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"Measuring Outreach" Conceptual Workshop Proceedings 22-23 January 2004

Gary Woller
Mark Schreiner

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Introduction

This document presents the conceptual framework that will guide the "Measuring Outreach of Microfinance Institutions" research topic under the Accelerated Microenterprise Advancement Project (AMAP) Knowledge Generation task order.[1] The objectives of the Measuring Outreach project are two-fold:

1. To develop a standardized set of relatively easy-to-collect and useful social return indicators that will permit MFI managers to measure and manage progress toward achievement of social objectives.
2. To develop a standardized set of relatively easy-to-collect and useful social return indicators that can serve as social performance benchmarks for MFIs.

As per the first objective, the project defines social return within the benefit-cost framework. The benefit-cost framework is in turn operationalized through six dimensions of outreach: cost, worth, scope, depth, breadth and length.[2] During the course of the research, multiple indicators will be developed for each of the six dimensions of outreach. The focus in developing the indicators will be management utility, defined as easy-to-collect and useful for management decision making.

The second objective will be achieved through collaboration with the Microfinance Information Exchange (The MIX). Researchers will consult with The MIX (in addition to microfinance practitioners, workshop participants, and academics) on indicator development, and at the conclusion of the project, The MIX will play a key role in promoting and legitimizing the outreach indicators (thus also helping accomplish Objective 1 above) and encouraging MFIs to report their outreach indicators to The MIX for publication in the *MicroBanking Bulletin* (MBB). Publication of the outreach indicators in the MBB will promote establishment of social return benchmarks as measured by performance on the outreach indicators.

Fulfillment of project objectives, moreover, has the potential to serve two other broader objectives. First, it has the potential to serve as the catalyst to increase the supply of socially responsible investment (SRI) to microfinance. The absence of social return benchmarks hinders SRI in the following way: (1) it makes information acquisition for social investors significantly more costly, (2) higher information costs create significant market information asymmetries between social investors and MFIs, and (3) information asymmetries between social investors and MFIs increase investment uncertainty by making it extremely difficult for socially responsible investors to evaluate risk. Absent ways to measure the social return of MFIs, what SRI does flow into microfinance is biased toward a relatively small number of "safe" investments, particularly large and/or high profile MFIs.[3]

Second, the microfinance industry is under pressure from stakeholders—donors, socially responsible investors, and policy makers—to demonstrate its contribution to the improvement in the social well-being of the poor. The project has the potential to advance knowledge and practice in social return measurement in a way that addresses stakeholder questions and concerns. That is, by freeing the industry from the inadequacies of existing social return metrics (which have inhibited its ability to demonstrate social benefit), this project would arm MFIs with tools to lay claim to social benefit creation in a variety of measurable ways and thus legitimately assert their net contribution to social well-being.

The original idea for the conceptual framework for the project was developed by Gary Woller and Mark Schreiner (Research Director and Microfinance Research Specialist, respectively). The conceptual framework was then vetted, discussed, and refined during the Measuring Outreach Conceptual Workshop held in Washington, DC on January 22-23, 2004. The specific objectives of the Conceptual Workshop were to:

1. Review the conceptual literature on outreach and social return measurement.
2. Debate alternative conceptual approaches to outreach and social return measurement.
3. Agree on a workable conceptual framework.
4. Develop a specific research plan.

Workshop participants included:

- Gary Woller, Brigham Young University
- Mark Schreiner, Microfinance Risk Management
- Didier Thys, The MIX
- Richard Rosenberg, CGAP
- Beth Rhyne, ACCION
- Leslie Barcus, Open Society Institute
- Omar Azfar, IRIS
- Isabelle Barres , The MIX
- Drew Tulchin, Social Capital Institute

After reviewing and discussing alternative conceptual frameworks for social return during the first day of the workshop, workshop participants agreed that the benefit-cost framework was the most theoretically and practically useful framework for measuring social return and that using the six dimensions of outreach offered the greatest potential for operationalizing the benefit-cost framework into a set of standardized indicators that could serve as a useful management tool and social return benchmarks. Participants spent the second day of the workshop discussing the theoretical and practical issues/problems operationalizing the outreach approach and possible indicators that might be used within each of the six dimensions of outreach.

