

***OVERVIEW OF CONVENTIONAL AND NEW APPROACHES
TOWARDS
IMPACT ASSESSMENT¹***

By : Dr. Koenraad Verhagen, Consultant for microfinance and co-operative economy
For comments: K.Verhagen@worldonline.nl

Date: 30 May , 2001

¹ (Adjusted version of a paper written for a Europe-based Microfinance support organisation, and re-edited for wider distribution with its permission)

Introduction

The present note is an adjusted version of a note written for a Microfinance Support Organisation, based in Europe. Its author had been asked to write a note of about 7-8 pages which would answer the question of the “major lessons learned from impact studies, undertaken in the field of Microfinance, in terms of:

1. the actual socio-economic impact of the MicroFinance/MicroCredit programs carried out by MFIs (MicroFinance Institutions) in developing countries;
2. the measurability, utility and cost-effectiveness of impact assessments;
3. alternative approaches to conventional impact evaluations which provide information on social impact and client satisfaction, and feedback for program improvement ”

The three topics are dealt with in the first three Chapters. The final Chapter 4 consists of a summary conclusion on ‘appropriate’ approaches for Impact Assessment, and a ‘final reflection’. A list of reference literature has been added.

The note has been written as a discussion paper. It can be used by any MicroFinance Institution (MFI) or MicroFinance Support Institution (MFSI) as an input for determining its policy and priorities in respect of Impact Assessment, in the light of the latest developments in the field. Readers are supposed to be familiar with MF, without being experts in the field of IA.

1. SOCIO-ECONOMIC IMPACT OF MICROFINANCE/MICROCREDIT PROGRAMMES IN DEVELOPING COUNTRIES

Most MFIs and MFSOs aim at strengthening the economy of the poor.

In the light of this mission, the present Chapter summarises the main conclusions of the most recent synthesis studies and documents which center upon two basic questions:

- Does MicroFinance (MF) effectively support the business of the poor ?
- Can it reduce poverty ?

The most recent and comprehensive document in respect of Impact Assessment is the March 2000 publication of AIMS (Assessing the Impact of Microenterprise Services)². It draws extensively on literature as well as seven recently completed case studies of leading MFIs in four different countries³. Somewhat more critical of tone are the review articles published in the Small Enterprise Development International Journal (Harper et al, '00) some of which give more specific attention to the negative impact of credit-led programs. Throughout the literature on Impact Assessment (IA) and MF one frequently comes across the writings or references to writings of David Hulme of the University of Manchester (UK), Paul Mosley of the University of Reading (UK), and Elisabeth Dunn of Missouri University (USA), known as distinguished scholars in the field of IA and MF, but certainly the only ones.

Does MicroFinance (MF) effectively support the business of the poor ?

Major conclusions of impact studies completed over the past 6-7 years are the following:

² A USAID supported program

³ The study draws on twenty microfinance impact studies and seven additional case studies, i.e. BRAC/Bangladesh; BancoSol, Fundacio Sartawi, Pro Mujer and PRODEM/all four in Bolivia; CARD Bank/Philippines; and the Uganda Women's Finance Trust/Uganda.

- Microfinance is more than microcredit, and microcredit is more than micro-enterprise development. The micro-enterprise is an integral part of the poor's livelihood system and within that system financial and other productive resources are fungible. In other words: when poor clients get access to additional cash through credit, they use it for a variety of purposes. Equally, they normally reimburse loans from a variety of sources, and not necessarily from the income of the economic activity for which the loan was given.
- This explains why the focus of the industry has been shifting from micro-enterprise development towards supporting the household economy, from credit for productive investment only to the provision of a broad range of financial services which diminishes the vulnerability of the poor household and, at the same time, allows household members to take advantage of economic opportunities. In that way microcredit and micro-enterprise development are integrated into a broader approach of service delivery.
- The poorer the client, the greater the likelihood that she/he is risk averse, and the less likely that micro-credit will be invested in micro-business. Because of the fungibility of money, supervision of use of credit by a MFI loan officer, is a futile and ineffective exercise. Not-so-poor households are more likely to invest, take risk and take advantage of investment opportunities than the poor.
- The poorer the client, the greater is her/his need for complementary technical training or other economic services (like marketing). Without those additional services microcredit will have or no or little impact on the household's business.
- The assessment of impact on the business of the poor is complicated by the absence of clear poverty definitions in most MFIs. Where such definitions exist, they are found to be highly contextual, which complicates cross-country comparisons.⁴
- It is further complicated by the fact that clients try to maintain access to multiple sources of credit (informal and formal) which is actually the best strategy to cope with risk.
- It is now widely accepted in the MF industry, especially since the publication of Rutherford's "The Poor and their Money" (1999), that for a poor household access to a loan means access to a large lump sum of money which is managed by the poor household as part of, and in relation to, other financial resources it has access to. For example in Uganda it was found that the additional resources from MFIs had given an impetus to informal ROSCA operations (Informal Rotating Savings and Credit Associations).

