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Improving the Impact of Microfinance on Poverty

Action Research Programme

Working Paper No. 5

Horizontal Networks and Microfinance Impact Assessment: A Preliminary Appraisal

July 2002

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Contents

SUMMARY 3

1. INTRODUCTION 3

2. CASE STUDIES 4

2.1. ODEF and Covelo in Honduras 5

2.2. Finrural in Bolivia 5

2.3. CARD and the Microfinance Centre of the Philippines (MFCP) 6

2.4. Microfinance Centre (MFC) in Poland 6

2.5. PROMUC in Peru. 6

3. Analysis and conclusions 6

3.1. Covelo in Honduras 6

3.2. Other lessons 7

SUMMARY

The paper draws on five case studies to explore potential benefits and barriers to horizontal networking to promote impact assessment of microfinance. The papers main aim is to stimulate further discussion of this issue. But some tentative conclusion are drawn about factors likely to contribute towards success. In particular, experience from Honduras suggests that network organisations can work most effectively when they facilitate wider use of IA activities already piloted by a lead member of the network.

1. INTRODUCTION

As the number of microfinance organisations (MFOs) has expanded, so has the diversity and complexity of networks, coalitions, clusters, clubs and alliances linking them together. Most countries have one or more national MFO associations. Many MFOs are also strongly linked to global affiliated networks, such as *FINCA*, *Accion*, *Opportunity International*, *CASHPOOR* and the *Grameen Trust*. Many governments and donor organisations have also sponsored networks of the MFOs they fund. In addition, there are a number of important apex level networks. *The Consultative Group to Aid the Poorest* (*CGAP*) has sought to co-ordinate policy among donors and to establish 'global industry' standards, while the *Microcredit Summit Foundation* seeks to accommodate all stakeholders within a global movement.[1] The US based *Small Enterprise Education and Promotion Network* (*SEEP*) is also worthy of mention because in addition to being a 'network of networks' it also runs a network development services program.[2]

Global networking is arguably a symbol of our age, made possible by cheaper air travel and the internet, and as much a tenet of the dominant liberal ideology as is market integration. And it is no surprise that the proliferation of networks, in microfinance as in other fields, constantly outpaces attempts to document, analyse and rationalise them. Networks are both horizontal and vertical. They are formal and informal. They can be transitional or aspire to permanence. They may reinforce established power relations or challenge them. They can have small and closed or large and open membership. They may have narrowly defined functions (knowledge generation and sharing, policy formation, finance, technical assistance), or they may combine a range of functions.

This paper is itself the product of a temporary global network of microfinance organisations and researchers: *Imp-Act*, which stands for "Improving the impact of microfinance on poverty: an action-research programme." With a secretariat based in the UK, it comprises a loose partially self-selected group of twenty-nine MFOs operating in Eastern Europe, Asia, Africa and Latin America committed to enhancing the quality of microfinance impact assessment activities, sharing findings and thereby improving the role that MFOs can play in reducing poverty.[3] *Imp-Act* itself formed through the initiative of an internal global network of staff

[1] All these organisations maintain active websites. A useful single gateway to most of them is the Enterprise Development Website: www.enterweb.org/microcre.htm

[2] See www.seepnetwork.org/aboutnds.html. One activity of the network program is a technical assistance and action research project (*TAARP*) involving microfinance associations in Ethiopia (*AEMFI*), Uganda (*AMFIU*), Madagascar (*APIFM*), Nepal (*CMF*), Ghana (*GHAMFIN*), Philippines (*MFCP*), Pakistan (*PMN*), Guatemala (*REDIMIF*) and Ecuador (*RFR*).

[3] For more information see its web site: www.Imp-Act.org.

in the *Ford Foundation*, called the development finance affinity group, which meets annually.

