Improving the Impact of Microfinance on Poverty

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How can impact assessments facilitate stronger collaboration between DFOs?

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Introduction

Microfinance, like microenterprise, has grown up in a spontaneous, unorganised and competitive manner. Nobody would have planned such a system, and nobody did. However, as the microfinance industry grows, it is evolving its own norms and performance standards; and, both within and across countries, networks and professional organisations now exist to monitor and improve performance in relation to those standards. In some countries, South Africa being a notable example, the beginnings of a regulatory structure are also beginning to emerge. Some notable examples of these networks are listed in Table 1. They are differentiated, somewhat arbitrarily, between those whose purpose is primarily informational and those whose purpose is primarily educative. (Those participating in the workshop are italicised.)

Table 1. Microfinance networks

Region	**Mainly training and research**	**Mainly information**
Asia	CASHPOR SANMFI (Bangladesh)	
Africa	K-REP (Kenya) MicroSave (Uganda)	
E. Europe	Microfinance Centre (Poland/Eastern Europe) Opportunity International	
L. America	ACCION	FINRURAL (Bolivia)*
Global and industrial countries	Grameen Trust (Worldwide) Economics Institute (Boulder, Colorado)	Centre for the Study of Financial Innovation(UK)

*Also a pressure group at country level.

The issue for discussion in this paper is whether impact assessment can enable these networks, and others not listed here or perhaps not even yet in existence, to provide a basis for stronger collaboration between microfinance organisations.

Can impact assessment facilitate stronger collaboration between DFOs?

In many ways, the integrating institutions listed in Table 1 have already answered the question, since many of them – certainly all the ones listed in the left-hand column, - conduct and/or sponsor impact assessment of microfinance. In some cases this assessment is narrow, focussing on the impact on the lending institution; in other cases broader, focussing on the client or the wider impact, as discussed in Thematic Paper 2 (Copestake 2000). The added value which such assessments provide is, in principle, to answer for all institutions within the network the question 'what works?' and to then diffuse best practice. Of course, definitions of 'best practice' vary according to the target group under consideration, and the stereotype is that as the target group widens, so the cost increases and the utility to the DFO diminishes, as in table 2[1]:

Table 2. Correlates of IA reference groups: the stereotype view

Reference group	**Cost of IA**	**Main utility of impact assessment**
DFO (e.g. profitability, recovery rate, cost)	Low	To DFO
Clients (e.g. income, employment, assets, technology)	Moderate	To DFO inasmuch as it enables better targeting or recovery; to client if it enhances impact; to sponsor
Wider context (e.g. employees, borrowers from other organisations, poverty levels, 'social capital' and cohesiveness)	High	Mainly to sponsor, also to agents within the 'wider context' (e.g. regional governments and economic development organisations); less directly, to DFO for public relations and awareness of external effects

Whether or not the stereotype is true, the main benefits of organising IA in networks includes, at all levels of analysis, (i) cost-sharing; (ii) pooling of information and ideas; and (iii) orientation of IA towards the needs of users. When the wider context is considered, it also includes (iv) 'internalising externalities', e.g. enabling DFOs to see effects which they would not see if their frame of reference were narrower. These effects can be very important: for example Sutoro (1990) calculates that when and only when indirect effects operating through the labour market are taken into account, the Bank Rakyat Indonesia Unit Desa Scheme (a relatively nonpoor-oriented organisation, which takes collateral) actually emerges as the most poverty-reducing of all the microfinance institutions in Indonesia.

But they are elusive and expensive to calculate[2]. This is why they tend to be seen as public goods, useful for 'the microfinance community as a whole' but less so for individual DFOs, and why the burden of calculating them tends to fall on external sponsors, such as the Ford Foundation in the current case. One

[1] This table is only a stereotype, for empirical discussion and verification at the conference. Many would argue that some parts of it have been rendered obsolete by advances in IA methodology (for example, participatory methods of assessment may enable assessment of 'wider impacts' to be carried out as cheaply as internal assessments of financial performance).

[2] The Khandker *et al*. (1998, 1999) survey of the Grameen Bank and two other institutions in Bangladesh – the most sophisticated survey of indirect effects of microfinance so far carried out – cost $780,000 – far more than is usually available for any IA research project.

challenge, therefore, for the present project is to work out ways in which these efforts can be made sustainable; another is to work out ways in which they can be made cheaper; a third is to define ways in which they can be made more relevant; and a fourth is to speculate whether the existing range of networks can carry out the necessary range of IA functions, or whether at or after the conference some more network-making needs to take place to execute these functions. The remainder of the paper surveys these issues, with a particular focus on the last of these questions.