The remainder of this document explains the rationale for the conceptual framework used in this project to measure the social return of MFIs, the benefits of the proposed conceptual framework, the theoretical and practical issues operationalizing the framework, possible indicators to operationalize the framework and the research plan. The document summarizes both the conceptual thinking that preceded the workshop and the discussion that took place during the workshop. To improve the readability and flow of the document, material taken from the workshop discussion is, for the most part, integrated into the document narrative.

Rationale for the Proposed Conceptual Framework

A crucial but unresolved issue in the microfinance industry is the nature of the relationship between social return and financial return. The primary manifestation of this debate is the ongoing controversy on that nature of the relationship between depth of outreach and institutional sustainability. A common (though not universal) belief in the industry is that an inherent tradeoff exists between depth of outreach and sustainability: greater depth of outreach implies lower institutional sustainability, and greater institutional sustainability implies lower depth of outreach. This belief recognizes the inherent difficulties in lending to very poor people, particularly those living in rural or marginal areas. Relative to the more well-off, lending to the very poor entails, all else equal, higher per-unit administrative costs, lower per-unit revenues, and greater risk (e.g., absence of physical collateral), none of which bode well for long-term institutional sustainability. Taken within the context of an industry promoting a double bottom line—social and financial return—the importance of this perceived tradeoff becomes apparent. If such a tradeoff does exist, then this greatly complicates the task of managing toward a double bottom-line, and it means that MFIs must make hard choices between the one and the other.

Conceiving depth of outreach and sustainability as a dichotomous relationship has had the additional effect of pushing different people into different camps, depending on which of the two they believe to be more important. The ensuing debate between the two camps has led to an attempt by others to find a middle ground. Nonetheless, the search for the middle ground is hampered by a lack of empirical evidence: relatively few MFIs have achieved financial self-sufficiency (the most common indicator of institutional sustainability), relatively few MFIs have documented the poverty status of their clients, and even fewer MFIs have done both. The end result is that years later, the industry is only slightly closer to resolving the debate, which has important practical consequences.

The principal practical consequence is the dominance of institutional sustainability (financial return) over depth of outreach (social return) in the hierarchy of industry values. This outcome reflects not so much the low priority the industry places on social return but more the fact that financial return is easier and less costly to measure, and there exists wide-spread consensus on financial return indicators and what they mean. In contrast, there exists virtually no agreement on how to measure social return, either in conceptual or operational terms. Those MFIs who try to measure social return, moreover, find it difficult and costly.[4] Lacking either a conceptual or operational guide to measure social return and deterred by the cost and difficulty of the task, the ability of MFIs to manage toward a double-bottom line is significantly compromised, which in turn compromises their effectiveness—and that of the industry in general. As a result, the microfinance industry's role in global poverty alleviation is under scrutiny.

The AMAP "Measuring Outreach" project proceeds from the hypothesis that the current stalemate in understanding the relationship between depth of outreach and sustainability is caused, in part, by a faulty conceptual framework. That is, conceptualizing the relationship between the two as dichotomous ignores the complex nature of the relationship between sustainability and outreach. To begin with, the focus on depth of outreach as the principal measure of social return, while understandable, oversimplifies the nature of social return, and by doing so, over complicates the industry's efforts to blend social return and financial return. In contrast, we argue that outreach is multi-dimensional, and each dimension constitutes a separate measure of social return. Total social return is determined by the interactions of each dimension of outreach. No single dimension or combination of dimensions can be considered in isolation from the others, thus rendering as moot the dichotomous tradeoffs implied by the depth of outreach-versus-sustainability debate.

Another weakness in the prevailing conceptual framework is that the framework itself is incomplete, inconsistent and poorly articulated. There is no cohesive, underlying concept of social return to guide debate or understanding of the issue. Different people invoke different meanings of social return deriving from different, subjective, and often ad hoc conceptualizations of social return that are more often than not left unstated. The result is non-productive dialogue, because the different sides lack a common framework for understanding and discussing the issue.

