## Assessing the Impact of Microenterprise Services (AIMS)

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# ASSESSING THE EFFECTS OF PROGRAM CHARACTERISTICS AND PROGRAM CONTEXT ON THE IMPACT OF MICROENTERPRISE SERVICES: A GUIDE FOR PRACTITIONERS

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## FOREWORD

The Assessing the Impact of Microenterprises (AIMS) Project seeks to gain a better understanding of the processes by which microenterprise programs strengthen businesses and improve the welfare of microentrepreneurs and their households. In addition, it focuses on strengthening the ability of the U. S. Agency for International Development (USAID) and its partners to measure the results of their microenterprise programs. The project's core agenda includes desk studies, focused field research, three major impact assessments, and the development and testing of tools for use by private voluntary organizations and non-governmental organizations to track the impacts of their microenterprise programs. Further information about this USAID-funded project and its publications is available on the AIMS home page (http:\\www.mip.org).

This paper is one in a series of studies that addresses specific substantive and methodological issues. The studies are intended to inform the design and implementation of the three core impact assessments and the tools. Each core impact assessment will focus on a specific microenterprise program. Information will be obtained from program participants and a comparable group of non-participants in two main rounds of data collection, with a two year interval between the rounds. Complementary information will be gathered in qualitative interviews and from secondary sources. While this paper furthers the agenda of the AIMS Project, it is also intended to be of interest to others seeking to understand and document the impacts of microenterprise programs.

Carolyn Barnes
AIMS Project Director

## EXECUTIVE SUMMARY

Interest in microenterprise support programs, particularly their credit components, has soared in recent years amid expectations that these programs can help low-income entrepreneurs in both urban and rural areas improve their enterprises and raise their standard of living. Support for microenterprise is widely seen as a direct and effective way to improve the lot of many of the poor in developing countries, particularly of women, who may lack access to other forms of assistance. Programs of different types have been undertaken in most countries of Asia, Africa, and Latin America. A few "best practice" programs have achieved wide outreach and some degree of sustainability, but these have not followed a common model.

A successful microenterprise support program – defined in terms of outreach, financial sustainability, or socio-economic impact – is likely to be one that is designed and implemented for effective operation in its particular environment. But which program characteristics define an effective and sustainable microenterprise support program? And how much difference does the specific context make? Over what range of variation in environmental conditions will programs with particular design features work well? Although hundreds of programs have been inaugurated, only a few have proven their sustainability as yet, or have been shown to deliver valuable services effectively to their clients. Since substantial sums have been wasted on programs that proved neither effective nor sustainable, these questions, which are just beginning to be explored, are important. For further investigation, information on program characteristics and program environment must be collected. There is as yet no established body of tested theory on how the interaction between program characteristics and program environment takes place and which particular elements of either the program or its implementation context are likely to be most important for determining the nature and extent of the program's impact. Nevertheless, this guide suggests what types of data may be important and how and when they should be collected.

### Program Variables

Data should be collected on the structure and history of the institution undertaking the program, on its management style and practices, on the services provided, and on financial outcomes over at least the past three years. The top priority is to collect qualitative information and statistics that provide a clear, accurate, and comprehensive description of the operations of the microenterprise support program, especially its credit activity. Sources of qualitative information include: interviews with program staff, especially managers; descriptive literature provided by the program; and outside information sources, such as earlier studies of the program and World Bank reports. Careful rechecking and cross-checking are often required.

If the organization maintains good accounts, most or all of the quantitative information required should be readily available from its internal records. While the immediate focus is likely to be on the credit program, it is important to determine whether credit provision is embedded in a wider range of activities and, if so, to collect information on these activities as well. Special attention should be given to information that may shed light on hypotheses about the effects of program characteristics: the setting of maintenance of positive real interest rates, salary levels for program employees, the share of expenditure devoted to reducing loan losses, the presence or absence of voluntary savings provisions, the presence or absence of insurance provisions for borrowers, and the presence or absence of modern business practices.

**Context Variables**

Four broad types of context may be important: the physical environment; formal and informal institutions; economic factors; and government policies and regulation. Context influences program outcomes through two main channels: through its direct impact on the operations of the microenterprise program or by affecting the enterprises of program clients, thereby modifying program impact relative to what it otherwise would have been in either a favorable or an unfavorable direction.

The physical environment includes the favorableness or otherwise of the permanent physical environment, seasonal change, and catastrophic events. The institutional environment includes both formal institutions created by society through government and other organizations and informal institutions that organize people along lines of gender, class, race, ethnicity, religion, linguistic group, or caste. The economic environment includes income level and trend, inflation, and the structure of the markets in which microenterprises sell goods and services, purchase inputs, obtain capital, and hire labor. Finally, many types of government policies and regulations (at both the national and local levels) affect both microenterprises and microenterprise support programs.

Program context thus covers a wide range of potential influences. Special attention needs to be paid to factors that have been identified as potential influences on microenterprise and microenterprise support programs: seasonality, natural catastrophes, client income level, inflation, economic growth, client gender, ethnicity, and local government regulations. While it will usually not be possible to measure precisely the contribution of each factor to the observed outcome, one can at least observe, in checklist fashion, whether particular hypothesized influences are present or absent, and whether significant changes have occurred between the rounds of a longitudinal survey. Sources of information include interviews with program officials, clients, and others knowledgeable about the program environment such as local government officials and academics. In some cases, prior studies will have been made.

## I. INTRODUCTION: MICROENTERPRISE SUPPORT PROGRAMS AND THEIR ENVIRONMENTS[1]

Microenterprise support programs of various kinds have been around for a long time, but interest in such programs, particularly in their credit components, has soared in recent years. The World Bank has formed a Consultative Group to Assist the Poorest (CGAP) and the United States Agency for International Development (USAID) has opened an Office of Microenterprise Development and initiated a Microenterprise Innovation Project. A number of other national and international development agencies, including many private voluntary organizations, have also taken new initiatives in the microenterprise area. Perspectives and expectations vary, but it is widely accepted that microenterprise support programs can compensate for some of the weaknesses in developing country capital markets and help low-income entrepreneurs in both urban and rural areas improve their enterprises and raise their standard of living. Support for microenterprise is seen as a direct and effective way of improving the lot of many of the poorer people in developing countries. Of particular interest is the possibility that microenterprise support programs can promote the success of women entrepreneurs, who may lack access to other forms of assistance. These programs are seen as a way of empowering women in societies where their role has traditionally been circumscribed. Finally, to some of their most enthusiastic admirers and supporters, microcredit schemes represent nothing less than the most promising instrument available for reducing the extent and severity of global poverty.

Microenterprise support programs have been undertaken in a wide range of settings including most of the countries of Asia, Africa, and Latin America. Examples also exist in the more developed societies of Europe and North America. These programs have taken many different forms. Some focus solely on the provision of credit, while others have evolved into mini-banks with savings and sometimes insurance functions in addition to lending. Some programs provide only financial assistance, while others carry out training and business and technical advisory services, and some are even involved in political mobilization.