Can MF reduce poverty ?

Over the past years there have been passionate debates on this question which have matured to the widely accepted position that "the relationship between microfinance and poverty reduction is not straightforward" (AIMS '00, p.1). This rather prudent experts' position is in contrast with the international reputation of MF, and particularly of Microcredit, as promoted and advocated by the International MicroCredit Summit Campaign presenting MF as the panacea enabling people 'to work themselves out of poverty by self employment'.

What do the impact studies actually say:

⁴ The AIMS '00 study distinguishes:

- "*vulnerable non-poor* , clients in a household above the poverty line but vulnerable to slipping into poverty;
- *moderate poor* clients are in the top 50 percentile of households below the poverty line;
- *extreme poor* clients are in the households in the bottom 10 to 50 percentile below the poverty line; and
- *destitute* clients are in the bottom 10 percent of households below the poverty line" (AIMS '00, p.4).

- There are great differences among the poor and impact varies with each group. Unfortunately, few MFIs have information on which groups they serve and which not.
- The AIMS synthesis study concludes that “the majority of microfinance clients are from moderate poor households, followed by vulnerable non-poor households, and then by extreme poor households”.
- The contribution of MF services towards the reduction of poverty depends on whom they reach or do not reach, by purpose or unwittingly, where this impact occurs – at the individual level, the enterprise, the family/household or the community –, and the type of service(s) delivered. If serving the poor and reducing poverty are the officially declared goals then it is important to know when the program starts, who the clients are and what their level of poverty is. Such information is rarely collected in a systematic way. Donor appraisal formats, too, give little detailed attention to these questions.
- “Impact studies across countries and programs show positive impacts on variables related to reduced vulnerability: diversified income sources and increased assets of all kind (including human and social assets), and women’s empowerment”(AIMS ‘00, p.108).
- “Since the causes of poverty are complex, so is its reduction” (ibid , p.1) . It is an illusion to think that financial services alone can solve the problem of poverty for the great majority of the poor.
- In spite of the many impact studies undertaken, few have considered client perspectives on impacts. In more recent IAs, client perceptions and perspectives are given much more attention. It has put the reduction of risk and vulnerability as a major economic goal of poor households. Vulnerability is closely linked to possession of material and immaterial assets.
- MFIs know (too) little about client motivations and preferences. Many programs with a credit focus suffer from high drop-out rates. (50% drop-out is no exception in some Village Bank programs). In principle, impact studies could help to reveal why clients decide to move out of credit-led programs, but so far no studies have answered this question in a satisfactory manner.
- Impact assessments are to a large extent ‘donor driven’. In the author’s observation, almost all impact studies in the MF sector have dealt with the operations of credit-led institutions, and focused on the credit function. In spite of the growing interest in micro-savings, and its corollary micro-insurance, savings-led institutions (e.g. saving banks, and savings & credit co-operatives) and their impact on poverty reduction, have been much less popular study targets.

The overall picture which has emerged from impact studies is that credit programs of MFIs have had a positive effect on the economic and social lives of people. In a monetary economy poor people are as much in need of financial services as non-poor people (credit, savings, insurance, and money transfer facilities), and good quality microfinance services can make a difference in people’s lives.