After debating alternative conceptual frameworks, workshop participants reached agreement that a more productive way to proceed is to frame the issue within the context of a conceptual framework that is already well-established, well-understood, and widely-accepted. In our opinion, the conceptual framework that best satisfied these criteria was benefit-cost analysis. Besides the aforementioned criteria, a particular strength of a benefit-cost framework is its intuitive appeal. In this framework, social value is determined by the relationship between social benefits and social costs: if social benefits exceed social costs, net social value is positive; while if social costs exceed social benefits, net social value is negative. Another strength of the benefit-cost framework is its practicality. While operationalizing a benefit-cost analysis presents a number of significant challenges, we concluded that it lent itself more readily to operationalization than competing, and often more complex, social return frameworks.

A concern expressed at the workshop was that some in the microfinance industry might object to using a benefit-cost framework of social return; nonetheless, we believe that most will concede its intuitive appeal and practicality. Nonetheless, we could think of no other existing framework of social return for which there was likely to be as widespread support. Developing a new conceptual framework would be time-consuming and costly with no guarantee of acceptance by the industry. To a large extent, the success of this project will depend on our ability to "sell" our framework, and our operationalization of the framework, to the industry, and we agreed that this task would be easier if we used a framework that already enjoyed a high degree of legitimacy rather than a framework that began with no or little legitimacy, whether it be borrowed from elsewhere or developed by us.

Although we agreed that the benefit-cost framework had a comparative advantage in terms of practicality, we also agreed that expecting MFIs to implement anything approaching a "true" benefit-cost analysis was wholly unrealistic. To operationalize a benefit-cost framework among MFIs, therefore, would require us to simplify it down to the point where it was operationally feasible. Despite the inherent difficulties in this task, we believed that it could be done. Our agreed-on approach was to develop proxies for the social benefits and costs of microfinance using a set of simple indicators that are both practical to collect and easy to understand.

To adapt the benefit-cost framework to microfinance, we discussed and agreed on the need to couch the language of the framework in terms understood by microfinance practitioners. The language we chose was that of outreach, specifically the six dimensions of outreach developed by Mark Schreiner:

1. Worth of Outreach: The value clients place on products and services.
2. Cost of Outreach: The sum of price costs and transaction costs to clients.
3. Scope of Outreach: The number of types of products and services offered to clients.
4. Length of Outreach: The time frame of the supply of products and services.
5. Depth of Outreach: The value that society attaches to a net gain of a given client.
6. Breadth of Outreach: The number of clients reached.

According to Mark, each of the six dimensions of outreach was developed to capture a different dimension of net social return. To see this connection, it is helpful to think of net social return as consisting of two components: net customer benefit and net social benefit. Net customer benefit is the private benefit customers derive from the consumption of financial services. It is the discounted stream of benefits and costs rendered to the customer over the lifetime of products and services. Put another way, the net benefit to customers is a function of whether and to what extent products and services satisfy customers' needs and wants over time and adjusted for cost. All else equal, the net satisfaction of customer needs and wants will be greater (1) the more worthwhile the products and services offered, (2) the lower the cost of products and services offered, (3), the greater the number and variety of products and services offered, and (4) the longer the lifetime of products and services offered. In short, worth, cost, scope, and length of outreach are all integral elements of net customer benefit.

Net social benefit, on the other hand, is any net increase in total social welfare over and above the benefit to customers that result from consumption of financial services. Net social benefit is determined by the depth, breadth, and length of outreach. Depth of outreach matters, because society places greater value on helping the poor than the well-off. Breadth of outreach matters, because society values helping more poor people than fewer poor people. Finally, length of outreach matters, because society cares about the poor both now and in the future. All else equal, the greater the depth, breadth, and length of outreach the greater the net social benefit.

Net social return will depend on the interaction between all six dimensions of outreach. No single dimension can be considered in isolation. Three simple hypothetical examples illustrate this point.

