



**AgEcon** SEARCH  
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

*The World's Largest Open Access Agricultural & Applied Economics Digital Library*

**This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.**

**Help ensure our sustainability.**

Give to AgEcon Search

AgEcon Search  
<http://ageconsearch.umn.edu>  
[aesearch@umn.edu](mailto:aesearch@umn.edu)

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

***Imp-Act Working Paper 8***

**Issues in designing effective microfinance Impact  
Assessment systems**

**Anton Simanowitz**

January 2004

Institute of Development Studies  
Brighton, Sussex BN1 9RE  
England



## **Summary**

This paper is based on work conducted by *Imp-Act* – a three-year action-research programme aiming to improve the quality of microfinance services and their impact on poverty. Learning from the experiences of 30 microfinance organisations (MFOs) in four continents, *Imp-Act* is developing and encouraging the use of internal practitioner-focused impact assessment that can serve as a means to improve practice and service delivery, not merely satisfy the needs of external stakeholders.

The paper looks specifically at the benefits of designing and implementing effective practitioner-focused client and impact assessment. It considers the types of questions MFOs should be asking in terms of use of impact assessment tools, such as indicators. It makes the point that impact assessment must be context-specific, taking into consideration the type of information to be gathered and the purpose of this information. Above all, it stresses that impact assessment is an ongoing process, rather than a one-off event which benefits neither the clients nor the organisation.



**Contents**

Summary iii

**1 Introduction 1**

**2 From event to process: a new diversity in impact assessment 1**

2.1 Can impact be proven?: methodological issues in impact assessment 1

2.2 Making impact assessment useful: meeting the needs of different stakeholders 2

    2.2.1 *Designing context-specific impact assessment* 4

        Step 1: Understanding context 5

        Step 2: Objectives for impact assessment 5

        Step 3: Approaches to impact assessment 5

        Step 4: Developing indicators 6

        Step 5: Tools and methodologies 7

        Step 6: Using impact information 8

**3 Conclusions 9**

**References 10**

**Figure**

Figure 2.1 Approaches to impact assessment 4



## 1 Introduction

Microfinance programmes are among the most important interventions in developing country efforts to reduce poverty. Recent years have seen a huge growth of the sector in terms of numbers and size of organisations, numbers of clients and provision of subsidised donor funding. A large proportion of Microfinance Organisations (MFOs) include poverty reduction in their Mission, and donor funding is allocated to microfinance on this basis. At the most basic level there is a need to understand and improve the impact of MFOs as a key premise to successful poverty reduction. A range of quantitative and qualitative research methods have been applied to provide rigorous analyses of the poverty impacts of microfinance (for a comprehensive review of these, see Morduch and Haley, 2001). However, there has often been a strong perception amongst practitioners that formal impact assessment studies do not provide the detailed information about clients that managers need to improve understanding and MFO practice. In response to this, approaches have been developed that are more practitioner-focused. *Imp-Act* – a three-year action-research programme working to improve the quality of microfinance services and their impact on poverty – is at the forefront of this development.

This paper reviews experience from recent microfinance literature and from the *Imp-Act* programme. The first part of the paper reviews the recent move in microfinance impact assessment (IA) away from narrow, donor-focused impact assessment *events*, towards more practitioner-focused *processes*. The second part offers a guide to an impact assessment process that is determined by context and audience, and allows diversity in purpose and the issues that impact assessment can address. Clarity in these is more likely to result in appropriate selection from a range of approaches and tools available to meet these objectives.