At the same time, it should be said, that there are also negative impacts which in the past have been given little attention and have become more apparent in recent years. They can be summarised as follows:

- There is aggressive competition in the MF sector resulting in over-indebtedness of clients and poor repayment (Acción, ’99, p.87, referring to Bolivia).
- Aggressive competition and lending policies of MFIs create a debt burden resulting in tensions, conflicts, violence and even suicide within household and communities (Aminur Rahman ’99, Anthropological study, Bangladesh)

- Participants of the North-South Dialogue on MF (June 2000) concluded that MFIs tend to be so much preoccupied with their own profitability that they give little attention to the livelihood of their clients.
- Malcolm Harper (Harper et al, '00) states that the poorer the client the greater the likelihood that credit may do more harm than good ⁵. This is a rather strong statement, but not in contradiction with the findings of Hulme/Mosley ('98) who concluded that the poorer the researched household, the less a positive impact can be found on income and assets⁶.

All the above negative impacts relate to credit-programs and can explain why one of the most reputable MF experts von Pischke, at an international conference⁷, concluded that 'for most poor people , savings is a better deal than credit'. Unfortunately, there are no comparative impact studies available⁸ which test the correctness of this hypothesis.

The growing interest in savings mobilisation has elicited COPAC ⁹to a new initiative: the production of 'Guidelines for donors for mobilisation of savings' (draft available end May, 2001)¹⁰.

At the same time, one should not lose sight of the negative and dramatic consequences for people's deposits in case of insolvency of the financial situation, or for the real value of their monetary savings when the local currency is subject to high inflation.

While there are, and will remain, different schools of thought on which type of service and what type of products poor people need most under which circumstances, no impact study so far seems to question the rational and relevance of making micro-banking services accessible to 'non-bankable' poor. For impact assessment, however, it is important to be aware that MFIs do not intervene in a vacuum. Most of the 'non-bankables' have access to a variety of financial services in the informal sector through ROSCA's, money lenders, savings collectors, family and neighbours, etc. Formal and informal services are complementary. From the perspective of the poor, both should stay. Money lenders who charge excessive rates, or other high-priced service providers, will have to adjust their rates for not losing their clientele.

2. MEASUREABILITY, UTILITY AND COST-EFFECTIVENESS OF IMPACT ASSESSMENTS

Over the past 5 years we have seen a shift in objectives and methods of impact assessments. Concerning objectives there is shift of emphasis from "proving impact" to "improving impact" , and in methods from costly, quantitative approaches to more cost-effective qualitative assessments involving local MFI staff and clients. Especially, concerning the more costly quantitative approaches there is no unanimity about their utility:

- "Quantitative methods have focused on indicators related to changes in income and consumption. While these indicators are important they are difficult to measure and limited in capturing the dynamic nature of poverty"(AIMS '00, p.2).

⁵Possible negative impacts are reviewed more extensively in Verhagen '00 "The Potential and Pitfalls Confronting Christian NGOs in the World of Microfinance" by Koenraad Verhagen. Publication forthcoming . (World Vision Publishing House)

⁶Based on the analysis of 13 MFIs

⁷At the Third Annual Seminar on New Development Finance in Frankfurt, September 1999

⁸At least, not to the knowledge of the author.

⁹ The Consultative Group to Assist the Poorest, initiated by the World Bank in 1995 and grouping the major intergovernmental and governmental donors of Microfinance programs.

¹⁰ The virtual Conference on this issue was organized through a list-serve in February/March 2001

- Qualitative studies are more suitable to grasp the dynamics of poverty and processes of empowerment, but subjectivity in data collection, processing and interpretation cannot be avoided.
- Some industry leaders, including some donors, are of the opinion that impact studies are of no use and serve little other purpose than the donors. The poor themselves are the best judges of utility of services and positive impact. If they value the services, they keep coming back. What can be assessed is the outreach to the poor and financial sustainability of the MFI. There is no need to go beyond that.
- Quantitative approaches are also criticised from a methodological point of view. Technical sophistication cannot prevent that the "scientific" impact studies suffer from many methodological flaws (Dale Adams of Ohio University on the DFN list serve). Even at high cost (large samples, use of 'control groups', etc.) impact surveys are not able to deal effectively with the issues of 'attribution'¹¹ and self-selection, and interpretation of the same data can lead to opposite conclusions (Morduch, '99)

Who is being served (the non-poor, the quite poor, the poor, the poorest, etc) ?