An MFI adopts a poverty- targeting tool that increases administrative costs. Depth of outreach increases, but breadth of outreach decreases, because the marginally poor and non-poor are now excluded from access to loans. If the costs to administer the tools are passed on to customers, cost of outreach increases, but if they are not, operating margins fall, and length of outreach may fall. If the MFI goes down market with appropriate products and services and with appropriate terms, worth and scope of outreach increase, as does length. If products are not responsive to client needs, then length, worth, and scope of outreach all decrease.

An MFI charges a high rate of interest that covers operational, funding, and imputed funding costs. Breadth and depth of outreach fall (assuming reasonable demand price elasticities) and cost and length of outreach increase. Worth of outreach and scope of outreach remain unchanged.

An MFI offers savings with flexible terms. Scope and worth of outreach increase. Breadth and depth of outreach also increase, because people who do not operate businesses or are otherwise too poor to borrow can still save. Length of outreach increases, because savings are a more stable source of long-term funds than donations. Relative to donated funds cost of outreach increases, but relative to commercially borrowed funds cost of outreach falls.

A point mentioned by several workshop participants was that operationalizing net social return along the six dimensions of outreach opened the possibility for pushing out further the production possibility frontiers of microfinance. Best practice convention in microfinance offers important insight for pushing out these frontiers, but its tendency to neglect or downplay social return limits its usefulness for organizations managing toward a double bottom line. As a result, the industry has achieved significant progress in pushing out the production possibility frontiers of financial return, but relatively little progress pushing out the joint production possibility frontiers of financial and social return. Our approach suggests that the production possibility frontier has multiple dimensions, and thus it is conceivable to push the frontier out along several dimensions simultaneously. Even if progress stalls in one dimension, the MFI can push out in others, thereby still increasing net social welfare.

The existence of a set of simple outreach indicators showing the MFI how it is advancing along different dimensions of net social return could be a powerful management tool. It would allow MFI management to assess fulfillment of social objectives over time. It would also provide a conceptual framework that allowed management to evaluate the impacts, tradeoffs, and complementarities implied by different managerial decisions, as well as the analytical framework to assess the impacts, tradeoffs, and complementarities of management decisions after the fact. For example, how have the values of different indicators changed in response to the introduction of a new loan product?

Operationalizing the Conceptual Framework

Despite the workshop participants' confidence that a benefit-cost framework could be operationalized, we realized that doing so would be a daunting task, particularly doing it in a way that made it directly relevant to MFI management. In thinking through this issue, we decided that it would be most appropriate to approach the project from the perspective of MFI management over that of other stakeholders (e.g., donors, socially responsible investors, policymakers, etc.) We chose this approach for two reasons. First, we realized that if MFI managers do not perceive a net benefit, they would not collect or report the outreach indicators, at least not willingly. In the absence of a perceived net benefit, an alternative would be for donors to require MFIs to collect and report the outreach indicators. In our experience, however, grudging compliance with donor mandates produces poor effort and poor data. Moreover, once the donor mandate is removed, the MFI is likely to stop collecting and reporting the indicators. Second, decisions/strategy about managing toward a double bottom-line are ultimately made by MFI managers; therefore, if this project is to fulfill its objectives, it requires that our efforts produce a useful management tool for this purpose, and in a language that MFI managers understand.

This is not to say that other stakeholders are not important. We also saw this project as yielding multiple benefits to different stakeholders. We will collaborate with The MIX to encourage MFIs to report their outreach indicators to the MIX for publication in the MBB. Just as the MBB has played a key role establishing financial performance benchmarks for MFIs, our intent is for MBB to play similar role establishing social performance benchmarks using the outreach indicators. As mentioned earlier, this information will presumably prove useful for socially responsible investors for whom social return is an important investment criterion, for other stakeholders (donors, socially responsible investors, policy makers) looking to assess the social return on public investments, and for MFIs looking to compare their social performance to that of other MFIs.

