



Enterprise Impact News

Welcome to EDIAIS

The Enterprise Development Impact Assessment Information Service is a new service for DFID and the wider development community. It is managed on behalf of DFID jointly by the Institute for Development Policy and Management at the University of Manchester, and Women in Sustainable Enterprise (WISE) Development Ltd.

Our aim is not only to help Enterprise Development Advisors to design and carry out impact assessments (IAs) but also to help ensure that lessons learned through IAs have an impact on policy development. We will do this by disseminating information and encouraging debate through this monthly newsletter and our web site at www.enterprise-impact.org.uk. We hope you will find EDIAIS useful- we welcome your comments, complaints, enquiries and suggestions. Please help us to help you to make an impact.

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Microfinance impacts

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This month's newsletter focuses on microfinance. This is a summary of a new paper on our web site "Impact assessment of microfinance: towards a sustainable learning process."

Do microfinance initiatives help the poor to improve their situation - or do they saddle them with debt? Do they help people build sustainable livelihoods - or lead them into risk taking they later regret? Do they help women strengthen their positions within the household - or do they lead to increased tension and violence? Do they help empower women - or increase their vulnerability?

There has been a wealth of research seeking answers to these and similar questions. This has generated a great deal of evidence that MF interventions can indeed help reduce poverty and empower women - although it seems the poorest often miss out. But research also shows that impacts can be negative and so it is important that lessons learned from both best practice and failure feed in to policy and project design.

Key challenges include:

- developing services which increase client incomes and decrease vulnerability
- ensuring that female targeting contributes to women's empowerment
- deepening poverty reach to the poorest and most disadvantaged groups
- resolving potential tensions between poverty reduction and empowerment and certain policies for achieving financial sustainability

There is also more recognition of the limitations of microfinance (MF) as a development strategy in isolation. This is leading to a re-evaluation of ways to integrate MF with other types of intervention such as technical skills and entrepreneurship training, essential health services, and social empowerment activities, particularly when targeting the poorest.

Sustainable learning process

Impact assessment has an important role to play in meeting these challenges. However the challenge now is to move away from just assessing the impact of particular programmes. Particularly in view of the very mixed findings of existing assessments, there is a need to develop an ongoing and sustainable learning process with and between programmes, donors and microfinance users.

There is currently rapid innovation in MF impact assessment (IA) methodologies including practitioner-led IA (to enable ongoing learning and more reliable data for external assessments) and grassroots learning processes (which have a key potential contribution to cost-effective assessment as well as grassroots empowerment). These point the way to the possibility of a new and more integrated sustainable learning process between different



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stakeholders which can itself make an important contribution to poverty reduction and empowerment.

Practitioner-led assessments

This new focus has led to such innovations as the CGAP-sponsored initiative by AIMS which led to SEEP producing a draft manual. The focus is a search for information to improve programmes and the conceptual framework attempts to capture the complex interactions between impacts at household, enterprise, individual and community levels. The focus is on learning rather than policing and is flexible, being based on investigating specific hypotheses.

Such developments at donor level have been paralleled by innovations at programme level. For example the Small Enterprise Foundation (SEF) in South Africa has used participatory methods such as wealth mapping for monitoring poverty reach and identifying clients' perceptions of poverty. These systems are administered by programme staff and integrated into Management Information Systems and programme planning. This approach is currently being promoted and developed as part of the Microcredit Summit Campaign.

Other programmes have been developing learning systems which involve clients themselves in collecting and collating information with a more explicit empowerment objective. For example the Internal Learning System being implemented by a number of NGOs in India involves women themselves keeping diaries of their lives, largely in the form of diagrams. Details are collated and analysed at group level and fed into programme-level decision making. The stated aim is for the IA process to be empowering in itself, enabling women to document and analyse their lives and work out collective strategies for change. Another example is ActionAid's linking the REFLECT literacy methodology with credit programmes and participatory IA methodologies.

Selecting indicators

Some of the contradictory findings of MF impact assessments have been addressed by improved assessment design but others are due to the complexities inherent in impact



The President of Self-Help Development Foundation, Zimbabwe, performing a ritual dedication to the organisation.

assessment itself. There is a continual tension between the need for indicators to be simple and the requirement for them to illustrate complex processes over time. Microfinance indicators are particularly difficult because loans are highly fungible within households. Part of the loan may be used for consumption and it may be that the user's most important aim is not simply an increased income. The smoothing of seasonal variations in income may be valued, as may decreasing vulnerability through funds for emergency expenses.

Selecting indicators is inevitably partial and cannot capture all the dimensions of even a narrow slice of "reality". For instance, even though the SEEP manual questionnaire is very long and detailed it fails to capture important changes in non-market activity and access to and control over resources. The empowerment tool is highly subjective and views empowerment in very individualistic terms.