- While IA remains a controversial issue, there is broad consensus in the MF industry on the utility of the use of indicators and ratios to assess which part of the market is being served, especially the MFI's 'depth of outreach' (outreach to the poor and the poorest)
- Nationally defined poverty lines are often used as a benchmark to estimate the poverty level of households and categorise them.
- The average outstanding loan per client divided by per capita GNP is used as a ratio indicating the range of clients served by a MFI, i.e. its outreach to the poor. How this ratio is being used to assess the social performance of a MFI can be found in the Microbanking Bulletin¹². The benchmark indicating that a MFI is serving the 'low-end' of the market is 20 percent. Any level below that is an indication that the MFI is serving the poorest segments of the market¹³.
- When such percentages are being used as 'social performance' indicators, one should bear in mind that 'reaching the poor' is no guarantee for positive impact.
- Another approach which has gained popularity among MFIs particularly targeting at the poor and the poorest segments of the community is Participatory Wealth Ranking (PWR). The PWR can be done before the start of the programme or while it is running to select borrowers, develop criteria, and check on who is actually being served. The identification of the poor and their ranking is based on the clients' own definition of poverty. Scoring of ranking is facilitated by field workers but performed by members of the community. (see A. Simanowitz in Harper et al 2000, pp 29-39). PWR can be linked to, or integrated into other approaches (see next Chapter).

¹¹ By attribution is meant the scientific determination of cause and effect relationships. Attribution is complicated by 'chicken and egg' dilemmas, the large number of intervening variables, and problems of interpretation of findings

¹² A semi-annual bulletin dedicated to the financial performance (and to some extent the social performance) of organizations that provide banking services to the poor.

¹³ A MFI is serving the 'Low-End' of the market is when the Average Loan Balance divided by GNP per capita, is below 20 percent, or below US 150. The focus of the MFI is on the 'Broad- End 'of the market when this percentage is between 20 to 149, and the 'High-End' market is served when the average loan balance is higher than 150 percent (Micro Banking Bulletin, '00, p.39). For any MFI it could be interesting to make a classification according to these criteria for a first assessment of which segment of the market the MFI is serving. It should be noted that these benchmarks do not take into account the term of the loan and its purpose.

3. ALTERNATIVE APPROACHES TO CONVENTIONAL IMPACT EVALUATIONS WHICH PROVIDE INFORMATION ON SOCIAL IMPACT AND CLIENT SATISFACTION

Because of a certain disillusionment with old-style impact studies, new approaches have been tested and are being introduced which can be brought under the common denominator ‘understanding clients behaviour’.

We shall shortly review the approaches from four major sources: PlaNet Finance, the CGAP document written by Hulme, the SEEP manual, and Opportunity International.

PlaNet Finance ¹⁴

- The PlaNet Finance IKM (Impact Knowledge Management) Programme aims at introducing within the MFI a ‘Client-Focused learning System’. Rather than to ‘prove impact’, IKM has the objective to improve impact by “building capacity among the staff members [of the MFI] to carry out on an ongoing basis Market Research and Impact Assessment activities” [author’s emphasis] (PlaNet Finance’00a, p.1)
- The Market Research is focused on the assessment of client satisfaction and exploration of the demand for new financial products and services; the IA is achieved through transversal analysis: by comparing a group of new clients with a group of older clients having the same characteristics. In that way the use of an outsiders ‘control group’ can be avoided, and the absence of base line data of older clients – at the time that were joining the programme – be compensated.