## 2 From event to process: a new diversity in impact assessment

### 2.1 Can impact be proven?: methodological issues in impact assessment

Much debate in microfinance impact assessment has centred around the question of attribution, or whether it is possible to demonstrate that the particular intervention of the MFO has led to a specific change. Client livelihoods and the communities in which they live are complex. Clients may have multiple income sources, and the credit provided by the MFO is fungible, i.e. not necessarily used for the purpose for which it was requested.<sup>1</sup> Attributing impact to the MFO is thus problematic and complex, particularly given the difficulty of instigating effective control-group mechanisms to establish what might have

---

<sup>1</sup> Fungibility refers to the capacity of clients to use loans in ways other than the purpose for which they are designated.



happened without the MFO intervention. Implementing such complex processes is costly, however, and leads many people to question the value of this type of study:

[Impact Assessment studies] are fraught with insurmountable methodological problems and the costs of doing them usually exceed any benefits they might provide.

(Dale Adams 2001)

At the core of many donor-led IAs has been the need to understand how effective microfinance is in lifting people out of poverty, and to compare the relative costs/benefits of microfinance with those of other poverty alleviation interventions. A number of large-scale, expensive studies have been carried out. However, the complexity of these studies and the range of variables included have often led to inconclusive results. For example, an impact assessment survey in 1994 by Pitt and Khandkar of several MFOs in Bangladesh reputedly cost US\$0.75 million (Paul Mosely, personal communication), and produced results which have been challenged by other academics (Hulme 2000; Kabeer 1998). Although the survey and the quantitative analysis are viewed as reliable, the basis of understanding around issues and the conclusions that are then made have been questioned:

The problem with the Pitt and Khandkar study is the problem with much of this genre of neoclassical analysis: it is strong on highly sophisticated econometric modelling but weak on the kind of contextual information necessary to interpret their findings.

(Kabeer 1998: 16)

The survey produced a huge amount of data on a range of variables. Quantitative analysis of this data reveals patterns, but value judgements must then be used to make conclusions. Kabeer examines the analysis of empowerment and gender given in this study and in several others considering the impact of microcredit in Bangladesh. She shows how the conclusions differ primarily according to the researchers' perspective and frame of analysis, and therefore are interpretations of data – a point not made explicit in the study.

This methodological debate highlights the subjective nature of impact assessment and the need for in-depth qualitative understandings on which reasonable conclusions can be made. It also highlights the issue in impact assessment that all research is open to differing interpretation and criticism.

## ***2.2 Making impact assessment useful: meeting the needs of different stakeholders***

The inherent difficulties indicated above, combined with the frustrations of practitioners who often do not receive feedback or recommendations from donor-led studies, has led to a questioning of whose needs are met by impact assessment. Until recently, impact assessments have primarily met donor needs for proving impact and effective use of resources, but there is a growing awareness of the need for practitioners to be able to conduct their own IA. The rationale is that this will lead to improved

understanding of their clients in addition to generating information to improve MFOs' services, and client impact. Furthermore, beyond the needs of MFO managers there are a range of other stakeholders, including clients, who can be served by impact assessment.

Central to these debates is the issue of producing credible results for a particular purpose. Hulme (2000) presents a useful dichotomy of objectives: "proving" and "improving", which involve different approaches and outcomes. An ability to prove impact is often necessary in order to make resource allocation decisions, and in this case there is a need for rigorous results that can demonstrate causality. For MFOs that are primarily concerned with improving their practice, it is still important to understand impact and the way in which the organisation delivers services to its clients, but the level of rigour required is likely to be much lower.

There is a growing movement towards practitioner-focused impact assessment and client assessment. This takes as its starting point management's need for information to improve practice. Practitioner impact assessments aim to gather information about clients which is credible enough to allow for good decisions to be made. It must be possible to produce this information in a timely way, so that it can be rapidly acted upon. It should be low-cost and ideally should be produced regularly. Existing information systems are supplemented to provide information that leads to improved understanding of clients' constraints, their reasons for success or failure, or for leaving the programme. This information is directly relevant to operational design issues, and can feed into the development of products or improvement of services in a way that not only increases client impact but also improves MFO performance.