Another issue workshop participants considered was the value of more versus fewer social return indicators. Omar Azfar brought to our attention academic research demonstrating that multiple social return indicators reduced the probability of creating perverse behavioral incentives that tend to occur when a single or small set of performance indicators are used. This research found that the use of a single or few performance indicators tended to create perverse behavioral incentives aimed at maximizing narrow objectives, while the use of multiple performance indicators tended to create behavioral incentives aimed at maximizing broad objectives. There are, of course, diminishing, and possibly negative, marginal returns to additional performance indicators past a certain point. Thus a challenge to the research team will be to strike an appropriate balance between identifying sufficient indicators, which create the appropriate behavioral incentives, and identifying too many indicators, which add little value at the margin.

Recognizing that the success of the project ultimately hinged on how we operationalized the conceptual framework, workshop participants spent most of the second day at the workshop discussing which indicators might appropriately be used to measure each of the six dimensions of outreach. We were able to generate the list of indicators found below. It should be noted that this is only a preliminary list. The final list will be formalized as part of the research activities with input from microfinance practitioners, workshop participants, donors, The MIX, and academics. It is expected that the final list will be significantly different than the preliminary list and most certainly shorter once we narrow the list down to those that best satisfy the criteria of ease of collection and managerial usefulness.

Specific issues and concerns raised by workshop participants that influenced our thinking or which we felt merited further consideration during the operationalization phase of the project are discussed briefly at the end of each of the following lists of indicators.

Worth of Outreach

- Client retention/client exit
- Fulfillment of loan contracts
- Repayment rate
- Portfolio at risk
- Number of referrals made
- Percentage of current clients willing to refer others to the program
- Percentage of clients who referred someone to the program
- Percentage of new clients who joined the program based on referrals
- Market share
- The percentage of all financial service transactions by clients made at the MFI (share of transactions)
- The percentage of all money spent by clients on financial services spent at the MFI (share of wallet)
- The number or percentage of clients with multiple accounts/products
- The interest rate charged as a percentage of the average market interest rate charged
- Age of savings accounts
- Length of time as a savings account holder
- Client satisfaction levels
- Whether the MFI conducts market research, including one or more of the following: customer satisfaction research, exit research, dropout analysis, focus groups, segmentation analysis, or competitor research

The simplest proxy for worth of loans is repeated use. If clients repay and come back for more loans, they probably believe that they are benefiting. To be more accurate, retention/exit rates need to be adjusted for "resters" and for involuntary dropouts. A further issue with retention /exit rates is that there is no industry-wide consensus on how to measure retention/exit, and experience shows that different methods can yield very different results. Using retention/exit as an outreach indicator would require clarification of this issue.

Presumably, clients who value loans more are more likely to fulfill original loan contracts (e.g., not require rescheduling or any other change in the original contract) and be less likely to have repayment problems. Admittedly, collecting information on share of transactions and share of wallet will be difficult. Presumably, the lower the interest rate charged compared to the average market interest rate, the greater the value creation for the client.

Measuring the worth of savings accounts is conceptually more difficult than measuring the worth of loans. For example, many savings accounts are dormant thus raising difficulties about using savings account age or length of time as a savings account holder as indicators of worth. This problem might be resolved through use of historical data suggesting what share of dormant accounts is likely to "wake up" (i.e. become active again).

Cost of Outreach

- Interest rate charged (as proxied by the portfolio yield)
- Fees and commissions paid
- Cash transaction costs, including:
    - transportation
    - documents and photocopies
- Opportunity costs, including:
    - time spent traveling to meetings
    - time spent traveling to conduct financial transactions
    - time spent in group meetings
    - frequency of group meetings
    - time spent conducting financial transactions
    - time spent to fill out paperwork
    - distance traveled to attend meetings
    - distance traveled to conduct financial transactions
    - loan disbursal lag time
    - time spent on group management
    - frequency of repayment installments
    - whether the client goes to the MFI or the MFI goes to the client
    - population densities around branches
    - number of trips required to take or loan or open a savings account
- Whether the MFI is forcing clients into joint liability contracts with people they do not know

Measuring cash costs of outreach is relatively straight-forward. Measuring cash and non-cash transaction costs and opportunity costs, however, will be a challenge. Yet without capturing these costs in some way, an accurate measure of the full cost to customers is not possible.