CGAP Working Group

The review paper of May 1997 ¹⁵, written for CGAP by David Hulme, discusses five different impact assessment methods, one quantitative and four qualitative. They are in short ¹⁶:

- Impact Assessment Sample Survey – Collection of quantifiable data through questionnaires. Usually a ‘control group’ of non-clients is used, or a ‘comparison group’ of routine and new clients.
- Rapid Appraisal – a range of tools and techniques including group discussions, consultations of staff and external key-informants, participant observation, study of evolution of the portfolio, and secondary data.
- Participatory Learning and Action (PLA) – Clients, not outsiders, are the main players in the assessment process. In this, they are assisted by an external¹⁷, highly skilled facilitator who introduces a variety of quantitative and qualitative methods and tools to facilitate the assessment process.
- Participant Observation – Prolonged stay in a community by field researchers using mainly qualitative techniques.

¹⁴ The Paris-based PlaNet Finance approach for IA is referred to as IKM (Impact Knowledge Management). The model builds upon the work which is done by the US network SEEP (SEEP 2000) and of MicroSave Africa, a participatory toolkit “Market Research for Micro Finance”. Planet Finance is also known for its financial performance assessment system known as GIRAFE.

¹⁵ The paper was prepared for the Virtual meeting of the CGAP Working Group on Impact Assessment Methodologies (April 17-19, 1997)

¹⁶ Adjusted from CGAP 1997

¹⁷ ‘External’ in the sense of not belonging to the MFI

- Case Studies – Detailed studies of specific clients, or groups of clients, involving open-ended questioning and preparation of ‘life stories’.

Each method has its strengths and weaknesses in respect of coverage and representativeness, proving causality, ability to understand complexity, ability to understand perceptions of clients, human resources requirements, and potential to contribute to capacity building of stakeholders (i.e. policy makers, MFI staff and clients).¹⁸

The assessment tools developed by the SEEP network

The US-based SEEP group¹⁹ has produced a Manual “Learning from clients: Assessment Tools for Microfinance Practitioners ” (SEEP ’00). The Manual tries to respond to the challenge “to find an acceptable balance between the quality (credible, objective, valid, and thorough) of an impact assessment and its costs (measured by time, financial resources, and expertise)”(idem, pp.1-4). The Manual presents five tools, two quantitative and three qualitative²⁰. They are:

- The Impact Survey administered to a sample group of clients and a comparison group. The comparison group is a group of incoming clients who have received no services to-date.
- The Client Exit Survey administered to a sample of clients who have left the program.
- Loan Use Strategies Over Time which studies through in-depth individual interviews on how the client has used his/her loans and business profits over time.
- Client Empowerment which focuses on women and empowerment, and makes use of in-depth interviews and other participatory methods and techniques.
- Client Satisfaction Survey which focuses on group discussions to explore clients’ opinions and collect ideas and recommendations for improvement.

The tools can be used individually and in combination.

The SEEP Manual itself is a practical tool for design and implementation for any of the above surveys. It illustrates the complexity of different sorts of assessments and the practical problems which may arise in the course of implementation. It does not go as far as to say which ‘tool’ or combination of tools is the most appropriate for what kind of purpose.

The three last mentioned tools are qualitative and build upon the NGO tradition of participatory development and research. It does not include the method of ‘guided self-evaluation’ which would appear particularly appropriate for member-owned MFIs, like co-operatives.²¹

¹⁸ Hulme in CGAP 1997 gives an overview (adapted form Montgomery et al 1996) of which methods are, or are not, ‘appropriate’ under which conditions. For this, he categorises the above 5 methods in 3 categories:

1. IA sample surveys,
2. Rapid Appraisal and/or PLA,
3. Participant observation and/or Case studies.

The more costly IA sample surveys are difficult to avoid if donors or policymakers want accurate estimates of positive project impact. But for identification of possible negative impacts, and getting a good understanding of motivations and perceptions of clients the other methods mentioned under 2 and 3 are more appropriate

¹⁹ SEEP – the Small Enterprise Education and Promotion Network brings together over 50 North-American organizations involved in MF.

²⁰ Quantitative tools collect standardized information by asking the same questions to clients and organizing their answers into quantifiable response categories. Qualitative approaches are more flexible, they make use of in-depth dialogues and allow for more client participation in the study organization and interpretation of findings.