Traditionally, most microenterprise support programs have had limited outreach. They have operated on a small scale, serving only a tiny fraction of the target population (non-agricultural microentrepreneurs, self-employed women, etc.). While their socio-economic impact may have been favorable, repayment problems abounded, necessitating a continuous flow of external assistance if the programs were to be sustained over time. Following demonstrations, particularly in Bangladesh, Indonesia, and Bolivia, that wider outreach and high repayment rates were possible, interest in creating equally successful programs in other countries grew. However, the "successful" programs that others sought to emulate did not follow a common model. Bangladesh's Grameen Bank has wide appeal because it is able to lend to large numbers of poor women and promote their social mobilization through borrower groups. The District Credit Boards (BKK) and Indonesian Peoples Bank (BRI) in Indonesia, on the other hand, lend to individuals and focus on the rural areas, but not necessarily on women or the very poor. While Grameen Bank remains dependent on outside finance because of an ideological commitment to low interest rates,

[1] The author is grateful to Carolyn Barnes and Monique Cohen for constructive comments on an earlier draft of this paper.

the Indonesian programs are financially self-sufficient and sustainable, and thus have wide outreach. BRI has had great success in attracting voluntary savings, while many other programs have failed to incorporate this feature.

What makes for a successful microenterprise support program? In general, one can say that the success of a program – defined in terms of outreach, financial sustainability, or socio-economic impact -- will depend on an interaction between the characteristics of the program itself (both its design and the way in which it is managed) and the context in which the program is implemented. In other words, we expect an effective program to be one that is designed and implemented for effective operation in its particular environment. But which program characteristics define an effective and sustainable microenterprise support program? And how much difference does the specific context make? Over what range of variation in environmental conditions will programs with particular design features work well? Although hundreds of microenterprise support programs have been inaugurated, only a few have proven their sustainability as yet, and even fewer have been shown to deliver valuable services effectively to their clients. Since substantial sums have been wasted on programs that proved neither effective nor sustainable, these questions, which are just beginning to be explored, are of great importance. For their further investigation, collection of information on program characteristics and program environment is required. This guide suggests what particular types of data may be important and how and when they should be collected.

There is as yet no established body of tested theory on how the interaction between program characteristics and the program environment takes place and which particular elements of either the program or its implementation context are most important for determining the nature and extent of the program's impact. However, two studies that begin to elucidate these matters have recently been published. This research is briefly reviewed in the following two sections.

## A. CHARACTERISTICS OF EFFECTIVE PROGRAMS

Robert Christen, Elizabeth Rhyne, Robert Vogel, and Cressida McKean (1995) analyzed eleven programs on three continents that deliver financial services to microentrepreneurs and are widely regarded as some of the world's best microenterprise finance programs. Their study employed two performance criteria: outreach (defined by them as the ability to reach large numbers of people, especially the very poor, with high-quality financial services) and financial viability (defined as the ability to operate at a level of profitability that allows sustained service delivery with little or no dependence on outside inputs). The underlying goal of this study appears to have been to demonstrate that outreach and financial sustainability can be achieved simultaneously in a wide range of settings by programs that utilize a specific set of "best practices." The researchers found that significant outreach to the poor, including the very poor, was in fact achieved by the programs they studied. Most of these programs made loans in the $200-400 range and several, notably those in Indonesia and Bangladesh, achieved extremely high coverage on a national level. Ten of the eleven programs were found to be operationally self-sufficient; that is, they generated sufficient revenues from interest and fees to cover the nonfinancial costs of operations (salaries and other administrative costs). Only five programs met the more demanding criterion of being fully self-sufficient; that is, they were able to generate positive inflation-adjusted returns on assets. The overall conclusion of the Christen-Rhyne-Vogel-McKean (CRVM) study was, in the authors' words,

> "that financial services for the poor can be provided on a financially viable basis. However, with only 5 of the 11 institutions examined crossing the threshold of full self-sufficiency, it remains an open question whether full self-sufficiency is consistently possible in a variety of settings. Still, the rapid progress of many institutions suggests that the number of profitable microfinance institutions will increase during the next few years." (Christen et al 1995, p. viii)

The study also sought to explain why some of the programs examined showed better financial results than others.

> "Loan size was first considered to see whether programs with larger loans were more viable. This did not prove to be the case. Nor did traditional measures of productivity, such as number of clients per staff member, explain differences in financial results. Similarly, indicators of the soundness of the local policy environment -- gross domestic product (GDP) growth, financial sector repression, and macroeconomic stability -- did not appear to determine success. Only two factors explained the differences: salary levels of program staff relative to local GDP, with lower salaries associated with more financially viable programs, and the effective real rate of interest, that is, relative to inflation." (Christen et al 1995, p. viii)

The CRVM study has attracted considerable attention because it succeeded in demonstrating that microfinance programs can be effective, when effectiveness is defined as achieving reasonable levels of outreach and sustainability simultaneously. The study was able to confirm the importance of setting the loan interest rate high enough to cover costs (something long advocated by many economists) and it drew attention to the importance of controlling staff salary levels, a factor that had not previously received much attention. However, the findings of the CRVM study cannot be regarded as conclusive because not all the programs studied were fully sustainable at the time of the study and three or four of them have reportedly experienced serious financial difficulties since the study was published.

The other recent study is that of Hulme and Mosley (1996). In addition to analyzing the economics of microfinance programs in considerable detail, these authors surveyed 13 "effective financial institutions for lending to the poor," that is, those considered to have a favorable socioeconomic impact, regardless of whether they were financially sustainable. The 13 programs were located in seven countries: Bangladesh, Bolivia, India, Indonesia, Kenya, Malawi, and Sri Lanka. For their study, HM collected and analyzed substantial amounts of information on program characteristics and operation.

HM split their 13 programs into two groups: "financial successes," with repayment rates over 80 percent (n = 8), and "financial failures," with repayment rates under 80 percent (n=5). All of the programs in the second group were heavily dependent on subsidies. The researchers found that certain program characteristics sharply distinguished the two groups from each other. All the "successful" programs charged positive real interest rates, collected loan repayments monthly (or even more frequently), offered their borrowers voluntary savings facilities and/or insurance, and used some form of incentive to induce prompt and full repayment (Hulme and Mosley 1996, p. 54). The "unsuccessful" programs employed none of these program features, except that some of them charged positive (though often still regulated) real interest rates.

On the other hand, HM found little difference in impact between the two groups of programs:

> ...it appears that there is no significant difference in poverty impact as between the 'successes' and 'failures', suggesting that the improvement in financial performance which the design attributes offer is not bought at any obvious cost in terms of poverty reduction. It appears that we may have tracked down some of the necessary, if not sufficient, conditions for success at the financial level." (Hulme and Mosley 1996, p. 54)

There were, however, significant organizational differences between the "successful" and "unsuccessful" programs (p. 159). All the "successful" programs studied have borrowed many management methods and techniques (costing and pricing services, recovering costs, promoting a performance-orientation among their staff, market research, and new product development) from the practices of private business. Moreover, they have all adopted "administratively-intensive" operational structures; that is, they spend significant sums (far more than the average for the microenterprise programs surveyed by the World Bank 1993) on staff in ways that effectively reduce losses from borrower default. Finally, they all practice significant degrees of decentralization in decision-making (Hulme and Mosley 1996, p. 163).

Further analysis of these data, plus information on other microfinance programs collected by the World Bank, by HM furnished indications that better educated borrowers repay their loans somewhat more frequently than less well educated ones, that those with higher incomes repay better than those with lower incomes, and that women have higher repayment rates than men. Contrary to the beliefs of some, members of borrower groups were no more likely to repay than individual borrowers. Similarly, government-sponsored programs did no worse on repayment than programs not sponsored by government.