Up until quite recently, formal impact assessment (IA) had largely been funded by donors of MFOs, and primarily served to meet their own accountability requirements. In parallel to such studies, MFOs themselves have used a mixture of informal methods and market research to generate information to support operational decisions. Part of the aim of the *Imp-Act* is to facilitate a trend for poverty oriented MFOs to internalise and assume stronger ownership of both sets of activities. This is not easy. Important and interlinked issues include: (a) credibility, particularly of internally controlled and implemented IA activities; (b) affordability, particularly of IA funded out of current revenue rather than capital grants; (c) reliability, particularly in assessing wider impacts that go beyond those of immediate clients. Various agencies have sought to contribute to better practice by developing clearer tools or protocols for carrying out IA, including *SEEP* (in conjunction with the *AIMS* project of *USAID*), *CGAP* and more recently *MicroSave Africa*. *Imp-Act* aims to build on this work by helping MFOs themselves to gain experience in using and adapting these and other methodologies to serve their own needs.

The specific concern of this paper is with the extent to which IA can be improved through the involvement of horizontal networks of MFOs at the regional or national level. There are a number of theoretical reasons for hoping that such networks can contribute usefully. First, good quality IA has 'public good' characteristics. For example, aggregation of findings from individual MFO-level studies can help to meet demand for market-wide data from policy makers at the national level. Pooled analysis may also yield greater understanding of how different contexts, products and organisational styles affect impact. Second, collaboration may result in cost savings through shared learning-by-doing and economies of scale. Third, the credibility and reliability of data may be enhanced through peer monitoring and the role of umbrella organisations in establishing quality standards.[4]

However, it is one thing to list potential benefits of a networked approach to IA, quite another to realise them. First, negotiating common methodologies and coordinating data collection and analysis can be costly and time consuming, not least given limitations on how far IA can be adapted to the specific needs of individual MFOs. Second, trust may be lacking, and collective benefits have to be weighed against the possible competitive advantages or better knowledge of impact. Third horizontal collaboration may be difficult to reconcile with vertical funding and technical support provided by donors and global affiliates.

2. CASE STUDIES

This section presents a quick survey of how five organisations within the *Imp-Act* programme are seeking to overcome the problems of collaborative IA and to realise some of the potential benefits. It is largely based on presentations at a 'roundtable' discussion of the role of networks held at an *Imp-Act* global meeting held in Sheffield, England in April 2002. I am grateful to participants for the information they provided, but also conscious that it is beyond the scope of this

[4] Some of these ideas are also explored in Briefing Paper No.4 "How can impact assessments facilitate stronger collaboration between MFOs? Written in June 2000 by Paul Mosley and available on the *Imp-Act* web site.

paper to do justice to their experiences. Rather these examples are cited with the aim of stimulating further reflection and discussion of the general issues arising from MFO networks involvement with IA.

2.1. ODEF and Covelo in Honduras

Covelo is an umbrella organisation for the seventy or so MFOs working in Honduras. *ODEF* is one of its largest members, and was selected for a pilot study of the *SEEP/AIMS* impact survey instrument in 1998.[5] *ODEF* found this study was very effective in developing its own culture of 'organisational learning'.[6] Hence it saw an opportunity through participation in *Imp-Act* to encourage similar work within other MFOs through the *Covelo* network.

The action research started with a joint workshop at which eleven MFOs were trained in carrying out exit surveys using their own staff as interviewers. Each MFO then carried out its own exit survey, and a second workshop was held to compare findings from a pooled data set of 1,218 interviews spanning all regions of the country, village bank, solidarity group and individual loan clients. A similar cycle of workshops was then employed for carrying out a client satisfaction survey, with at least one more cycle planned to cover other *SEEP/AIMS* tools. The immediate goal of the action research is to ensure that at least ten leading MFOs in Honduras are fully trained and motivated to carry out their own routine impact assessment work using these tools. The role of *Covelo* will then shift from facilitating technical support to aggregating findings in such a way as to permit the impact of microfinance to be monitored at a national level.

2.2. Finrural in Bolivia

Finrural is an umbrella organisation that seeks to advance the wider interests of nine leading microfinance organisations in Bolivia, in provision of microfinance services in rural areas. Examples of its activities include promoting rural savings mobilisation, and mechanisms for sharing of information about loan defaulters. Bolivia has recently experienced a popular and highly politicised backlash against microcredit, particularly in urban areas.[7] Hence another sector level issue is the need to restore trust in microfinance as an effective development activity among politicians and the wider public.