²¹ ‘Guided’ or ‘accompanied’ self-evaluation, is less attractive for most donors, because the evaluation process is internal to the MFI with no formal participation on the donor side. The external facilitator reports to the MFI, not

Opportunity International

In a paper, commissioned by the MicroCredit Summit Campaign, the authors (Cheston et al '00), most of them working for Opportunity International, present the concept of 'Impact Audit'. In analogy of a financial audit, the impact audit collects, on a regular basis, data on economic and social 'transformation' in the livelihoods of clients and integrates those findings into the Management Information System of a MFI. Opportunity International is a member of the SEEP network and therefore the tools used and tested in different countries are close to the ones referred to in the previous paragraph. They are:

- Means test – The 'means test' is "a poverty ranking tool". It aims to determine whether potential or actual clients fit within the MFI target group. Unlike the earlier mentioned 'Poverty Wealth Ranking', poverty ranking in a 'Means Test' framework is done by Loan Officers on the basis of indicators adjusted to the local setting (access to land, employment, housing conditions, family situation, etc..)
- Impact Survey – The type of survey implemented compares one-year-old clients with new ones. It helps to monitor the evolution of the clients' business and welfare. But 'attribution', i.e. determining causality, remains problematic. By incorporating questions on client satisfaction, it incorporates elements of market research.
- Exit Survey – This corresponds to the Client Exit Survey as mentioned above.

One of the lessons learned along the way, is that "impact assessment and monitoring systems can be donor-funded without being donor-driven" (Cheston et al '00b, p.13). However, the arguments given are not totally convincing. The local MFI values in particular the information on client satisfaction, because it can help to reduce arrears, develop new products, and for the MFI to remain competitive. But client satisfaction measurement is not identical to impact assessment.

Costs of impact assessments

Important determinants of costs are:

- use of foreign and/or local consultants
- number of countries/organisations involved
- scope and objectives of the study
- methods of study

Costs can vary between a few thousand dollars per MFI to a multiple of that amount. For example the 1994 Impact Assessment of BRAC's Credit Program is reported to have costed US \$ 250.000. Information on costs of evaluations and/or impact assessments of MF programmes is often not released. Available information is scanty and not presented in a coherent or transparent manner with the sole exception of the SEEP Manual ('00, pp. 9-24). The SEEP Manual describes in a separate Chapter "Scheduling and Budgeting an Impact Assessment" the timing, organisation and budgeting of a comprehensive IA approach which uses all five tools described the SEEP Manual. The 'direct costs' of the testing of the five tools in Honduras and Mali amounted to over \$ 11.000. The 'full-case evaluation' of a MFI in Peru \$ 18.000.

to the donor, even if the latter takes charge of costs (Observations based on the author's experience in Burkina Faso and Kenya).

Costs of sample surveys are known to be high to very high depending on sample size, scope and degree of accuracy required. Costs of rapid appraisal and externally accompanied participatory learning and action, are high to medium. Participant observation and case studies, when implemented by local researchers or MF staff, are relatively low-cost.²²

The time for preparing, initiating, carrying out the field work, processing of data, report writing, reporting of results to stakeholders and all the related administrative work is often grossly underestimated and not calculated. For the evaluation and IAs of development programs, 'opportunity costs' in terms of time investment by staff of the local organisation is rarely considered, but over the past years this has been changing in the MF sector under the influence of the growing trend in the sector towards commercialisation and profitability.²³

In order to identify potential clients and their levels of poverty, 'participatory wealth ranking' (PWR) has come up as a cost-effective and awareness raising methodology. Once introduced as a standard practice and repeated in the same communities the information generated is potentially useful for monitoring social performance. Introduction of the tool requires external facilitation and special training of field staff. (A. Simanowitz, in Harper et al '00)

Opportunity International reports that the first year that the impact assessment and monitoring tool was introduced into a Zambian MFI, additional costs amounted to US\$ 37,620 of which 64% went to local consultancy for the development of tools, set up of the impact monitoring system, data analysis and training (Cheston et al '00b, p.13). The goal is that the running costs of the system can be brought down to 10% of the initial costs of investment with a potential benefit worth much more than the cost.

²² These cost indications are taken from Hulme 1997 in CGAP 1997 and are consistent with what emerges from literature and the author's own experience.

²³ Opportunity costs represent person days due to the involvement of the MFI's own staff in the IA, persons who would normally be working on different assignments.