HM examined a wider range of experience than CRVM, since even many of their "successful" programs are unlikely to be financially sustainable (an 80 percent repayment rate is far too low to support sustained operation). HM added three items to the list of program features that appear to improve the chances of financial success in microlending. Besides confirming the well-known importance of positive real interest rates, their research suggests that monthly or more frequent repayments, voluntary savings and/or insurance, and incentives to repay loans promptly are highly desirable, if not necessary, features of sustainable microfinance programs.

HM's other contribution to our understanding of the importance of program characteristics was to go beyond financial sustainability and look at the relationship between program characteristics and program impact. They defined impact as the observed change in the income of borrower households, relative to the changes experienced in a control group. As noted above, they found a positive impact in both "successful" and "unsuccessful" programs. HM were encouraged by the finding that programs that were relatively sustainable had no less impact than unsustainable programs, apparently not expecting programs that were more successful financially to have greater social impact as well. According to HM, many of the microlending programs that they studied helped to raise the incomes of borrowers whose incomes were not too far below the officially defined poverty line, in many cases lifting these borrowers out of poverty. Results for very poor borrowers were found to be less significant. This indication that microfinance is not a panacea for poverty, especially severe poverty, has been greeted with consternation by some of the most enthusiastic advocates of microcredit as a cure for poverty.

While suggestive and even plausible, HM's findings on program impact must be taken as indicative at best (as the authors themselves emphasize), since accurate measurement of comparative income changes (or merely of household income, the evaluation criterion employed by HM) is exceedingly difficult and the validity of estimates of income change covering such a large number of cases is questionable.

In summary, the studies of CRVM and HM give us some idea of which program features are likely to be associated with sustainable performance, although further testing on a wider range of programs would certainly be desirable. They tell us nothing, however, about the features associated with favorable social and economic impacts. The Christen et al study, as noted earlier, looked at outreach and financial sustainability, but not at impact, while the work of Hulme and Mosley identified additional features that may promote sustainability and claimed a favorable socioeconomic impact, within limits, but did not link impact to any particular program characteristics.

## B. PROGRAM ENVIRONMENT

> "Successful microfinance programs were found in a wide range of policy environments, including settings with significant inflation. However, none of the successful programs were found in hyperinflationary settings. Stable macroeconomic conditions and low inflation do support the growth of microfinance institutions; however, these institutions can also cope with relatively unfavorable conditions, if not with extremely unstable settings." (Christen et al 1995, ix)

Program environment can influence the impact of microenterprise services in two distinct ways. First, through its effects on program clients and their enterprises it indirectly influences the program's performance by affecting both the ability of clients to benefit from their loans and their capacity to repay. Second, in some cases the environment directly influences the operation of the program itself, for example by restricting the possible range of program activities or the terms on which services can be offered (for example, interest rates that can be charged or paid).

Since CRVM did not try to measure the socioeconomic impact of financial services, their study has nothing to say about the possible effects of the program environment on impact. The authors briefly consider the effect of context on outreach and financial sustainability, but tend to downplay its importance, arguing that "best practice" programs will succeed in a wide range of settings. The only possible exceptions that they concede are hyperinflation or extreme macroeconomic instability -- but explicitly not less-than-extreme levels of either inflation or instability.

This conclusion seems overstated, given the small number of programs examined by CRVM and the nagging doubts about whether even the 13 programs that they did look at are all truly sustainable. One possibility that should arouse concern is that there may not be even one truly sustainable program in Sub-Saharan Africa.

By contrast, Hulme and Mosley emphasize that microfinance programs operate within a complex environment and go on to argue that this complexity, together with the heterogeneity of the poor, means that microfinance programs alone are unlikely to be able to eliminate poverty. But they show no interest in the possibility of examining how different characteristics of the program and its environment may interact to determine the sustainability and impact of a microfinance program.

If one accepts the general proposition that the impact of a microenterprise support program is determined by the interaction between program characteristics and the context in which the program is implemented, one must conclude from this brief literature review that study of the nature and magnitude of these interactions is in its infancy. One of the opportunities of the AIMS project is thus to advance this infant field of study.

## C. THE AIMS PROJECT

The goal of the Assessing the Impact of Microenterprise Services (AIMS) project, one of the activities under USAID's Microenterprise Innovation Project, is to gain a better understanding of the processes by which microenterprise services strengthen enterprises and improve the welfare of clients and their households. The project is designed to develop a practical, yet conceptually well grounded, approach to measuring the impacts of microenterprise services on clients, their enterprises, and their households.

The key component of the AIMS Project will be impact assessments of three microenterprise programs: Accion Communitaria in Peru, Zambuko Trust in Zimbabwe, and the Self-Employed Women's Association in India. These core impact assessments will be longitudinal with two rounds of data collection: the first in late 1997, the second in late 1999. Methodologically, these assessments will consist of two common modules (a survey questionnaire of clients plus non-clients and case studies of selected clients) as well as supplementary modules on selected themes or issues relevant to each particular site.

## D. AIMS RESEARCH PLAN

In preparation for the three core impact assessments, and to inform the microenterprise field as a whole, the AIMS team has been engaged in a set of Action Research activities over the past eighteen months. These have included eight technical and literature review studies (desk studies) and three field studies. These studies have helped to clarify analytical and measurement issues related to the study of the impacts of microenterprise services at the client, enterprise, and household levels. This paper, based in part of one of the desk studies (Snodgrass 1996), seeks to address conceptual and methodological issues related to the effects of program context and program structure on these forms of impact.

The topics covered by the Action Research emerged from a preliminary concept paper on the design of the core impact assessments, which presented a tentative analytical framework, proposed a set of research hypotheses, and identified outstanding analytical and measurement issues related to the study of these hypotheses (Sebstad, Neil, Barnes, and Chen 1995). On the basis of the Action Research studies and several research design meetings, a research plan for the core impact assessments was then developed. The research plan is based on a set of carefully selected hypotheses and is grounded in a conceptual model of the household economic portfolio developed in one of the desk studies (Chen and Dunn 1996).

The objectives of this paper are to develop a checklist of key programmatic and context factors that are likely to affect program impacts, to identify factors that should be covered in almost all impact assessments, and to provide guidance on selection of other priority factors to be monitored. Attention will be given to identifying information likely to be readily available, as well as to practical, low-cost ways of obtaining information that is not readily available. The findings will be used to develop guidance on key programmatic and context factors to include in the AIMS impact assessments, including identification of a limited set of factors, how the information should be gathered and recorded, and the frequency of gathering and analyzing the information. The hope is that the paper will be useful both to members of the AIMS field teams and to others involved in impact assessment.

## II. PROGRAM VARIABLES

### A. WHAT DATA TO COLLECT

The primary focus is likely to be on determining whether the program is financially viable and how great its scale and depth of outreach are (including the number and percentage of woman clients). Researchers will also want to collect information on program characteristics that may be associated with positive social impact, although these associations are still in the early stages of being established, as discussed earlier.

#### 1. Type of institution

a. Is the institution studied a bank, or another type of institution such as a cooperative or other NGO?

b. Is the lender a profit-seeking business or a non-profit organization? If non-profit, does it seek to cover all its costs, or just some of them (e.g. operating or non-financial costs only)? Is a continuing subsidy built into its structure? If so, what are the source and amount of the subsidy?

c. Does the microfinance support institution stand alone, or is it part of a complex of related institutions (e.g. a labor union or social action organization)?

#### 2. History and description of institution

Founding date; governance and legal framework; growth in number of offices; staff; etc.