In addition to the donor/policy-makers' need for "proof" and the managers' need for useful information, there are a range of other stakeholders who may influence the desired outcomes and process for an impact assessment. Not least amongst these are the MFOs' clients. The proving/improving dichotomy masks a complex range of possibilities and differing needs of an MFO's stakeholders, and the relative power of these stakeholders in determining the priorities and objectives of an impact assessment. These objectives then define the approach and the tools used in the assessment. For example, where there is a need to provide conclusive evidence for donors or policy-makers the IA objectives will be more towards the "proving" end of the scale, and the approach taken is likely to be externally-led and biased towards collecting quantitative data. Conversely, where the main stakeholder is the MFO itself and the objectives tend towards looking at how to improve practice and develop internal learning systems, the process is likely to be more inclusive and participatory, with much greater involvement of staff, and perhaps clients, in defining the IA process and analysing the data gathered.

As the impact agenda has opened up to incorporating the needs of a greater range of stakeholders, it has become clear that the impact research can be used for a wide range of purposes. Impact assessment enables funders to validate their investments via quantitative information about the changes taking place, in addition to improving understanding of the causes of changes and their relation to MFO mission and objectives. It enables the MFO staff and board to provide managers with performance information in relation to organisational mission and goals. In addition, it facilitates understanding of individual clients, households, and businesses, and illuminates community dynamics and needs. From the perspective of

MFO management, it provides market research information that can feed into products and services. Finally, and perhaps most importantly, impact assessment can ensure greater accountability to clients, building on their direct input for ways to improve the MFO services available.

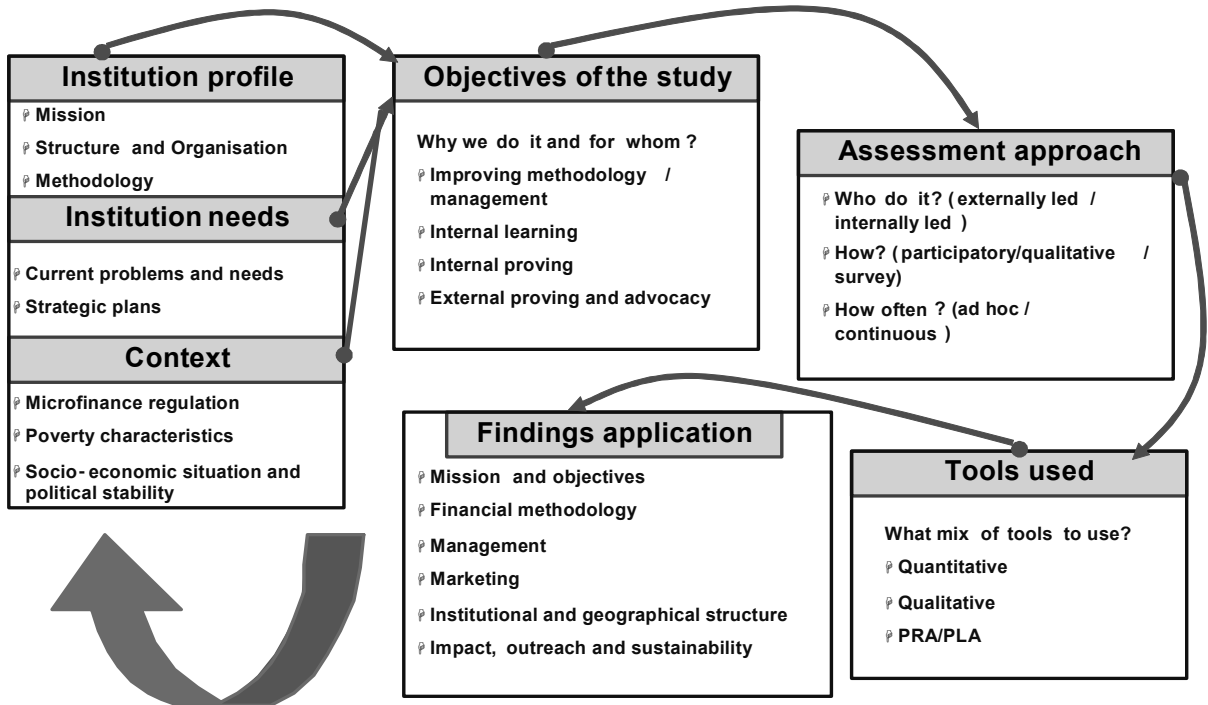
For MFOs to take a more active role in the impact assessment process it is important for them to understand the key questions and decisions that need to be made in the design process, and to be active in the implementation and analysis stages. It is this active involvement that leads to learning at client, staff and organisational levels.