What is needed is to make the process of selecting indicators less arbitrary and more accountable, focusing on practical policy questions rather than blanket programme impact.

Who is affected?

We need a more complex understanding of who is affected by particular impacts. Existing impact assessments tend to have an oversimplified view of target groups which is reflected in the categories used in samples and data analysis. While gender may be noted there is seldom any detail (of income differences, family position, ethnicity or

age for example), and there is very rarely any following through of possible gender differences in impacts. Different groups may have different interests. For example women, children and the elderly may be more interested in having independent control over resources than in a general increase in household income. Different types of economic activity, different household structures and differential access to complementary services are all factors which might have an influence on both desired and actual impacts.

Why has this happened?

It is obvious that changes in household income or in women's position are unlikely to have been caused by the project's intervention alone. Differences in impact both within and between programmes may be due more to differences in contextual opportunities and constraints than to programme policies. All the above questions are essential for identifying why impacts are occurring and hence the practical implications.

Quantitative systems have been weak in the areas of specifying hypotheses and relying on (non-representative) control groups. Practical recommendations have been more like contemplative afterthoughts than credible inferences from findings. General difficulties of the research process include "assessment fatigue" on the part of the participants, the tendency for respondents to tailor their answers to best meet their perceived needs and the opportunity costs of participation, especially for the poorest.

External impact assessments

Although the mainstay of IA should be ongoing practitioner and grassroots-led learning processes, there will still be a role for externally funded assessments. This will include cross-checking data but, more significantly, should focus on setting up sustainable learning processes. This would involve identifying how indicators and practical inferences can be developed at programme and grassroots levels, the training and capacity building of relevant stakeholders and research into macro level or particularly sensitive intra household or community power relations. Such an assessment should also explore ways in which information can be exchanged between grassroots groups, donors and other stakeholder groups. ■

Recent publications on microfinance



Mainstreaming microfinance: how lending to the poor began, grew and came of age in Bolivia. *Rhyne, E. Kumarian Press (2001)*

Richard Rosenberg has reviewed this book extremely enthusiastically - it is "an event to be celebrated", "the best treatment I have ever seen of the national development of successful microfinance", "not only powerful analysis but also an engaging narrative" and he concludes "don't miss this book". It offers important lessons on how good MFIs are built, a textbook example of the "financial systems" approach with all its strengths and weaknesses and illustrates for other countries what they will have to deal with when a competitive microfinance industry emerges.



Global directory of banking innovation in microfinance - Latin America and Asia. *Women's World Banking (2000)*

The directory covers the products and processes of mainstream Latin American and Asian financial institutions, highlighting innovations in reducing costs, mitigating risks and using technology in microfinance. Valuable case examples serve both to spotlight institutional excellence in increasing the access of the majority to financial services and offer insight into best practices. The directory serves as a telephone book for who's doing what and how in microfinance and includes individual profiles on each institution. Can be ordered from the Women's World Banking web site at www.swwb.org



Can financial market policies reduce income inequality? *Westley, G.D. Inter-American Development Bank (2001)*

Westley notes that most microfinance efforts to date have focused on building retail capacity and suggests the next focus should be on improving legal and regulatory frameworks and developing credit bureaus to enhance the performance of microfinance systems. The paper includes an overview of microenterprises and microfinance in Latin America and the Caribbean, discusses the ways that finance affects income distribution and compares financial intermediation in Latin America and Asia.



Integrating impact monitoring and assessment of microfinance.

Copstake, J. Development in Practice Vol 10 No 5 (2000)

The paper is concerned with the needs of MFIs that seek both to reduce poverty and to become increasingly self-sufficient. They need information on impact to improve their services. But IA has generally been carried out to meet the accountability requirements of the donors involved. This paper advocates re-orientating IA towards the MFI's own strategic decision making processes and integrating it more closely with internal monitoring.



Renewable energy for microenterprise. *Allderdice, A. and Rogers, J.H. USAID (2000)*

This is a practical guide to realising the mutually beneficial relationship between microenterprise, microfinance and renewable energy. It is targeted at MFIs and their support organisations who are interested in improving profitability through renewable energy technologies. It includes case studies, examples of institutional approaches and lessons learned.



The relative risks to the savings of poor people. *Wright, G.A.N. and Mutesasira, L. Microsave-Africa (2001)*

This paper aims to quantify the relative risk faced by the poor as they save in formal, semi-formal and informal sectors. It looks at what services and systems are used, how much has been saved in various systems and how much money has been lost over the period of one year in the various systems. The results are assessed in terms of what they mean for central bankers and the microfinance industry.