#### 3. Management style and practices

a. What does the organization chart look like?

b. How many staff members are employed in different categories?

c. How do salaries and benefits provided compare to rates paid by government and private business for similar types of labor?

d. What is done to persuade or induce staff to be performance-oriented?

e. Is research carried out on matters such as the costing and pricing of different services, potential markets for services, and new services that could potentially be provided?

## 4. Description of services currently provided

a. Financial services

(1) Credit services provided

(a) Terms and procedures for the different types of loans provided. Specify interest rate(s) charged (both nominal and real), period(s) of loans, repayment schedule(s).

(b) Loan eligibility. Who is eligible to borrow? For what purposes? Vetting criteria and procedures: who makes the lending decision? Gender of borrowers.

(c) Loan delivery structure and procedures. Are loans made to individuals, groups, or both? In cash, kind, or a mixture? Are any up-front deductions made from the proceeds of the loan?

(d) Monitoring and collection procedures. Form of incentives for prompt and full repayment, if any.

(e) Borrower insurance. What provision, if any, is made to insure borrowers against risks that could make it difficult for them to repay their loans on time?

(2) Savings services provided. Does the institution offer savings accounts to borrowers? To non-borrowers? Is saving voluntary or compulsory for borrowers?

b. Non-financial services: in addition to financial services, does the institution offer any type of non-financial support to microenterprises? Describe any activity in the areas of:

(1) Organization and social action

(2) Training

(3) Technical assistance to enterprises

## 5. Financial analysis

a. Balance sheet: prepare a historical series covering at least the latest three financial years. Include at least the following basic items:

Assets
- Loans
- Investments
- Deposits in other institutions
- Fixed assets
- Furniture and fixtures
- Other

Liabilities and net worth
- Reserves (for bad debts and others; list)
- Deposits
- Borrowings
- Other liabilities
- Net worth

b. Profit and loss accounts: again, a historical series covering at least the latest three financial years. Include at least the following basic items:

Income
- Interest received
- Fees and commissions
- Other income

Expenditures
- Salaries and allowances (divided, if possible, among functional areas)
- Interest paid
- Rent
- Other operating expenses
- Depreciation
- Transfers to reserves
- Profit/loss

## 6. History of credit program(s)

Prepare a historical series for at least the latest three financial years. Include at least the following basic information:

a. Loans extended: numbers and amounts for each year, divided as relevant among loan types and purposes.

b. Repayments: amounts, divided as relevant among loan types and purposes.

c. Loans outstanding at end of financial year: numbers and amounts, divided as relevant among loan types and purposes. Show separately for new and repeat borrowers.

d. Status of outstanding loans at the end of the last financial year or for some recent date: numbers and amounts, classified as either on time or overdue; break down overdue loans into categories (such as less than 30 days, 30-60 days, 60-90 days, more than 90 days).

e. Financial performance indicators

    (1) Long-term loss ratio: % of loans ever made that were written off.

    (2) Current delinquency ratio: % of repayments due each year that were not made on time.

    (3) Others if desired.

## 7. History of savings program

Prepare a historical series for at least the latest three financial years. Show the number of accounts and the total amount held at the end of each financial year. Classify accounts by type and/or size if relevant.

## 8. History of other services provided

List, for example, the numbers of times different training courses were held and the number of trainees; numbers of enterprises assisted; organizing and social action activities.

Sample formats for the activity and financial information recommended in this section may be found in Appendix I.

## B. DATA PRIORITIES, SOURCES, METHODS, TIMING

The top priority is to collect qualitative information and statistics that will provide a clear, accurate, and comprehensive description of the operations of the microenterprise support program, especially its credit activity. The kinds of qualitative information required were suggested in points 1-4 in the previous section. This information should be collected very early in the study, since high-quality research will be impossible without a clear and full understanding of the institution and its program(s). Sources of qualitative information include: interviews with program staff, especially managers; descriptive literature provided by the program; outside information sources, such as earlier studies of the program and World Bank reports. Not infrequently, one receives unclear or even inconsistent information from these sources, so careful rechecking and cross-checking are required.

The quantitative information required is described in points 5 and 6 in the previous section, which call for the collection of information, respectively on the financial position of the microfinance support institution and on the financial operations of the loan program(s). If the institution is well-run and maintains good accounts, most or all of this information should be readily available from its internal records. In some cases, however, the institution may collect the information specified but not regularly tabulate it, making necessary to carry out special data tabulations for the purpose of the study. In most cases, it will be easier for staff of the institution to prepare these tabulations than it would be for the researchers, who are likely to be less familiar with the data. For both types of information specified, a time series should be collected covering a sufficiently long period of time to reveal both trends and major fluctuations in basic magnitudes such as profitability, lending volume, and loan repayments. A minimum of three past years is required, but if data for earlier years are readily available they should be collected as well. As with the qualitative information discussed earlier, it is important to collect these data very early in the study, since the research needs to be informed by a good understanding of the program's operational history and current financial position.

While the immediate focus is likely to be on the credit program, it is important to understand whether the credit program is embedded in a wider range of activities and, if it is, to collect information on these activities as well. Point 7 above specifies information to be collected on savings and any other financial services provided, while point 8 does the same for non-financial services. A voluntary savings program, if it exists, is likely to involve a substantially larger number of individuals than the credit program and serve some of the same purposes (e.g., providing for emergencies). It thus may be worth studying in its own right, as is planned in the AIMS Core Impact Analysis for SEWA Bank (India).

Special attention should be given to information that may shed light on the hypotheses about the effects of program characteristics that were mentioned in the literature review. These include:

- setting and maintaining positive real interest rates (the inflation rates discussed in the following section need to be subtracted from the nominal rates charged by the program that were obtained as program information)

- salary levels (above or below market levels? What percentage of GDP per capita?)

# share of expenditure devoted to reducing loan losses

# presence or absence of voluntary savings provisions

# presence or absence of insurance provisions for borrowers

# presence or absence of modern business practices

While all this information needs to be collected near the beginning of the study, it is also important to recheck key facts periodically so as to update the information and identify any significant changes that may have occurred in institutional structure, program rules and operations, or financial outcomes.

# III. CONTEXT VARIABLES

## A. GENERAL CONSIDERATIONS

The context in which a microenterprise program is implemented is important for impact assessment because equally well-designed, even identical, programs could achieve different levels of performance when implemented in different settings. A well-developed program could fail outright because it was implemented in a highly unfavorable environment, rather than because of features of the design and operation of the program itself. Similarly, a given program's performance could either improve or worsen over time because of changes in the program environment, even if there were no significant changes in the design or implementation of the program itself. More typically, both the program and its context will have changed to some degree over any significant period of time, such as the two-year interval between the first and second rounds of the AIMS Core Impact Assessments. In this case, it is left to the analyst to sort out, if only heuristically, the relative contributions of these two sources of influence on changing program outcomes. In all these examples, valid assessment of program impact depends crucially on taking appropriate account of program context.

But how can the importance of context be assessed? This is a complex and uncertain task, in which there is no clear theory or model to guide the analyst. The categories and specific factors mentioned below provide a checklist of contextual factors that could have important impacts on the performance of a microenterprise program. The evaluator should seek local information on each point and try to determine whether it is a significant factor in the particular case in question. As a first approximation, a yes/no answer will do. A more refined analysis would involve an attempt to quantify, or at least rank, the impacts of different program variables.