Scope of Outreach

- The number and types of different loan products offered
- The number and types of different savings products offered
- The number and types of different voluntary non-financial services offered

A challenge measuring scope of outreach is how to define products and services so that it captures meaningful differences. Each variation in a contractual term might be counted as a separate product or service. For example, it is conceivable that an MFI might offer the same loan product with four repayment options based on credit history. Does this count as four loan products or as one? According to Didier Thys and Isabelle Barres, when the MBB asked MFIs to report on different products offered, the MFIs used a wide variety of definitions. Thus we will need to develop clear definitions of products and services to avoid similar confusion.

Scope of outreach will not include services received as a condition for receiving other products or services. This includes, principally, forced savings as a condition for receiving loans.

Depth of Outreach

- Average loan size as a percentage of GNP per capita
- Seven aspects of loan size
  - Dollars disbursed (less means poorer)
  - Term to maturity (shorter means poorer)
  - Average balance (lower means poorer)
  - Dollars per installment (fewer means poorer)
  - Frequency of installments (quicker means poorer)
  - Number of installments (fewer means poorer)
  - Dollar-years of borrowed resources (fewer means poorer)
- Whether the MFI explicitly targets the poor explicitly
- Average loan installment paid
- Whether the MFI tracks poverty-related indicators
- Whether the MFI conducts market research
- Location of branches (e.g., rural vs. urban)
- Whether the MFI offers poor-friendly products
  - Group loans
  - Loans not requiring physical collateral
  - Short, quick emergency loans
  - Low minimum balance, liquid savings deposits

The concept for the seven aspects of loan size was originally developed by Mark Schreiner.[5] The aspects of loan size break loan size down into distinct components, all of which have a theoretically distinct relationship with poverty. The most important of the seven aspects is dollar-years of borrowed resources, which normalizes the average loan balance over a year's time frame. All seven aspects can be measured with the following information: (1) number of loans disbursed in a year, (2) annual average number of loans outstanding (which can be measured by number of loans outstanding at the beginning and end of the year, (3) annual average loan value outstanding (which can be measured by the value of outstanding loans at the beginning and end of the year), (4) dollars disbursed during the year (adjusted for GNP per capita), and (5) any two of the following three values: average frequency of installments, average number of installments (difficult to obtain), and the average term to maturity (difficult to obtain). The feasibility of using the seven aspects of loan size will depend on the feasibility of collecting its component parts.

Breadth of Outreach

- The number of loan clients
- The number of voluntary savers
- The number of financial accounts
- The number of savings transactions

- Financial leverage

It was not clear whether the best measure of breadth of outreach is the number of clients or the number of financial accounts. Regarding leverage, it is assumed, although not certain, that MFIs with greater financial leverage are in a more advantageous position to expand operations and scale. There is an optimal amount of leverage somewhere below full leverage, although it is not known what that is. Optimal leverage, moreover, is expected to vary from institution to institution.

Length of Outreach

- Financial self-sufficiency ratio
- Operational self-sufficiency ratio
- Number of years in operation.

We concede that a relatively small number of MFIs to date have achieved financial self-sufficiency. Moreover, it is possible that a large number of otherwise well-run MFIs will never achieve financial self-sufficiency. For this reason, operational self-sufficiency and, especially, the number of years of operation are also used as proxies for length (sustainability). Presumably, the more years an MFI has been operating, even though not financially self-sufficient, the greater the probability that it will operate over the long-term.

Benefits of the Proposed Conceptual Framework

The Measuring Outreach research offers several benefits, both in terms of methodology—particularly relative to other approaches to social return measurement—in terms of potential contribution to the microfinance industry. These are summarized in this section.

