibility and usefulness of the results, this mix of quantitative and qualitative instruments is intended to serve a combination of management and accountability objectives (see Box 1).

BOX 1: AIMS Tools

1. Household survey
2. Exit survey
3. Loan/savings use tool
4. Focus group discussions on client
5. Focus group discussions on empowerment

The household survey provides basic impact data. Change is based on retrospective data and a comparison of existing clients and new entrants, individuals who have been approved for a loan but have not received their first disbursement. The loan use and savings tool adds to our understanding of how clients use the financial services accessed. This helps not only to explain the 'how' of the impact results but, with the survey data, begins to provide information useful in improving product design and service delivery. The results of the exit survey with program drop outs and the application of the client satisfaction tool address managers' interests in the quality of the services provided. When the household survey is administered to drop outs, the information can provide insights into issues such as 'how to retain existing clients' with alternative products. The Tools report also includes information on the use of a multi-language statistical package, EPI6, which can be used to analyze the survey data.

To date the tools have been pilot tested in Mali and Honduras. A training in tools implementation has been undertaken with Microfinance Center members in Eastern Europe/Poland, the Cashpor Network in Asia, the COPEME network in Peru, and FINCA/Peru. A manual will be available in English from the AIMS project early January 2000 and will be published in French and Spanish later in the year.

Related to, but different from impact assessments, is a group of activities that fall under the category of impact monitoring and participatory learning approaches to impact assessment. Often lumped under the heading of IA, all have somewhat different purposes and generate data about client change only

C. Participatory Learning Approaches

A number of participatory learning approaches to impact assessment have been developed and applied. The central focus is on using the evaluation process as a learning and empowerment tool for staff and clients. Using a variety of visual techniques, clients depict or discuss the progress – or lack of progress – they have made since entry into the program. Highly contextualized, the impact indicators are primarily defined by the

clients. As much a ‘learning’ as an ‘evaluation’ tool, these participatory methods tend to be time consuming, and therefore require careful consideration of the opportunity cost of client and staff time.

In the interest of time I have not included a full discussion of other qualitative tools used for impact assessment. They include rapid appraisal techniques and wealth ranking. Akin to some of the AIMS tools, these techniques, when combined with other tools, serve to strengthen and explain other impact results. They are also being used increasingly to provide a greater understanding of how clients use financial resources.

IMPACT MONITORING IS NOT IMPACT ASSESSMENT

I have chosen to discuss impact monitoring (IM) because it seems very topical. There has been much heated discussion on this topic in the CGAP virtual meeting and at the recent annual meeting of SEEP. Indeed, some have seen it as an alternative to impact assessment. While institutions track client loan performance data, few monitor the selected indicators of economic, social or environmental impact of their programs on their clients. Those that do, typically monitor changes in clients differentiating between women and men. Two of the more successful programs at monitoring client impact have been ADEMI in the Dominican Republic and Workers Bank in Jamaica. At Workers Bank, the client monitoring system annually tracks revenues, fixed assets and number of employees at the enterprise level and the value of assets, food expenditures and savings at the household level[3]. Since the early 1980s, ADEMI has tracked enterprise assets, sales and employment levels. This information is collected at the time of a loan renewal and determines the new debt capacity of the borrower and whether there is need for business support services.

Impact monitoring is not impact assessment. IA can complement impact monitoring. IA findings can be used to refine impact monitoring indicators. However, IM serves a different purpose than IA. Barnes and Sebstad note in a recent paper prepared for the third virtual meeting of the CGAP meeting on Impact Assessment Methodologies that IAs using a comparison of clients and non-clients provide information to plausibly associate changes in selected impact variables to a program, IM does not. This is an important difference and one that has implications for the use of the information collected through IM.

IM tracks client’s progress and, when integrated with other client outreach data (such as sector and gender) and financial data, can yield good portraits on those who enter and stay in the program and those who leave. It also assists program managers and boards of directors to be attuned to key characteristics of whom the program actually reaches. For all involved, it is part of a learning agenda. IM is also cost effective, the data can be readily obtained, and the cost is reasonable. However, IM can not tell you a great deal about whom is excluded from the program and thus inform management decisions on

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[3] Income was initially included but later deleted since clients were unwilling to provide this information.

how to expand outreach to new markets, new populations and new products. It cannot answer many of the market demand questions that dominate current thinking.