What are the important questions to ask? Two main issues arise. First, is this program being implemented in a context that is relatively favorable, or in one that is relatively unfavorable? We should be more impressed by a program that can sustain itself and have a favorable socioeconomic impact in a challenging environment than by one that delivers a similar outcome in a more permissive context. Second, as time passes (e.g. between the first and second rounds of the AIMS Core Impact Assessments), has the program context become more or less favorable, and how far does this go toward explaining observed changes in program performance?

Which contextual characteristics are likely to be important? The AIMS desk study on the economic, policy, and regulatory environment (Snodgrass 1996) specified four broad categories of contextual significance: the physical environment; formal and informal institutions; economic factors; and government policies and regulation. These categories are discussed below.

Context influences program outcomes through two main channels. First, contextual factors may impact directly on the operations of the microenterprise program. Second, they may affect the enterprises of program clients, which can modify program impact relative to what it otherwise would have been, either in a favorable or in an unfavorable direction.

## B. THE PHYSICAL ENVIRONMENT

The physical context of a microenterprise program can be thought of in three main categories: the general favorableness or harshness of the permanent physical environment; predictable seasonal variation; and the frequency of catastrophic events.

### 1. Favorableness of the permanent physical environment

How conducive are the ever-present features of the physical environment to human existence and livelihood? Do year-round ecological features such as extreme heat, cold or dryness provide a continuous challenge? By choice, human beings avoid highly unfavorable environments, but some clients of microenterprise programs are forced by their poverty to live in physically harsh environments.

### 2. Seasonal change

Regular seasonal variation in temperature and rainfall can limit particular economic activities to specific times of the year. This may reduce income-earning potentials, but to the extent that seasonal variation is predictable people adjust by pursuing other lines of economic activity in seasons that are unfavorable for their preferred activities. Seasonal variation is seldom totally regular, however. Year-to-year changes in the extent and timing of seasonal variation can cause significant difficulties. Most prominently, growing seasons that are too hot or too cool, are too wet or too dry, or come too early or too late can have a large influence on crop yields. Nonagricultural activities can also be affected through variations both in the supply of factors of production and inputs and in demand for their products and services. To the extent permitted by their resources, microenterprise producers make adaptations to normal seasonal variation. Since these resources are often severely limited, however, their incomes can fluctuate significantly in tune with normal seasonal variation.

### 3. Catastrophic events

Few low-income producers can afford to insure in any way against catastrophic events such as severe storms, floods, droughts, volcanic eruptions, and outbreaks of disease or infestations of agricultural pests, even in environments where such occurrences are relatively common -- where they occur, say, once a decade or more on average. When disaster strikes, therefore, people suffer huge losses and the microenterprise programs that serve them are likely to be wiped out as well. Although some efforts have been made to create reserves against catastrophic losses for programs operating in disaster-prone areas, such as coastal regions of Bangladesh, sustainability in microenterprise programs may simply be unattainable in such environments.

Important determinants of the consequences of such catastrophic events are their severity (measured in numbers of people effected, total loss of life and property, and the distribution of such losses among regions and social groups), their predictability, and the availability of reserves at the household, community, and societal levels.

In analyzing the effect of the physical environment on microenterprise programs and their clients, one should first describe the ecology of the region: average conditions; predictable seasonal variations; possible extreme conditions and the frequency/likelihood of occurrence.

The next question is what effects these conditions have on client businesses and their household economies. What coping mechanisms do people use? One should distinguish as necessary among the main types of microenterprise services provided by the program. Also, what effect do these physical conditions have on the operations of the microenterprise institution?

In addition to the physical conditions that are generally characteristic of the region served, the analyst should note and describe the specific conditions that prevailed during and between the two survey periods. When the survey was taken, was it the hot season or the cold season, the wet season or the dry season? Were these seasons within the normal range of seasonal variation, or was it exceptionally hot, cold, wet or dry? Of course, if any catastrophic events occurred during this period, their effects will need to be described and analyzed. Although one's first reaction might be that a catastrophic occurrence during the study period would invalidate the research through the creation of atypical conditions, one should ask how atypical the conditions really were. As noted earlier, catastrophe is almost normal in some of the settings in which low-income entrepreneurs must live and work.

## C. FORMAL AND INFORMAL INSTITUTIONS AND THE SOCIAL CONTEXT

The formal and informal institutions that are present in the social and political environment of a microenterprise program can either increase or decrease the rate of return earned by program client. They can also either increase or decrease the risk associated with any expected rate of return.

By formal institutions is meant the legally recognized structures created by society through government and other organizations. These institutions profoundly influence the physical and social environments in which microentrepreneurs live and work and in which microenterprise support programs operated. In other words, they create the physical and social infrastructure which either supports or impedes the development of small business.

The availability of physical infrastructure is an important determinant of small business opportunities. One cannot use water, electricity, a telephone, or road transportation to produce and distribute the products of microenterprises unless access to these services has been provided by the local authorities (in some case, people arrange informal hook-ups, but there must be a system nearby to hook into). Besides availability, the quality and cost of the services provided are also important. Roads that are pot-holed or heavily congested will raise production and distribution costs. Similarly, the level of user charges such as electricity and water tariffs will strongly influence the use that microentrepreneurs will be able to make of these services, even if they are physically available.

Besides providing physical infrastructure, governments and other formal institutions are responsible for creating a favorable social infrastructure. Particularly relevant to microenterprise and microenterprise support programs are the prevalence of corruption and the viability of civil society more generally. Also of importance to both groups is the nature of the legal system. When debtors fail to pay on time, are legal remedies available? If so, do they provide speedy and relatively inexpensive resolution of disputes? The answers to these questions are important influences on the cost and risk of doing business, both for the microentrepreneur and for those who lend to her.

In addition to these formal institutions, all societies have a wide range of informal institutions, which also influence the conduct of both microenterprise and their support programs. Informal institutions often organize people along lines of gender, class, race, ethnicity, religion, linguistic group, or caste. They promote the special interests of members of these groups, in some cases compensating for the inadequacies of formal institutions. These informal institutions can facilitate income earning among their members, for example by providing market, credit, or insurance services exclusively to members of their groups. They can also provide a safety net for members who have encountered adversity for one reason or another and are not adequately assisted by formal institutions. Informal groups can also play an exclusionary role, attempting to reserve a particular line of economic activities for group members by excluding non-members who might wish to enter.

Population density is another aspect of the social context that can be significant for microenterprises and their support programs. While excessive crowding can be a problem, there is a wide range of relatively high population densities that facilitate both microenterprise and microenterprise support programs by reducing transportation and communication costs. It is possible that the significantly lower population densities typical of Sub-Saharan Africa may be one reason why microfinance programs have been less successful there than in densely populated Asian countries such as Bangladesh and Indonesia. Population density is also an important aspect of the distinction between urban and rural areas. The difficulties faced both by microentrepreneurs and microenterprise support programs are likely to be greater in the more sparsely populated rural areas. On the other hand, the high transportation costs associated with remoteness can also assist microenterprise by providing a kind of natural protection that facilitates the survival of small enterprises that would be crushed by competitive pressure in an environment where transportation costs are lower.

## D. THE ECONOMIC CONTEXT

Three aspects of the economic context of a microenterprise support program can be highlighted for special emphasis. These are income, inflation, and the structure of the markets in which microenterprises sell goods and services, purchase inputs, obtain capital, and hire labor.