**2.2.1 Designing context-specific impact assessment**

The experience of *Imp-Act* in working with a diverse range of microfinance organisations has demonstrated that the design of IA is very much dependent on the organisational context and the use to which information will be put. The greatest danger is conformity. No two impact assessments should be the same unless organisations and the contexts in which they work are exactly the same. It is not effective to simply replicate the application of impact assessment tools without going through the necessary process which leads to the decision of how to approach a particular task, and what the appropriate tools would be. Before starting to think about the *how* of impact assessment, it is necessary to think through the *why*. It is important to first understand what IA has to offer and what is to be achieved from doing IA for the organisation.

The following section seeks to give an overview of a *process* approach to the design of impact assessment. This is summarised in Figure 2.1.

**Figure 2.1 Approaches to impact assessment**



### **Step 1: Understanding context**

Impact assessments are conducted to answer specific questions. Generally the assessment will examine the performance of an organisation in terms of its stated objectives and mission. The organisational context is therefore critical in determining what approaches should be followed. Impact assessments provide information for a specific purpose, according to the needs of different stakeholders. The purpose of the information will ultimately affect the expected outputs and approach of an impact assessment.

Impact assessment needs to be based on a sound conceptual framework that can be used for developing hypotheses about possible impact channels and the types of changes that might be visible, and as a framework for analysis and understanding. The processes of change and their relation to various interventions need to be assessed and based on underlying assumptions or theories of change. There needs to be a process of thinking through where an organisation fits into the lives of clients and the likely mechanisms through which they may benefit. For example, some MFOs focus on improving the businesses of their clients, and may therefore be most interested in assessing business changes. However, where the mission is poverty alleviation, impact must be examined in a wider context. It may be necessary to develop a conceptual framework that includes an understanding of the individual client, her household, her business and her community, as well as the inter-relations between and within these different levels.<sup>2</sup>

### **Step 2: Objectives for impact assessment**

Once there is a clearer picture of how an organisation's mission and activities link to possible impacts on clients, the objectives of the IA can be defined. As discussed above, IA can be used for a range of purposes to suit the needs of different stakeholders, contexts and objectives. It is important to define specific questions and use of information for a given IA.

Many organisations will want to address a number of objectives, but defining the objectives explicitly will ensure that an appropriate emphasis or balance can be reached. This will help to shape the approach used for the IA, the mix of tools or methodologies chosen, and the use and utility of the IA results.

### **Step 3: Approaches to impact assessment**

Before specific tools and methodologies can be chosen and a detailed impact assessment designed, the overall approach must be decided. Again this is very much determined by the assessment objectives, the quality of information that is needed and the needs of different stakeholders. The choices include, for example, the balance between quantitative and qualitative data; the extent to which organisational staff or

---

<sup>2</sup> The AIMS background paper on *Household Economic Portfolio Models* (Chen and Dunn 1996) gives a useful framework for understanding these levels of impact drawing on economic, anthropological and feminist analysis. It highlights the importance of focusing on the client and her business in the context of the household, and outlines the different levels at which impact may occur.

external consultants are used; whether the assessment should be an ongoing process or a one-off study; who should be involved in the process and to what extent. For example, hiring consultants to implement a survey is inappropriate if a primary objective is to increase field staff understanding of their clients and the impact processes of their work. In this case, a more participatory approach that encouraged staff to engage with clients in a structured way would be more appropriate.