Methodological Benefits

Relative to other approaches to assess the social return of MFIs (Imp-Act, IRIS, etc.) the Measuring Outreach project offers the following benefits:

- It frames the social return vs. financial return debate within the framework of benefit-cost analysis; an established framework that already enjoys widespread legitimacy.
- It couches benefit-cost analysis in the language of outreach; a concept that is already familiar to microfinance practitioners.
- It creates a common language for understanding, discussing, and measuring social return.
- It frames outreach, and net social return, as a six-dimensional concept, thereby more accurately capturing its complex nature and the complex nature of its relationship with institutional sustainability. The latter in turn avoids the inherent limitations of a presumed dichotomous relationship between outreach and sustainability.
- It provides a useful framework and tool for pushing out the production possibility frontiers of microfinance along multiple dimensions simultaneously.
- It operationalizes each dimension of outreach with a set of indicators that satisfy the criteria of (1) easy-to-collect, and (2) usefulness to MFI management.

- It makes explicit the different dimensions of social return, as well as the MFI's value proposition. As such, it decreases the probability of overlooking certain objectives while fulfilling others and perhaps thereby harming the ultimate goal of social return.
- It highlights both tradeoffs and complementarities implied by and resulting from management decisions.
- It acts as a compass/roadmap allowing MFIs to manage toward social <u>and</u> financial objectives.
- It facilitates comparisons across multiple dimensions and across institutions, lending methodologies, and other peer groups in ways that highlight the relative strengths and weaknesses of each and in turn facilitates the development of appropriate social performance benchmarks.

In contrast, Imp-Act is not attempting to develop any unified conceptual framework or accompanying set of indicators to assess social return nor anything that could be used for benchmarking, while the IRIS project focuses solely on depth of outreach and has no mandate to establish performance benchmarks. Neither Imp-Act nor IRIS has as an objective to develop easy-to-use and useful management tools to measure or manage progress toward a double bottom line.

Potential Benefits to the Microfinance Industry

The Managing Outreach project offers the following potential benefits to the microfinance industry:

- It elevates social return to the forefront of industry and institutional priorities. The adage is true, "You measure what you value and value what you measure."
- It facilitates better social investment decisions by donors and socially responsible investors through creating social performance benchmarks.
- Creating social performance benchmarks, in turn, is expected to increase the supply of SRI to microfinance. This includes both the absolute value of SRI and the distribution of SRI across a greater number of MFIs.
- It frees MFIs from the inadequacies of existing social return metrics that have inhibited their ability to demonstrate social benefit and thus makes financial return metrics the *de facto* measures of social benefit.
- It allows MFIs to lay claim to social benefit creation in a variety of measurable ways and thus legitimately assert their institutional and methodological uniqueness and worth.
- It makes it more difficult for MFIs to hide behind social return to cover for poor financial return.
- It makes it more difficult for MFIs to hide behind financial return to cover for poor social return.

Caveats

In addition to the benefits of the Measuring Outreach topic, workshop participants also raised a number of caveats that will need to be addressed during the course of the project.

Caveat 1. By establishing a large number of outreach (social return) indicators, it will overwhelm MFIs with yet more data collection and analysis responsibilities. Our intent is to narrow the list of indicators down to only those that best fulfill the twin requirements of easy-to-collect and managerially useful, with special priority given to any indicator already found in MFIs' management information systems. We are fully cognizant that if we make the data collection task too arduous, MFIs will not do it.

Caveat 2. By establishing a large number of outreach (social return) indicators, it will create confusing incentives for MFI management. As mentioned in the previous section, more performance indicators are preferable to fewer in terms of creating appropriate behavioral incentives. (By way of comparison, the MBB currently tracks approximately 50 financial and institutional indicators.) That said, we do not presume to tell MFI management which indicators it should emphasize, as we recognize that different MFIs will have different institutional objectives, and different persons will be willing to accept different tradeoffs between institutional objectives. Whereas profit-seeking enterprises emphasize financial return (driven by the common priority objective to maximize profits), MFIs pursue a variety of social objectives bound only very loosely together by a common objective to alleviate poverty. The framework provides for flexibility and customization by allowing each MFI to choose which social return indicators to prioritize. Our purpose is to give MFI management a tool that allows them to prioritize, monitor and manage progress toward their social and financial objectives.