### 1. Income

The level of income among program clients may be important, both for the financial performance of a microcredit program and for its socioeconomic impact. The average income of program clients is often calculated for targeting purposes, that is, to ensure that credit is actually reaching the poor or some other predefined recipient group. As noted earlier, Hulme and Mosley found that higher-income clients tend to have higher repayment rates, although other experience suggests that this may not necessarily be the case. A priori, the issue is unclear because while richer clients have a greater ability to pay, their incentive to repay their loans may be weaker than that of poorer clients. The reason is that better-off people are likely to have access to a wider range of credit sources than those who are poor. In the absence of efficient credit rating systems, better-off borrowers may be able to default on a loan from one particular source, then obtain a new loan from another source. Meanwhile, the poorer borrower may have only one or two potential credit sources and thus has a stronger incentive to repay a particular loan. In some cases, poor borrowers have gone to extraordinary lengths to repay, simply as a way of protecting an access to credit that they might urgently need some day.

If impact rather than repayment is the criterion, it is logical to think that higher impact could be achieved by lending to poorer clients, since they are likely to be more capital-constrained and thus in a position to use incremental capital resources in a highly productive manner. However, Hulme and Mosley found (as discussed above) that impact was greater when the borrowers had income levels just below the poverty line than when they were poorer, so the issue is far from settled.

The other aspect of income that is potentially important (at least for loan repayment) is whether it is rising or falling, and how fast. Like a higher income level, a higher rate of income growth increases the borrower's ability to repay. This becomes evident when we recall that loans are fungible, so that repayments really come from the borrower's overall income stream, and not specifically from the revenue generated by the project that is nominally financed by the loan.

### 2. Inflation

Researchers should gather data on annual rates for the period studied. In most cases, the most suitable and readily available series will be the retail price index. The national index, obtainable from standard statistical publications, can be used, but a local or regional index is preferable. The rate of inflation should be subtracted from the nominal interest rate charged by the microfinance program to obtain the real rate of interest. It is now well established that positive real rates are a sine qua non of successful microfinance programs, not only because they are needed for sustained lending but also because the excess demand generated by lending at negative or very low real interest rates requires that credit be rationed and influential individuals frequently find ways to monopolize the subsidy.

When the rate of inflation is predicted with reasonable accuracy by both lenders and borrowers, calculations about whether it is worthwhile to borrow or lend are easy to make. Serious problems arise when there is a large and unanticipated change in the rate of inflation. If nominal interest rates are fixed by the loan contract and the rate of inflation rises suddenly, borrowers get a windfall and are able to repay easily. On the other hand, if the rate of inflation suddenly drops, it is the lender who gets the windfall while the borrower may find it extremely difficult to repay at the higher real rate of interest that now prevails.

### 3. Market Structure: Products and Inputs

Markets for the more important products of the microenterprises supported by the program should be studied in an effort to identify any noncompetitive elements in the market structure. In a competitive market, an individual small producer can sell its entire output at a price fixed by market conditions. In this situation, market demand cannot be a limiting factor on the growth of the individual enterprise. Yet many microentrepreneurs complain that increasing production drives the selling price down, making the activity less profitable or even unprofitable. This can occur when many producers enter a field of economic activity, as sometimes happens in small business promotion campaigns. It can also happen when buyers of microenterprise products are few, for example when goods are produced for sale to large firms, or where government policy places limits on the markets of microenterprise.

Similar points apply to the markets in which microenterprises purchase their inputs. If there are many sellers, individual firms can buy all they want at a given price, but if many microenterprises increase their purchases at the same time or if input supplies are controlled by a few firms, then increasing demand may drive prices up.

It should be noted that microenterprises often pay higher prices for their inputs than do larger firms, simply because they buy in smaller quantities and thus do not qualify for quantity discounts. Most likely, this difference reflects the higher cost to the distributor of handling small orders and is not a market distortion.

### 4. Market Structure: Capital

Capital markets in developing countries are underdeveloped and highly fragmented. Microenterprises typically have no access at all to the sources of credit utilized (but often only sparingly) by larger firms. Many surveys have shown that microentrepreneurs, and even the founders of somewhat larger firms, typically provide all, or nearly all, of their start-up capital from internal resources. Somewhat greater recourse is had to borrowing to meet working capital needs, but such loans tend to be obtained from "informal" sources, often at very high rates of interest. Sometimes the credit is obtained through a "linked transaction" in which part of the interest paid is embedded in the prices set for other elements of the transaction.

This lack of access to credit, except perhaps at extremely high cost, causes borrowers to flock to institutionalized microfinance programs when these become available. If the program succeeds in achieving wide outreach and financial sustainability, however, it should begin to have an effect on the credit market. Seeing that a microfinance institution can lend successfully to small borrowers, more profit-oriented lenders may be motivated to seek a share of the business by developing facilities aimed at small-scale borrowers and/or cutting their rate of interest on such loans. This form of imitation is the sincerest form of flattery for a microfinance program.

### 5. Market Structure: Labor

Microenterprise can be looked at either as a form of business or as a form of employment. In interpreting what is going on among microenterprise support program clients, it is important to have some understanding of labor market trends and patterns in the area served by the program. At what rates are population and labor force growing? What is the measured unemployment rate? (Note, however, that this rate is an inadequate gauge of labor surplus in situations where many people are too poor to remain unemployed for long and are thus forced to accept any available job.) What is the rate of underemployment, and how is it defined? (The definition of underemployment is less standardized than that of unemployment.)

In low-income countries, a useful supplementary indicator of labor market conditions is the structure of employment by industry, occupational group, and employment status. Successful economic development invariably brings about a fall in the share of employment that is in agriculture and other primary activities, while the employment share of industry, and usually that of services as well, rises. Rising, stagnant, or very slowly falling agricultural employment (measured as a share of total employment) is an indication that the supply of labor is rising faster than the demand for labor. This situation may also reveal itself in stagnation of industrial employment and a fairly rapid rise in service sector employment, which could reflect a supply-induced expansion of the "informal sector" (a concept that is difficult to define and measure satisfactorily). Similarly, the breakdown of total employment into different employment statuses (employer; employee; self-employed, and unpaid family worker) may be revealing. In healthy economic development, the share of employees rises over time. When labor demand fails to keep up with supply, however, the shares of self-employed workers or even unpaid family workers may rise.

## E. GOVERNMENT POLICIES AND REGULATIONS

Many different types of government policies and regulations may affect the operation of both of microenterprises and of microenterprise support programs. Typically, these policies and regulations inhibit the prosperity and growth of microenterprises by reducing their profitability. Sometimes the effect is similar for all scales of enterprise, but often small and microenterprises are differentially affected. Most government policies that affect business are enacted by national governments, but regional and local governments are often involved as well. In fact, many of the powers of local governments impinge directly on microenterprise.

Policy influences on client microenterprises usually work through the markets in which these enterprises buy and sell goods and services. The following list (based on Haggblade et al 1986) is arranged by the type of market involved.

- Policies that affect the price or availability of goods used by microenterprises: interest rate controls leading to credit rationing; import duties and quotas; exchange controls.

- Policies that affect the cost of hired labor: minimum wage laws; labor legislation; labor-based taxes.

- Policies that affect the cost of purchased inputs: import duties; exchange controls; price controls.

# Policies that affect output markets: policies that raise or lower the price of competing goods; effective rates of protection; exchange rates; export taxes.

# Policies, regulations, and enforcement mechanisms of regional and local governments.

### 1. The National Government

Policies of the national government that may directly affect microenterprise support programs can be categorized as follows:

# Policies affecting availability of loanable funds and their cost: subsidization of the institution's funds; right to accept deposits; controls on deposit interest rates.