Obstacles to network formation

Networks do not always form spontaneously on a universal basis: often they need a midwife in the shape of a donor (USAID in relation to K-REP being one of many examples). If they do form, they may become restrictive, as an instrument for maximising the joint profits and political advantage to their members of membership of the network, including the powerful and established, and excluding the weak and embryonic. They may choose to limit the information (from impact assessment and other sources) which they make available: one Latin American DFO refused to involve itself with this project on the grounds that any useful impact assessment information which it might generate would be commercially sensitive and would lose value if shared. As sustainability has moved up the agenda, DFOs have started to see themselves increasingly as competitors for market-sensitive information, rather than as agencies committed solely to the advance and sharing of information. However, this trend towards privatisation of information flies in the face of the significant amounts of public money which most DFOs still receive, and it threatens the diffusion of information about how to access the poorest. A key consideration, therefore, is to ensure that public money intended to internalise the external benefits of information transmission is indeed used impartially for that purpose, rather than to create information which becomes the exclusive property of one of a group of organisations.

The key attribute of networks, in other words, is what information they share rather than whether they exist or not; and what the return to that information is. It is in this area that the diffusion of impact assessment methods holds out particular hope of adding to the value which networks are able to generate. If this is imaginatively done, it converts the network into something like a collaborative management consultancy operation. The vision is that across a particular reference group – country, region or financial product – the publication of comparative impact assessment data can tell the industry which (financial) instruments work; how well in relation to which targets. It is even possible that the application of participatory methods can enable this to be done at a lower cost and with greater political benefit within the community than conventional methods, although the full development of this idea is left to thematic paper 1. At present, this idea is a long way from being realised[3]: although the database for microfinance has improved extraordinarily in the last ten years, most of the data we have are about financial performance, loan size and other descriptive parameters rather than impact, and many of the key impact debates - integrated versus minimalist models; loans versus savings versus other financial

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[3] The closest approach seems to be the work being done by the (Eastern European) Microfinance Centre in association with AIMS; but even this does not focus very closely on poverty impact.

products; appropriate models for lending to agriculture; poverty impact versus outreach, and many others (see Gibbons and Meehan 1999) are currently being conducted on the basis of assertion, often ideological, rather than a weighing of the evidence in the light of the data on comparative impact. The most constructive contribution this project could make is in shifting the axis of debate from ideology-based institutional design to evidence-based institutional design; and in achieving this, specialised microfinance networks could make a key contribution.

Conclusions and priorities for the project

But what form should the development of these networks take? The simplest approach would be an extension of existing country networks into regional networks. For example, 'best practice' seems to be quite quickly diffused within East Africa and within Southern Africa, but there is relatively little diffusion of information between the two regions; and Peru and Bolivia each have their own microfinance network, but there seems to be little communication between the two. The entire group formed by the Ford project will be a network of a sort, whose effectiveness can be measured by its ability to spread its influence and ideas way beyond the participating institutions.

Within the field of regional networks, what is important is transparency, as earlier emphasised, and also the bringing of new players into the networks, rather than that they simply be cosy groupings of sponsored NGOs. One of the persistent paradoxes of microfinance, not yet resolved in spite of a commercial bank (CERUDEB) at this conference[4], is why, if microfinance is so profitable, so few commercial players (including the private-sector wings of development agencies such as CDC and IFC) invest in it. Montagnon (1998) has investigated some of the reasons for the lack of linkage. One of his main findings is that microfinance institutions simply do not produce the information required to convince commercial investors of their bankability; in other words, the right impact indicators and business plan formats to achieve credibility with the market. However, what indicators they need in order to be convinced is left as an open question for a lack of data. The present project would be an ideal vehicle for obtaining these data, which in turn could be diffused through networks containing both commercial and not-for-profit institutions.

What would also seem useful and innovative is in addition to create 'product-based' networks – that is networks devoted to the assessment and, if appropriate, promotion of one particular financial product – loans for small farmers, for example, or savings, microinsurance or leasing. At present most microfinance networks are heavily loan-based (an honourable exception is FINRURAL's campaign in support of rural savings) and undertake little analysis of the comparative efficacy of different types of financial product. This is one of the largest gaps in our knowledge. The way forward has been pointed by MICROSAVE of Uganda, which is committed to the comparative assessment of different types of savings models. The field would seem open for similar clusters working on specialised products, which might themselves have a regional base (for example, it would be nice to see a Sahel-based group on financial services for pastoralists, or an Africa- or Eastern Europe-based group on lending for

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[4] Two if we include the new K-REP bank!

reconstruction). Similarly, there seems to be unlimited scope for regional or global groupings committed to the assessment of the impact of specific and possibly innovative financial products.

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