The value of IM is as a management tool for MFIs wishing to ascertain the progress their clients. To the extent that loan officers collect the data as part of their work responsibilities, IM lends itself to institutionalization. In addition, when the selected indicators are included in an institution's MIS, the data are readily available to a knowledgeable staff analyst. However, collecting data is one thing, analyzing it in a useful sort of way is another. This information only has value if the MFI has the personnel who have the vision and knowledge to use it.

CAN IMPACT ASSESSMENT BE USED FOR MARKET RESEARCH?

We have a growing toolbox for impact assessment. The question is whether it can be used for market research? I would suggest that while there is overlap there is also difference in objectives. As the microfinance industry matures, service providers increasingly are concerned with developing new and better products. This is in response to growing competition in the microfinance market, the search for more precise market niches, and some anxiety about drop out rates. These demand-led trends are pushing MFIs into more segmented markets and have led to a focus on finely tuned products and services. This requires MFIs to have a greater understanding of their clients use and management of money, as well consumer preferences for financial products in relation to their needs.

As we consider this emerging demand-led agenda, we would do well to remind ourselves that impact assessment is about understanding changing client and household behavior. The basic information obtained in a client survey utilizing a non-client comparison group provides us with data which are important in the development of new products. Given the overlap between impact assessment and market research let us look how impact information can be used in this way.

Recent research commissioned as a contribution to the forthcoming World Bank World Development Report 2000/1 on Poverty highlights the importance of some of these issues. USAID (in collaboration with CGAP and DFID) directed a study on the impact of microfinance on poverty alleviation[4]. Looking at the nexus between assets, risk and vulnerability, the study offers a client perspective on the relationship between microfinance, risk management and poverty. Assets were broadly defined to include physical, financial, human and social assets. Risk was defined as a chance of a loss and vulnerability as the ability to deal with a loss. The key questions addressed were:

[4] The contribution of Jennefer Sebstad to this section is gratefully acknowledged. For further information see Sebstad, Jennefer and Monique Cohen. (Forthcoming). "Microfinance, Risk Management, and Poverty." Based on field studies by Ronald T. Chua, Paul Mosley, Graham A.N. Wright, and Hassan Zaman. AIMS Paper. Washington, D.C.: Management Systems International

- Whom do microfinance programs reach?
- What is the nature of the risk facing clients?
- What strategies do clients use to deal with risks they face?
- What is the role of microfinance services in mitigating risk and reducing vulnerability?

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Based on data from eight institutions in four countries, Bolivia, Philippines, Uganda and Bangladesh, the study addresses the non-income dimensions of poverty using a mix of quantitative and qualitative tools. Some, such as the loan and savings use tool, were drawn from the AIMS Tools, other lower cost approaches, such as the wealth ranking and focus group discussions on risk were developed specifically for this study. The field findings were supplemented with secondary information from credible microfinance impact assessments.

A. Whom do programs reach?

The WDR research suggests that most microfinance clients concentrate just above and below the poverty line. We found that:

- both targeted and non-targeted programs studied reach a variety of clients across a broad range of poverty levels;
- a majority of clients are from moderate poor and vulnerable non-poor households;
- clients from extreme poor households participate in microfinance programs but are not in the majority. Programs that explicitly target poorer segments of the population generally have a greater percentage of clients from extreme poor households; and
- destitute households are outside the reach of microfinance programs.

Microfinance clients are heterogeneous in other respects, for example, their demographic characteristics, enterprise types, household economic resources and activities, position within their communities, and the environments in which they live and work.

B. What is the nature of the risks facing clients?

Microfinance clients at all poverty levels are exposed to frequent and wide ranging risks. This reality is best summed up by a CARD Bank client from the Philippines, "... life for the poor is one long risk."

While systemic risks such as natural disasters can be devastating, illness, death and loss of an income earner were the most prominent risks cited by clients in the WDR studies. Accidents, robberies and crime also ranked high. Risks were found to be highly variable across enterprises operated by microfinance clients. In addition, the risk of taking a loan is significant.

Given the limited amount of time let me just elaborate on the last of these risks, the risk of taking a loan. For poor households with variable incomes, taking a loan can pose a high risk. This is related to the capacity of a given household to make repayments and to absorb the added stress associated with loan repayments. If the returns on the investment of the loan are negative, or if the individual or household has experienced another kind of shock that has affected its income flow, it may be necessary to deplete assets or reduce consumption in order to make loan repayments. If a client defaults on a loan, she or he may risk losing access to a valued financial market. Such a failure can lead to a loss of self esteem, confidence, and social assets.

Clients are willing to bear these risks because they highly value participation in a credit program. By making available ‘chunks’ of money microfinance services provide clients and their households with more options to protect themselves against risks by building assets and generating income.