# Policies affecting the cost of labor hired by the institution: minimum wage laws; government pay policies.

# Regulations affecting the scope and terms of lending and other financial operations.

# Policies and regulations affecting non-financial aspects of ME programs.

Government policies and regulations that may have a significant effect on client microenterprises operating in different sectors of the economy, or alternatively on the operation of microenterprise support programs, include the following:

(1) Policies that can affect the prices or availability of capital goods used by microenterprises through: interest rates and credit availability; import duties and quotas; exchange rate and exchange controls.

(2) Policies that can affect the price of labor hired by microenterprises through: minimum wage laws; labor legislation; labor-based taxes.

(3) Policies that can affect the prices and availability of purchased inputs through: import duties; exchange rates and controls; price controls.

(4) Policies that can affect the demand for client outputs by raising or lowering the prices of competitive goods through: effective rates of protection; exchange rates; export taxation.

(5) Policies that can affect demand through the sectoral income distribution: differential structure of protection; differential export taxation; differential exchange rates and access to foreign exchange; differential expenditure on services and infrastructure; differential taxation; differential output pricing.

(6) Policies that can affect demand through the size distribution of income.

(7) Price controls on products.

Many of these policy effects will be hard to ascertain, much less measure. The important thing is to understand the major subsectors in which client enterprises operate and how government policies and regulations affect the position of the client enterprises within the subsectors.

### 2. Regional and Local Governments

From the perspective of the microenterprise, policies of the national government may seem remote, even though their influence may percolate down through all sectors of the economy and regions of the country. By contrast, the policies and regulatory activities of regional and local governments, while of less significance nationally, often have a direct and immediate impact on local microenterprises. Regional and local authorities are sometimes given responsibility for enforcing central government policies, and they are often delegated powers in areas of considerable importance for microenterprises.

Examples of delegation of enforcement powers include collection of sales taxes and enforcement of minimum wage provisions. Studies indicate a wide range of variation among countries in terms of enforcement of such provisions in all regions of the country and on all scales of enterprise (Levy 1991). In some countries, even the tiniest enterprises must pay, while in others microenterprises are either exempted by law or, more commonly, overlooked by the enforcement system. This form of benign neglect may confer a competitive advantage on microenterprises, but it can also set them up for disruption through sporadic or selective enforcement.

Regulatory areas frequently reserved for local government include general and environmental zoning, business licensing or registration, and the conferral of monopoly rights. Any of these types of regulation can be used to either favor or disfavor particular groups of microentrepreneurs. For example, exclusion of petty traders from heavily trafficked selling areas is commonly undertaken in the name of improved traffic flows, beautification, and "modernity." This kind of action can harm the affected microentrepreneurs, even when alternative and "improved" facilities are provided for them, usually in locations that are less favorable in business terms.

Issues of local regulation such as these often come down to tests of political influence, e. g. between drivers of cars and shoppers in middle-class malls, on the one hand, and petty retailers, on the other. Representatives of microentrepreneurs are often at a class disadvantage in this arena, but successes have been registered when the large numbers of microentrepreneurs who may be involved are effectively organized for political action.

There is an important connection between local regulation of small business and the rule of law issue discussed earlier. Situations in which local regulations abound but are not uniformly and consistently enforced open the door for corrupt behavior by enforcement officials at the lowest levels. Their technical illegality, even if this is normally ignored, can expose microentrepreneurs to the possibility of corrupt extractions by unscrupulous officials.

## F. DATA PRIORITIES, SOURCES, METHODS, TIMING

It can be seen that program context covers a wide range of potential influences, in which many of the concepts and measures are only broadly defined. Within this area, special attention needs to be paid to factors which have been suspected in the past to influence microenterprise and microenterprise support programs. These include the effects of seasonality, natural catastrophes, client income level, inflation, economic growth, client gender, ethnicity, and local government regulations. While it will usually not be possible to measure precisely the contribution of each factor to the observed outcome, it will be of some significance to observe, in checklist fashion, whether particular hypothesized influences are present or absent, and whether significant changes have occurred between the data collection rounds in longitudinal studies. Sources of information on program context are varied. They include interviews with program officials, clients, and others knowledgeable about the program environment such as local government officials and academics. In some cases, prior studies will have been made of some of the factors involved.

As with the program variables discussed earlier, information on program context needs to be collected near the beginning of the study, as a means of informing the design of the overall study. At the same time, key facts should be rechecked periodically to update the information and identify any significant changes that may have occurred.

To help the field researcher find his or her way through this complex and subtle area, two checklists have been prepared (see Appendix II). The first list suggests the most important contextual questions to be asked in a baseline study. The second shows the critical questions to raise in a follow-up study such as the second round of the AIMS core impact assessments.

# APPENDIX I

# DATA FORMATS

# ACTIVITY AND FINANCIAL STATEMENT OF SEWA BANK

| Particulars of Lending Activities | FY 1993 | FY 1994 | FY 1995 | FY 1996 | FY 1997 |
|---|---|---|---|---|---|
| 1. Amount of loans outstanding start of year in 1000s/Rs. | 17214 | 20535 | 20081 | 29434 | 47298 |
| 2. Amount of loans outstanding end of year | 20535 | 20081 | 29434 | 47298 | 6 |
| 3. Average amount of loans outstanding (average of #1 & #2) | 18874.5 | 20308 | 24757.5 | 38366 | |
| 4. Number of new loans during the year | 1718 | 1786 | 4311 | 2917 | |
| 5. Number of loans outstanding end of year | 4630 | 4584 | 7307 | 5207 | |
| 6. Average loan size (#2 divided by #4) | 4435 | 4381 | 4028 | 9083 | |
| 7. Delinquency rate | 15% | 18.35% | 12.1% | 4% | |
| 8. Long run loss rate | nil | nil | nil | nil | |
| **Savings Activities** | | | | | |
| 9. Number of saving accounts, end of year | 35443 | 41636 | 44841 | 56541 | |
| 10. Amount of savings, end of year | 53470 | 59183 | 72165 | 86335 | |
| 11. Average amount of savings (#10 divided by #9) | 1509 | 1421 | 1609 | 1527 | |
| **Interest Rates** | | | | | |
| 12. Nominal interest rate charged by SEWA bank on loans | 15% | 15% | 16% | 17% | 17% |
| 13. Local interbank interest rate (give source) | | | | | |
| 14. Interest rate paid by SEWA bank on Savings | 6% | 6% | 5% | 5% | 5% |

| Particulars of Lending Activities | FY 1993 | FY 1994 | FY 1995 | FY 1996 | FY 1997 |
|---|---|---|---|---|---|
| 15. Inflation rate | | | | 8% | |
| 16. Interest income from clients | 2855 | 3538 | 4710 | 5511 | |
| 17. Fee income from clients | 96 | 394 | 612 | 799 | |
| 18. Total client revenues | 2951 | 3932 | 5322 | 6310 | |
| **Investment Revenue** | | | | | |
| 19. Investment income | 4096 | 4325 | 4587 | 8555 | |
| **Non-financial Expenses** | | | | | |
| 20. Administrative (including salaries & other cash outlays) | 1964 | 2614 | 3200 | 4592 | |
| 21. Depreciation of fixed assets | 128 | 189 | 498 | 484 | |
| 22. Loan less provision | 130 | 265 | 168 | 729 | |
| 23. Total non-financial expenses | 2222 | 3061 | 3866 | 5805 | |
| 24. Interest on savings | 4331 | 4911 | 5344 | 5360 | |
| **Totals** | | | | | |
| 25. Total expenses (#23 & #24) | 6553 | 7972 | 9210 | 11165 | |
| 26. Return on operations (#18 & #19 divided by #25) | 0.93 | 1.02 | 1.08 | 1.33 | |
| **Shareholders** | | | | | |
| 24. Number of shareholders | 15454 | 16095 | 17485 | 19258 | |