Taking these factors into account, *Finrural* is seeking to develop impact assessment capability to serve two sets of goals. First, it hopes to be able to facilitate IA studies on behalf of members in a way that is more cost-effective as a result of its specialisation in this activity. Credibility and reliability should also be enhanced by its quasi-independent yet trusted relationship with members. Second, by offering similar tools it hopes to be able to aggregate results across the sector in order to present stronger evidence of the impact of microfinance to the wider public. To be effective in this regard, such studies will have to be seen to be relatively rigorous and impartial.

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[5] See Elaine Edgecomb and Carter Garber (1997) Practitioner-led impact assessment: a test in Honduras. Washington DC: *AIMS* working paper. Available on http://www.mip.org/

[6] For further discussion of IA and organisational learning within MFOs see J Copestake (2000) Impact assessment of microfinance and organizational learning – who will survive?" Journal of Microfinance, Vol.2, No.1, Fall. An earlier version is also available on the *Imp-Act* web site.

[7] See Rhyne, E. (2001). "Mainstreaming microfinance: how lending to the poor began, grew, and came of age in Bolivia." Bloomfield, Connecticut: Kumarian Press.

2.3. CARD *and the* Microfinance Centre of the Philippines *(*MFCP*)*

CARD is one of the largest MFOs in the Philippines, and registered as a bank in 1997. It has a long history of conducting its own internal impact monitoring and assessment work, and is seeking to help *MFCP* promote a similar culture more widely within the sector. Initial workshops supported by *Imp-Act* (one in Manila and one in Luzon) revealed strong interest in this among other MFOs, but also the extent to which the evaluation and impact assessment agenda is still donor driven. As an initial step *CARD* and *MFCP* will develop a generic version of *CARD*'s own internal learning system that can be adapted to the needs of at least five other MFOs in the country.

2.4. Microfinance Centre *(*MFC*) in Poland*

MFC has 66 member organisations across 22 countries of Eastern Europe, the Balkans and Central Asia. It has a wide remit and advocacy role, including (in some countries) campaigning to make microfinance legal! In the field of impact assessment it played a lead role in the region in testing and promoting the use of *SEEP/AIMS* tools. Under *Imp-Act* it is following up this work with seven organisations in five countries. Key issues include the measurement of wider impact, including 'social capital', particularly in the context of post-war reconstruction in the Balkans. However, diversity in both the character of member MFOs and the contexts in which they are working cast doubt on the extent to which generic tools and approaches can be developed. Hence its main preoccupation is with how to strengthen the technical capacity of member MFOs to carry out their own impact monitoring and assessment.

2.5. PROMUC in Peru.

Promuc started in 1995 as a consortium of seven NGOs who agreed to come together to operate a unified village banking model of microfinance. The model has subsequently been extended through other NGOs through 'franchise' agreements, extending coverage to more than 15,000 members in ten provinces of the country. The secretariat of the organisation sees IA as one of its core activities, and is participating in Imp-Act in order to pilot test approaches that it hopes can then be replicated throughout the network.

3. Analysis and conclusions

3.1. Covelo in Honduras

It is too early to draw strong conclusions about the role of networks from the participation of each of these five networks in *Imp-Act*. However, *Covelo* in Honduras has already had sufficient success to feel able to share some general lessons.[8] These can be summarised in five points. First, success depends on ensuring there is agreement and understanding among all collaborators as to what the IA work is for. More specifically, all must be clear that it is a long-term forward-looking activity for their own benefit rather than a backward looking exercise in accountability to satisfy others. Clarity of vision and a commitment to building a 'learning culture' is also important if participants are not to be

[8] The information here comes from a paper written after the Sheffield workshop by Anibal Montoya, entitled "Experiencia en la implementacion de herramientas de medicion de imp-act a nivel de redes nacionales".

weighed down and restricted in their thinking by methodological technicalities and glorification of the tools.