The SEEP Manual reports that the AIMS supported 'full-scale evaluation 1999' of a Peruvian MFI (FINCA) has costed 72 days of time of loan officers and their promoters, while the total number of person days, including outside assistance added up to 270 person days (pp. 9-21/22). For the tool testing in Mali and Honduras the total number of person days added up to 197 and 277 days, respectively.

In the case of the by PlanetFinance conducted IA of PADME, Bénin, 'opportunity costs' for the MFI were calculated at 30 days for the implementation of a combined IA/Market Research survey.

4. SUMMARY AND FINAL REFLECTIONS

A summary of three approaches

The following tries to give a summary of three different approaches, and their basic features in terms of :

- *purpose*
- *reliability and validity of findings, and*
- *costs*

1. **Impact Assessment with control group.** This is the ‘scientific’ IA approach.

- Appropriate when the *purpose* is to prove impact for donors and other stakeholders so as to reassure them that they do well to support the MFI
- *Reliability and validity* of findings: Large samples and complex tools are needed to prove impact scientifically. Focus should be limited.
- *Costs*: Expensive or very expensive depending on scope and sample size.

2. **Impact Assessment without control group, combined with rapid appraisal, and/or participant observation, and/or case studies.** A mix of qualitative and quantitative approaches

- Appropriate when the *purpose* is to prove impact and improve microfinance interventions. Improving is the main purpose.
- *Reliability and validity* of findings: Impact is ‘proved’ at a reasonable degree of reliability. Subjectivity is difficult to avoid. Valid information is obtained for improving services. Broad focus.
- *Costs*: Costs depend on the mix of methods chosen, and on scope and scale. They can still be high depending on scope and sample size.

3. **‘Client satisfaction assessment’ and/or ‘exit’ surveys.** A market-oriented approach

- Appropriate when the *purpose* is to get a better understanding of how MFI services are valued by clients and their priorities.
- *Reliability and validity* of findings: Positive impact is taken for granted. Valid information is obtained on how to serve clients better. Limited focus
- *Costs*: Costs can be seen as an investment with high returns

Some final reflections

The information in this note is hopefully an useful input for any MFI or MFSI which tries to achieve a good ‘fit’ between scale of efforts, budget, and methods.

If the declared objective of the IA is to enhance the capacity of the local organisation to monitor and assess the social impact of MF programs – much emphasis should be placed on approaches and methods which can be administered by the MFI itself without much or little external assistance, and which are not too costly to maintain on an ongoing basis.

For a MFSO this may ask for an adjustment of the standard appraisal formats which should respond to the question whether the local MFI has put in place an effective system for client identification and impact monitoring, or has developed the appropriate plans to move into that direction.

This note has concentrated on what exists, and current trends in IA, as applied in the 'MF Industry'. What still does not exist are generally accepted standards for measuring and assessing social performance ('impact audit') in the same way as they exist for financial audits. Certainly the Industry "could benefit from a set of common standards for 'good practice'" (Cheston et al). At this stage, each MFI will have to develop its own standards.

Some MFI subscribe explicitly to a holistic concept of development and aim at 'transformation' in terms of economic, social and political change. Existing methods of IA make use of indicators to assess change in the economic field (e.g. growth of material assets or increased income), the social field (e.g. improved social relations), and the political field (e.g. women empowerment). Some faith-based organizations also aim at promoting 'spiritual development'. Spiritual development may occur in the form of increased adherence and practice of moral values, linking religious ceremonies to collection of savings, etc. However, as to 'spiritual development', nowhere this was found to be an integrated part of the IA assessment, let alone that specific indicators for that purpose were developed and used.

Finally, it should be mentioned that assessment of impact of a MicroFinance Support Institution, based in the North, is not identical to the impact of the delivery of financial services by a local MFI to its poor clients. Just as the local MFI can have a positive or negative impact on the livelihoods of the poor, so can a foreign MFSI have a positive or negative impact on the organisational life, policies and practice of the 'partner organisation' (also called 'counterpart') in the South. To the author's knowledge impact assessments which focus specifically on this type of relationship are not existing. Depending on the type of support given, it can be a donor /recipient relationship, when a grant is given, a creditor/borrower relationship, when the MFSI acts as an international lender, or an investor / investee relationship, when the MFSI participates in the share capital of the local MFI. Usually, the quality of support of a foreign donor, borrower or investor, is assessed in an indirect manner by the assessment of the impact of the work of a partner organisation. Yet, the quality of international assistance could gain from a more direct approach.