# SRI MAHILA SEWA SAHAKARI BANK LTD.

## BALANCE SHEET AS ON 31st March, 1997

*Figures in thousands of rupees

| CAPITAL & LIABILITIES | 92-93 | 93-94 | 94-95 | 95-96 | ASSETS AND PROPERTIES | 92-93 | 93-94 | 94-95 | 95-96 |
|---|---|---|---|---|---|---|---|---|---|
| Share Capital | 2136 | 2543 | 4259 | 6123 | Cash | 1287 | 2030 | 1682 | 2705 |
| Reserves | 3868 | 4989 | 5378 | 8107 | Deposits w/other Banks | 32626 | 29531 | 41312 | 35246 |
| Deposits | 53470 | 59184 | 72165 | 86335 | Investments | 7620 | 12240 | 16705 | 17480 |
| Borrowings | 2682 | 2682 | 7670 | 2062 | Loans | 20535 | 20082 | 29434 | 47297 |
| Interest Payable | 3488 | 5067 | 5892 | 7696 | Interests Receivable | 3061 | 4754 | 5258 | 6769 |
| Other Liabilities | 650 | 1829 | 1842 | 2283 | Fixed Assets | 920 | 2055 | 1829 | 1647 |
| Current Year's Profits | 828 | 456 | 1000 | 2096 | Furniture & Fixtures | 214 | 688 | 672 | 580 |
| | | | | | Computer | | | 115 | 86 |
| | | | | | Other Assets | 823 | 5340 | 1174 | 2761 |
| | | | | | Deferred Revenue Expenditure | 36 | 30 | 25 | 76 |
| | | | | | | | | | |
| **TOTAL** | 67122 | 76750 | 98206 | | **TOTAL** | 67122 | 76750 | 98206 | 114647 |

## PROFIT AND LOSS ACCOUNTS

| EXPENDITURES | 92-93 | 93-94 | 94-95 | 95-96 | INCOME | 92-93 | 93-94 | 94-95 | 95-96 |
|---|---|---|---|---|---|---|---|---|---|
| Interest on Deposits & Borrowings | 4331 | 4911 | 5344 | 5360 | Interest and Discount | 6951 | 7763 | 9295 | 14067 |
| Salary & Allowances | 1219 | 1561 | 1675 | 2037 | Commission & Brokerage | 175 | 53 | | 38 |
| Rent, taxes, insurance, electricity | 78 | 76 | 136 | 1177 | Other Income | 242 | 611 | 846 | 928 |
| Stationery, printing, advertising | 164 | 236 | 325 | 332 | | | | | |
| Postage & Telephone | 36 | 72 | 136 | 129 | | | | | |
| Director's fees | 14 | 14 | 14 | 14 | | | | | |
| Audit Fees | 15 | 5 | 10 | 10 | | | | | |
| Legal & Professional Fees | 16 | 28 | 26 | 21 | | | | | |
| Other Expenses | 422 | 620 | 761 | 872 | | | | | |
| Depreciation and Repairs | 128 | 189 | 498 | 484 | | | | | |
| Transfer to Welfare Fund | | 259 | 103 | 2000 | | | | | |
| Transfer to Building Fund | 100 | | | 500 | | | | | |
| Profit | 827 | 456 | 1000 | 2096 | | | | | |
| | | | | | | | | | |
| **TOTAL** | 7350 | 8427 | 10143 | 10532 | **TOTAL** | 7350 | 8427 | 10143 | 15032 |

# APPENDIX II

## TWO CHECKLISTS FOR IDENTIFYING

## POSSIBLE CONTEXT INFLUENCES ON

## MICROENTERPRISE SUPPORT PROGRAMS

## LIST ONE: FACTORS TO BE CHECKED IN BASELINE ASSESSMENT

1. Do year-round ecological features (e.g. extreme heat, cold, or dryness) pose a continuous challenge to microenterprises?

2. Are client microenterprises subject to significant seasonal variation?

3. Was the baseline year good, bad, or average in terms of the physical environment?

4. To what extent do client enterprises fall under the rule of law? Are their activities legal? Are their contracts enforceable?

5. In what ways, if any, is microenterprise activity affected by informal social institutions such as gender, class, ethnicity, religion, language group, or caste? Does membership in any of these groups attract official or societal discrimination? Does it, on the other hand, confer business advantages?

6. Is adequate physical infrastructure (e.g. water, electricity, telephone service, road transportation) available to microenterprises at reasonable cost?

7. What is the average level of income among program clients; what is its approximate range of variation?

8. How competitive are the markets in which microenterprises buy inputs and sell outputs? Can significant deviations from competition be verified?

9. What alternative credit sources are available to program clients? On what terms?

10. What is the approximate level of labor surplus in the local economy?

11. How conducive are the policies and regulations of the national government to the operation of an effective and sustainable microenterprise program? E.g., are there interest rate controls, restrictions on the acceptance of voluntary deposits, restrictions on lending activities, provisions that raise staff labor costs?

12. Can national policies be identified that significantly affect the ability of microenterprises to compete with other scales of enterprise? E.g., policies that differentially affect access to/cost of capital goods, labor, purchased inputs, sale of outputs?

13. In what ways does business and municipal regulation by regional and local government significantly affect the operations of client microenterprises? E.g., zoning, registration, conferral of monopoly rights?

14. Do corrupt extractions by local officials pose a problem for client microenterprises? If so, describe the nature of the problem.

**LIST TWO: FACTORS TO BE CHECKED IN FOLLOW-UP ROUND (POTENTIAL CHANGES IN CONTEXTUAL INFLUENCES)**

1. Is the year of the follow-up round good, bad, or average in terms of the physical environment?

2. Have any catastrophic natural events (severe storms, floods, droughts, volcanic eruptions, outbreaks of disease, and/or infestations of agricultural pests) occurred since the baseline year? If so, what was the magnitude of their effects on the businesses and household economies of client microentrepreneurs?

3. Have there been any significant changes with regard to the rule of law affecting microenterprises?

4. Have there been any significant changes in microenterprise access to infrastructure?

5. Has the average income level of program clients risen, fallen, or remained the same since the baseline year?

6. What has been the rate of inflation since the baseline year?

7. Have there been any significant changes in the competitiveness of the markets in which microenterprises sell outputs and buy inputs? (cf. List 1, Item 8)

8. Have there been any significant changes in credit availability to program clients from other sources? (cf. List 1, Item 9).

9. Have there been any significant changes in the level of labor surplus in the local economy? (cf. List 1, Item 10).

10. Have there been any significant changes in the policies and regulations of the national government regarding the operation of microenterprise support programs? (cf. List 1, Item 11).

11. Have there been any significant changes in the impact (if any) of national government policies on client microenterprises? (cf. List 1, Item 12).

12. Have there been any significant changes in the impact of regional and local government policies and regulations on microenterprises? If so, describe the changes and their impacts. (cf. List 1, Item 13).

13. Have there been any significant changes in the impact of corruption on microenterprises? (cf. List 1, Item 14).

# APPENDIX III

# REFERENCES

## REFERENCES

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