An important shift in perspective about IA is to think in terms of *systems* rather than *studies*, and *processes* rather than *events*. Approaches range from one-off quantitative cross-sectional studies, which are useful from a long-term perspective and useful to donors, to an ongoing participatory process generating mainly qualitative data, which can be used to inform and improve practice. Most organisations choose an approach in-between these extremes. They build in a number of components and reach a compromise between an ideal “wish-list”, and what is practicable and cost-effective. For example, whilst most MFOs would like to involve their clients in analysing their own situation and defining their own needs, few are able to invest the time and resources necessary for truly participatory processes (see Simanowitz 2000).

As stated above, the objectives of the IA greatly influence the information needs and approach. Decisions need to be made as to what the impact assessment process is expected to achieve, and for whom. As the process moves from a “proving” towards an “improving” focus, the rigour of information required decreases. The approach similarly moves from being an externally applied assessment, towards a more flexible internal learning process.

A related question is who should conduct impact assessment. In an organisation that is committed to internal learning processes, it is clear that staff must take a large responsibility. Decisions as to whether or not to involve external support will depend on the capacity of internal staff, the need to ensure credibility of results, and the value in obtaining “neutral” input. Certainly, where staff are used there is a need to develop skills and capacity in assessment methods. In addition, there is likely to be tension between the demands created by “normal” work and those involved in IA. There may also be too much emphasis on reporting only positive impacts, without the recognition that negative impact can also be revealing (see Simanowitz 1999).

Where the focus is on gathering information for external stakeholders, it is more likely that external assessors will be used. However, it is still important that staff understand the processes involved, are able to participate in the IA study and monitor the work of the consultants.

#### **Step 4: Developing indicators**

Since many of the changes examined in impact assessment cannot easily be directly measured, proxies or indicators must be measured instead. In short, it is necessary to think about what information can be gathered that will indicate whether changes are occurring. Two points are significant here:

- A conceptual framework helps to hypothesise about the changes that are expected and the processes that may take place.

- Defining objectives helps to narrow down the type of information required and the questions to be answered. Indicators based on this information enable changes to be measured and analysed in light of the hypotheses. This process also illuminates unexpected changes.

It is essential to ensure that the indicators selected relate closely to the changes that an organisation wishes to observe. Indicators will normally be selected by a combination of staff and clients or other community members, or by external “experts”. Staff input draws on their on-the-ground experience and knowledge, while participatory methods can be used to ask clients and other community members about microfinance-related changes that have taken place. Their definitions of poverty can be revealing, as can their insights into the changes they consider important. Alternatively, external experts can provide a useful perspective on wider international issues in microfinance.

At the end of this process there will be a long list of possible indicators, representing different facets of change that are measurable, or less tangible. It is important to realise that indicators are not neutral, but represent the perspectives of a particular stakeholder. For example, the definition of poverty indicators obtained from a participatory process with clients is likely to be very different to the national poverty indicators as defined by the government or the World Bank. Thus, there needs to be a conscious choice of whose perspective is to be reflected in the selection of indicators, and subsequently in the impact assessment analysis.

Once indicators have been chosen, it is important to pilot test their reliability and usability. There are likely to be limits to what an impact assessment can achieve. It is not possible to ask every question, nor to investigate everything. If the assessment becomes too complicated or time-consuming, there will be constraints in implementation, and the results will be too difficult to analyse and use in a timely way. It is therefore very important to spend time thinking about and testing the indicators. It is always better to begin with a limited number of reliable indicators and activities and build up from there.

Once the indicators have been defined, the next step is to look for appropriate ways of collecting information, which will involve a search for tools and methodologies.