Second, the facilitating network must be capable, dynamic and fully transparent. Competence in planning meetings is particularly important given the need to involve senior staff within participating MFOs whose time is precious and whose tolerance for poorly organised activities is consequently necessarily low. This in turn requires clear delegation of overall responsibility for the programme to a member of staff within the network, with sufficient authority, confidence and administrative support to deal with members at this level, and to ensure that technical assistance is timely and appropriate to the needs of the programme.

Third, it is important to be able to build on the proven experience of leading MFOs within the network, who could provide practical leadership and support, instil confidence and serve as a role model. This point is discussed further below.

A fourth point is realistic timing. *Covelo* started with a cycle of implementing a tool every six months. This allowed three months for training, familiarisation with methodological tools and forward planning of activities, followed by three months for implementation, including not only data collection and analysis but also dissemination and full discussion of findings. The sequential approach to use of different tools in also facilitated learning by doing: lessons learnt from the first round (exit surveys) aiding subsequent implementation of the second round (client satisfaction surveys) and so on.

The final point concerns team working and rational specialisation. Careful planning and timing made it possible to train and form separate teams (both at the network level and within each MFO) for data collection and data analysis. The teams worked closely together, but also had clear terms of reference and could build up appropriate skills.

3.2. Other lessons

As expected, the five case studies highlight diversity and 'path-dependence' in the way networks are seeking to develop IA systems among their members. However, there does appear to be some basis for tentative generalisation with respect to the 'subsidiarity' issue, or the division of labour between individual MFOs and the umbrella body, or network secretariat. In the Honduras and Philippines examples, an influential MFO member took the initiative, and the role of the network has been to facilitate a process of scaling up and refinement of pilot models and experiences.[9] In Bolivia and Peru, initiative appears to have been taken more by the umbrella organisation itself.

Linked to this difference is divergence in what might be referred to as the underlying 'intervention model' for achieving sustainability.[10] In the case of Honduras and Philippines there is a clear commitment to establishing impact monitoring and assessment capacity within member MFOs. Once the MFO perceives that internal benefits exceed internal costs, then the role of the training and capacity building at network level ends. In the cases of Bolivia and Peru, in contrast, the vision is for the umbrella organisation to develop

[9] This is very much in the spirit of the so-called "new project cycle" - see R Piccioto and R Weaving (1994) "A new project cycle for the World Bank?" Finance and development, December, pp.42-44.

[10] By intervention model, I mean the division of labour between temporary, transitional or developmental activities and recurrent, routine and sustainable activities. Key to this is agreement on when particular agencies should withdraw. See A Fowler (1997) "Striking a balance: a guide to enhancing the effectiveness of NGOs in international development" for further discussion.

sustainable contractual capacity and responsibility for carrying out impact assessment.

I am not suggesting that one of these models is superior to the other, for there may be good grounds for the difference. For example, the network organisations in Bolivia and Peru are smaller and more tightly focused than they are in the other two cases. Hence they may have greater capacity for sustained collective action, which is to say that mechanisms to manage divergence of interest, misunderstanding and loss of trust may be stronger. The goal of achieving cost-effectiveness through some measure of centralisation to achieve economies of scale and specialisation requires greater and more sustained convergence of interest. The goal of collaboration around reciprocal learning may be more opportunistic.

MFC in Poland perhaps represents an intermediate case. It has served more as an instigator of IA initiatives, than as a vehicle for replication by an influential member. But it has a much larger and more diffuse membership and role than *Finrural* and PROMUC. This suggests to me that it is most likely to evolve towards being an independent consultancy body, albeit accountable to members through their representation on its Board of Directors.

An important test of these different models will be success in aggregating findings from MFO level studies in order to generate credible information on industry level and wider impact. Each offers structural advantages and disadvantages. The "*Covelo/MFCP*" model builds in a piloting process, and may secure stronger ownership among participating MFOs. The "*PROMUC/FINRURAL*" model may be more effective in ensuring sustaining uniformity of methodologies (hence comparability of findings), and in generating credible findings for external stakeholders. However, each case is also likely to develop its own distinct ways of producing aggregated findings on wider impact, with such factors as individual leadership, trust and competence proving as important as inter-agency structure. In all cases, the willingness of donors and global affiliates to accommodate and support horizontal networking of this kind is also likely to be crucial.