List of literature references

Acción 1999 – Microfinance: Conversations with experts (Acción International and Calmeadow, New York)

AIMS 2000 – Microfinance, Riskmanagement , and Poverty. A synthesis study submitted to the Office of Microenterprise Development, USAID, 115 pages (AIMS, Washington DC) (AIMS: Assessing the Impact of Microenterprise Services)

Aminur Rahman 1999 – Micro-credit Initiatives for Equitable and Sustainable Development: Who Pays ? in: World development, Vol. 27, pp. 67- 82 (Elsevier Science Ltd, Great Britain)

CGAP 1997 – CGAP Working Group Impact Assessment Methodologies. A review. Report of a virtual meeting, April 7-19, 1997. By: David Hulme, University of Manchester (CGAP, Washington) (CGAP: Consultative Group to Assist the Poorest)

Cheston Suzy, L.Reed, S. Salib, R. Voorhies and J.Copestake (July 2000) – Measuring Transformation: Assessing and Improving the Impact of Microcredit, Part II, paper produced by Opportunity International for the Micro Credit Summit Campaign (info@microcreditsummit.org)

DFN 2000- Development Finance discussion list serve on Internet managed by the Rural Finance Program of Ohio State University.

ECLOF – Overview Evaluation Internal document prepared for the ECLOF Board of Directors' meeting, Geneva, November 2000/Oikocredit 2000

Harper et al 2000 – Small Enterprise Development.Vol.11 No.1 March 2000. Intermediate Technology Publications, London.

Hulme, David and P.Mosley (1998): Microenterprise Finance: Is there a Conflict between Growth and Poverty Alleviation. In: World Deve lopment 26 (1998) 5, pp. 783-790

Johnson et al 1999 – The Impact of Outcome-Based Assessment on Microenterprise Programs . By: Margaret Johnson, Umasunndai Akella, Julie Lalende. In : Journal of Microfinance.Vol.1 No.1 pp. 44-65 (Marriot School, Brigham Young University, Provo, Utah)

Krauss, Annette, B.Joussen und K.Verhagen (März 2001) –Finanzsystementwicklung; Spar- und Kreditinstitutionen für die Armen, Bericht der ersten Forschungsphase, Band 1, Nord-Süd Dialog e.v, Bonn, publication forthcoming.

(The) MicroBanking Bulletin (February 2000) – Focus on efficiency, Issue No.4, A Calmeadow Publication, Washington DC

Morduch J.1999 – The Microfinance Promise. In: Journal of Economic Literature , Vol. XXXVII (December 1999), pages 1569-1614

Opportunity International – see Cheston et al

OXFAM 1997 – Microfinance and Poverty Reduction. By: Susan Johnson & Ben Rogaly. 123 pages (OXFAM, UK and Ireland)

PlaNet Finance 2000a– IKM (Impact Knowledge Management) brief presentation (IKM@planetfinace.org)

PlaNet Finance 2000b– IKM (Impact Knowledge Management) case study, PADME/Bénin. By: Michel Matul, October 2000 (IKM@planetfinance.org)

SEEP 2000 – Learning form clients: Assessment Tools for Microfinance Practitioners, Draft manual, submitted to the Office of Microenterprise, USAID, about 400 pages (SEEP, Washington DC)
(SEEP: Small Enterprise Education and Promotion Network)

Rutherford S.1999 – The Poor and Their Money; an essay about financial services for poor people. Institute for Development Policy and Management (University of Manchester, 1999) .

Verhagen Koenraad 2000 – The Pitfalls of Microfinance and its Underlying Philosophy’, Paper prepared for the International Conference : Will Civil Society Save the World ? (Calvin University, Grand Rapids,USA). Publication forthcoming.