### **Step 5: Tools and methodologies**

The selection of tools is a balancing act between reliability, feasibility and cost-effectiveness. For example, a participatory approach may be desirable, but may be too demanding in terms of time, skills or resources required for data collection or analysis.

A range of different methodologies and tools are available, which include standard qualitative, quantitative and participatory research tools. There are also a number of tools specifically designed for use in impact assessment (see SEEP 2000; Barnes and Sebstad 2000; Microsave-Africa tools, available at [www.microsave-africa.com](http://www.microsave-africa.com); Roche 1999; CIDA 1995, 1999). Each tool has different strengths and weaknesses, requires different skills, and is suited to different information requirements. It is necessary to be aware of the costs and benefits of available methods and weigh up the alternatives. Informed choices

need to be made about which approach will generate the information needed in the most cost-effective and targeted way.

By combining a number of different tools, it is possible to increase the credibility, cost-effectiveness and usefulness of the work. Information from a number of sources can be triangulated, and similar results obtained for each study strengthens the credibility of the findings. A single tool can also be used to gather information from multiple sources that can be used for a number of different objectives.<sup>3</sup>

Good impact assessment design should ideally use and strengthen existing information sources. For example, many MFOs routinely collect client entry data, which can be used as base-line information for later impact assessment. Some collect information on a regular basis on each loan application. However, this data is often not collected methodically, nor is it stored in a way that it can be easily utilised. Many MFOs therefore do not use this data effectively and find that they have inadequate base-line information when they decide they would like to measure their impact. For example, CARD (Center for Agricultural and Rural Development), a Grameen replicant in the Philippines and partner in the *Imp-Act* programme, collects base-line information about client assets and income as part of its client selection process. This is then followed up at the end of the third loan to track changes in clients' lives and businesses, and basic impact conclusions are drawn from this (see CARD 2000).

MFOs that collect data need to give substantial thought to how it is to be used and acted on. The danger is that information that may be relevant for future use can be easily overlooked if it is not collected with a specific purpose in mind. The following section deals with the issue of effectively using and acting on IA information.

## Step 6: Using impact information

The *usefulness* of any impact assessment ultimately depends on how information generated is reported to stakeholders, and the resulting action. Ensuring this effective flow of information can be achieved through the implementation of a “feedback loop” (see McCord 2002; *Imp-Act* 2003). A feedback loop traces the research process from information collection and consolidation, analysis, decision-making, communication to stakeholders, through to implementation and often back to information collection to fill in the gaps identified. Many organisations undertake research, but fail to present this effectively, take appropriate decisions or carry these forward into new policies or methodologies. In externally-led impact

---

<sup>3</sup> For example, the Freedom From Hunger Progress Tracking System seeks to provide information about branch financial performance; quality of field agent performance, especially facilitation of learning sessions; client satisfaction and loyalty; penetration of the potential market and depth of outreach; and progress towards social impact. Progress Tracking uses cost-effective methods that can be directly embedded into the programme's regular operations, such as sampling, simple dichotomous “yes/no” indicators, and non-formal ranking and rating exercises. It uses existing opportunities to collect, analyse, disseminate and incorporate learning.

assessments there is normally an effective process of information collection, consolidation and analysis, but often MFOs fail to feed this effectively into organisational decision-making.

It is important to note that the impact assessment process is not a neutral information-gathering exercise, but a process that can challenge assumptions and practices. As an organisation learns about its impact through inputs from staff, clients and other stakeholders, it may start to reconsider its own practices, and to change and respond to issues raised.

### **3 Conclusions**

Impact assessment has come a long way from the days when studies were commissioned by donors and implemented by consultants, serving little purpose for MFOs themselves. Increasingly, diverse approaches are now being used for a range of objectives and in many different contexts. It is clear that there is no blueprint for impact assessment. What is appropriate, credible or useful is contingent on organisational context and the audience for whom the assessment is conducted.