C. Client strategies for dealing with risk and reducing vulnerability

The research generally supports the proposition that financial services reduce the vulnerability of client households. Strategies to protect against risks ahead of time include building all kinds of assets that can be drawn upon in times of need, diversifying income sources, and focusing on good money management. Aside from investment in enterprise assets, the WDR studies identified the importance of investment in children’s education and housing. Women also stressed the high value they ascribe to investing in social assets. As a consequence of membership in microfinance and other groups they can gain access to ‘chunks’ of money and assistance when times are good and when times are bad. Maintaining access to MFI program credit, in itself, is a protectional risk management strategy for many clients. They go to great lengths to ensure repayment, particularly when confronted with a crisis or shock. Informal sources of finance are mobilized to ensure repayment. Repayment means that one can gain access to a new loan, a new ‘chunk’ of money and then start back on the road to recovery, restocking a microenterprise, rebuilding a house, or paying school fees.

Once a shock or stress event occurs, people use various strategies to cope: they modify consumption, raise additional income by mobilizing labor or selling assets, they draw on informal and formal savings, and draw down claims on informal group based insurance mechanisms. Microfinance clients seek to conserve productive assets and thus maintain their income earning potential if at all possible. Across the four countries there was a reluctance to withdraw children from school, cash in savings (particularly where savings are linked to loan size or earmarked for future investments), or sell productive assets. MFI services were only drawn upon when other options were exhausted or failed.

Overall, the study found that MFIs play more of a role in helping clients protect against risks ahead of time than cope with shocks after they occur.

D. Implications for MFI product design

These findings have implications for different financial products and services. They suggest three challenges in the area of product innovation. The **first** is the need for products and delivery mechanisms that meet the financial needs of a wider spectrum of households. For all groups, more attention to client preferences in relation to *loan size, repayment cycles, flexible loan products, and transaction costs* in the design of products and delivery mechanisms could improve program outreach and retention. This means looking more closely at the match between household financial and investment sources and flows and loan and repayment cycles. For poorer households, the risk of taking a loan might also be reduced by making available flexible and timely products with bite size and manageable repayments. For better off households, *larger loan sizes* can enable them to take advantage of investment opportunities with potentially higher returns.

A **second** challenge is designing products beyond credit that can help clients mitigate anticipated, but unpredictable, risks. On one level ensuring that the terms, conditions and delivery of financial products correspond to the financial cycles of the clients should reduce risks both for clients and for lenders' portfolios. This linkage has been largely ignored by MFIs. At the same time, there is room for *insurance products* to help clients cope with frequent but hard to predict idiosyncratic risks such as ill health or death of a family income earner. Potentially all are insurable risks. Loan insurance, when available, provides only partial protection to MFIs and does little to protect clients from these emergencies. One organization offering life, health and asset insurance to women is SEWA in India. SEWA sees these services as essential to reducing the vulnerability of their members. There is also room for savings services that provide more *accessible and private savings* – de-linked from loans – that can be used to provide a back up for dealing with day to day economic stresses.

A **third** and related challenge is designing more flexible loan products that help clients manage and recover from losses associated with unanticipated shocks after they occur. For example, *emergency loans* can play an important role in assisting clients to recover lost stock, make repairs on premises or equipment, start a new business activity, or cover emergency health bills. Emergency loans can help clients to recover from such events more quickly, continue to pay their loans and stay in programs rather than default, thus reducing the risk to the MFI portfolio. By staying in programs and maintaining access to credit, clients reduce their vulnerability to future risks.

CONCLUSION

Impact Assessment in the area of microfinance is a work in progress. Over the last few years there has been a movement towards developing middle range/lower cost, credible and useful approaches to impact assessment. The pressure for this development has come from both donors and practitioners.

The good news is that anyone wishing to undertake an impact assessment is presented with a range of options. Purpose and resources must guide the choice. At the same time the tools that have been developed by the AIMS Project are proving useful not only for accountability purposes but also for the generation of information that is useful to MFI management. Among those uses is market research. While there is considerable overlap in impact assessment and market research, it is not complete. The additional data needed for market research will have to be generated in other ways, particularly through the use of participatory tools.

Microfinance programs can only be successful to the extent that they provide products and services that can help clients achieve their own economic goals. Therefore, understanding clients is critical. From developments in the area of impact assessment we are beginning to build a data base about clients, drop outs, and non-clients and their behaviors. We are also generating a set of tools that can contribute to the emerging needs of MFIs in the area of market research.