Caveat 3. By establishing a set of standardized outreach (social return) indicators, it will encourage donors to require that MFIs collect and report all, or a large subset of, outreach indicators, regardless of their managerial usefulness to the MFI. How donors choose to use the indicators is, of course, up to them. To avoid this outcome, however, we will rank the indicators in terms of ease-of-collection and managerial usefulness. This will also allow MFIs with constrained resources to make more appropriate decisions about which indicators to emphasize.

Caveat 4. By establishing a set of standardized outreach (social return) indicators, it will privilege certain indicators over others and stifle development of alternative measurement approaches. This is always a danger in establishing performance benchmarks, given that the point of benchmarking is to establish performance standards using standardized measures. While we do not seek to stifle further innovation of social return measurement, there reaches a point in which action needs to be taken in order to move forward. The longer the industry takes to establish social performance benchmarks, the more entrenched financial return will become as the dominant measure of institutional success, and the more difficult it will be to make a case for prioritizing social return.

Caveat 5. Self-reported outreach (social return) indicators are likely to be full of error and unreliable. This is a problem with any type of self-reported data. But just because the data might be unreliable, this does not make it invalid. To illustrate this point, Rich Rosenberg pointed out that repayment rates are a widely reported indicator of institutional soundness and portfolio quality despite the fact that they are demonstrably full of measurement error.[6] Moreover, according to Isabelle Barres, her experience with the MBB shows that there are several ways to check the quality of self-reported data, including spot checks or internal consistency checks.

Next Steps

No changes were made to the research plan as result of the Outreach Workshop. The research team proposes to follow the plan described in the final Work Plan submitted by Chemonics to USAID.

Specifically, during Quarter 2 of 2004, Gary Woller will complete the conceptual framework for measuring outreach, which will be used to "sell" the concept to MFIs and donors. Evidence of completion will be a professional quality publication that lays out the conceptual framework, articulates the basis and arguments behind it, demonstrates its applicability to real world practice, discusses its implications for reaching poor, especially poor women with financial services, and offers a clear research agenda to carry on the research to the next stage. Before the document is disseminated, it will be vetted among the "experts" who participated in the Conceptual Workshop, as well as USAID and among other interested parties.

Once the ideas in the conceptual document have been vetted (and prior to the final completion of the document), Mark Schreiner will begin work to operationalize the conceptual framework described in this document. This work will take him through Quarter 2 (June 2004).

Mark Schreiner will continue and complete his work to operationalize the conceptual framework for measuring outreach during Quarter 3. Operationalization in this context refers to the development of specific indicators that measure outreach (and social return) within the conceptual framework developed, demonstrating the theoretical soundness of the indicators, demonstrating their real world practicality, and laying out a clear research plan for field testing the indicators.

Endnotes

[1] The Measuring Outreach research topic has two principal components: Measuring Outreach and Market Orientation. This document refers only to the Measuring Outreach component.

[2] The idea for operationalizing the benefit-cost framework to microfinance through the six dimensions of outreach was first proposed by Mark Schreiner. See Schreiner, Mark. (2002). "Aspects of Outreach: A Framework for the Discussion of the Social Benefits of Microfinance." *Journal of International Development*, vol. 14, pp. 591-603.

[3] Helms, Brigit, Alexia Latortue, and Natasia Goronia. (2002). "Water, Water Everywhere, But Not A Drop to Drink." CGAP Donor Brief, No. 3. Washington, DC: Consultative Group to Assist the Poorest.

[4] The one notable exception is average loan size divided by GNP per capita, which is widely used as a proxy for depth of outreach. Nonetheless, the potential limitations of this indicator are well-documented, and by itself, its usefulness as a management tool is limited.

[5] Schriner, Mark. (2001). "Seven Aspects of Loan Size, " *Journal of Microfinance*, vol. 3, pp. 27-45.

[6] Rosenberg, Richard. (1999). "Measuring Microcredit Delinquency: Ratios Can Be Harmful to Your Health." CGAP Occasional Paper, No. 3. Washington, DC: Consultative Group to Assist the Poorest.