A number of methodological challenges remain, and debates continue amongst academics. Practitioners, however, are recognising the value of increased client understanding for the design of programmes which are more effective in reaching the organisational mission, retaining clients, and improving operational efficiency.

As stated above, there are various available tools and methodologies for gathering information, but these should not be simply applied without due consideration to organisational context and mission. Instead, they should provide a sound basis for MFOs, supported by their own choice of consultants or academics, to develop and implement new impact assessment studies or build on existing systems. Given the wide range of contexts, objectives, stakeholders, skills and resources of MFOs, it is essential for each MFO to use the experience of others for guidance, but to also think through the impact assessment process for itself.



## References

- Adams, D., 2001, Part of discussion posted in Devfinance email discussion list
- Barnes, C. and Sebstad, J., 2000, 'Guidelines for Microfinance Impact Assessments', *Discussion Paper* for the CGAP 3 Virtual Meeting, 18–19 October 1999, USAID AIMS Project. Available at [www.cgap.org](http://www.cgap.org)
- Center for Agriculture and Rural Development (CARD), 2000, *CARD's Experience on Impact Assessment: A Note for the Workshop on The Ford Foundation Assessment Project*, 22–24 June 2000, Institute of Development Studies, Brighton: Institute of Development Studies
- Chen, M.A. and Dunn, E., 1996, *Household Economic Portfolios*, USAID AIMS Project. Available at [www.mip.org](http://www.mip.org)
- CIDA, 1995, *Guide to Gender Sensitive Indicators*, Canada: Canadian International Development Agency. Available at [www.ilo.org/public/english/region/asro/mdtmanila/training/unit3/cidamenu.htm](http://www.ilo.org/public/english/region/asro/mdtmanila/training/unit3/cidamenu.htm)
- CIDA and the Aga Khan Foundation, 1999, *Social Intermediation Study Field Research Guide: Exploring the Relationship between Social Capital and Microfinance*, CIDA, Canada. Available at [www.cgap.org](http://www.cgap.org)
- Hulme, D., 2000, 'Impact Assessment methodologies for microfinance: theory, experience and better practice', *World Development*, Vol 28 No 1
- Imp-Act*, 2003, 'The Feedback Loop: responding to client needs', *Practice Notes* 1. Available at [www. Imp-Act.org](http://www.Imp-Act.org)
- Kabeer, N., 1998, 'Money can't buy me love? Re-evaluating gender, credit and empowerment in rural Bangladesh', *IDS Discussion Paper* 363, Brighton: Institute of Development Studies
- McCord, M., 2002, 'The Feedback Loop: a process for enhancing responsiveness to clients – or “What do we do with all this client data?”', *Microsave-Africa Discussion Paper*, Microsave-Africa: Kenya. Available at [www.MicroSave.org](http://www.MicroSave.org)
- Pitt, M. and Khandkar, S., 1996, 'Household and intrahousehold impact of the Grameen Bank and similar targeted credit programs in Bangladesh', *World Bank Discussion Paper* 320, Washington, D.C.: World Bank
- Roche, C., 1999, *Impact Assessment for Development Agencies: Learning to Value Change*, Oxford: Oxfam
- Simanowitz, A., 2000, 'Making impact assessment more participatory', *Imp-Act Working Paper* 2. Available at [www.Imp-Act.org](http://www.Imp-Act.org)
- 1999, 'Understanding impact: experiences and lessons from the Small Enterprise Foundation's Poverty-Alleviation Programme, Tšhomišano', *Paper submitted to the Third Consultative Group to Assist the Poorest (CGAP) Virtual Meeting on Impact Assessment Methodologies*, October 1999, Washington, D.C.: CGAP
- Small Enterprise Education and Promotion (SEEP) Network, 2000, *Learning from Clients: Assessment Tools for Microfinance Practitioners*, The USAID Assessing the Impact of Microfinance Services (AIMS) project: Washington, D.C. Available on CD-Rom from AIMS, or at [www.mip.org](http://www.mip.org)