Challenges for second generation microfinance: regulation, supervision and resource mobilization. *Sharif, I. and Wood, G. The University Press Limited, Dhaka (2001)*

Microfinance organizations have scaled up their operations in many developing countries, notably Bangladesh. This means that relying on donor support for microfinance via grants and concessional loans is no longer viable. MFIs are now having to raise additional funds through private means like deposit mobilization and commercial loans. This trend poses numerous 'second generation' issues and challenges for the sector. Focusing on Bangladesh, including case studies of BRAC, Proshika and ASA, this book presents some of the issues and concerns,

as well as some general recommendations to minimise and manage the risks.



Microfinance and poverty in Bolivia. *Mosley, P. The Journal of Development Studies. Vol 37 No 4 (2001)*

Mosley identifies the factors that have made Bolivia a fertile ground for new MFIs. Using small samples from four of the largest MFIs the paper attempts to measure the impact of credit, taking as control groups those who had been approved for, but had not yet received, loans.

Observations include that the change in average borrower income was greater than for the control group, that borrowing increased the risk faced by some borrowers and that microfinance appears to be a successful and relatively cheap way of helping those close to the poverty line but that other measures are needed to reduce extreme poverty.



The microfinance revolution. *Robinson, M. World Bank (2001)*

A wide-ranging book, including a global overview of microfinance, a coherent theory as to why it works, a thesis on its future, a strong treatment on microsavings, institutional experience from MFIs in seventeen countries and rich detail on a number of topics including moneylenders and their interest rates. The author develops much telling information about real people, their financial behaviour and real institutions and their achievements into a vigorously argued and sometimes controversial synthesis.

Courses

Microenterprise finance: management and design. *Institute for Development Policy and Management, University of Manchester. 28 May to 21 June 2002.*

Aimed at middle and senior staff of credit institutions in both the private and public sectors, development agencies and NGOs, the course provides a thorough training in the design, appraisal, supervision and evaluation of lending programmes, especially those aimed at small businesses and small farmers. Course directors are David Hulme, Colin Kirkpatrick and Paul Mosley. For details contact Professor Colin Kirkpatrick at colin.kirkpatrick@man.ac.uk or phone 0161 275 2808. ■

Online sources of information on microfinance

DEVFINANCE email list

Keep up with the latest debates and access interesting research and resources by joining the Devfinance list. Recent hot topics have included: microfinance and Islam, savings projects and, inevitably, microcredit impact - positive or negative? Conference alerts and journal contents lists appear and the standard of debate and information exchange is good. To subscribe to the list send the message: SUB DEVFINANCE <your real name> in the text part of the message to listserver@lists.acs.ohio-state.edu Do not put anything in the subject header. You will receive list operating instructions by return email. It is easy to temporarily suspend and reconnect to the list and the volume of mail is manageable.

www.gdrc.org/icm

The Virtual Library on Microcredit is an excellent source of information from the Global Development Research Center. Its Newsletters and Bulletins section contains details of 23 such publications on microfinance policies, programmes and projects. New publications, research summaries, training courses, news and events are all covered. There are some interesting documents on best practice listed under Inspiring Ideas.

www.enterweb.org/welcome.htm

This is the home page of Enterweb, a knowledge portal for small business which covers a huge range of relevant web sites (currently 857 sites) grouped under headings such as Advisory Services, Business Law, Women etc. If you click on Microfinance you will reach a listing of no less than 58 microfinance web sites and databases, graded from nil to five stars with a brief description of what each covers. This must be one of the most comprehensive lists of such resources and a good place to start looking.

www.cgap.org

The Consultative Group to Assist the Poorest (CGAP) is a consortium of 29 bilateral and multilateral donor agencies who support microfinance. Its mission is to improve the capacity of microfinance institutions to deliver flexible, high quality financial services to the very poor on a sustainable basis. The Microfinance Gateway (on this site's home page) provides access to an enormous amount of information. Don't miss the new Microinsurance Focus Resource Centre at <http://nt1.ids.ac.uk/cgap/microinsurance>

www.mip.org

This is the web site of USAID's Microenterprise Innovation Project which researches and publishes on microenterprise development, finance, policy and impact. The Microenterprise Best Practice research and publications explore: the commercialisation of microfinance; new products and management tools for microfinance; managing risks and emergencies in MFIs; building markets for business development services for microentrepreneurs; and the social aspect of microenterprise development. The AIMS area of the site focuses on microenterprise assessment and impact. Many documents can be downloaded directly.

www.swwb.org

The Women's World Banking (WWB) network aims to increase poor women entrepreneurs' access to finance, information and markets. Over the last twenty years WWB has led and catalysed practitioner networks including the African Microfinance Network Initiative, the International Coalition on Women and Credit and the emerging Global Network for Banking Innovation in Microfinance (more details of all these on site). Since 1994 WWB has mobilised leading MFIs, bankers, policy makers, and funders, first to gain consensus on performance standards and then to shape the architecture of financial systems geared to what works in microfinance. The web site includes how-to checklists distilled from best practice workshops.

www.planetbank.org/en/index.htm

PlaNet Finance is an international non-profit institution created in 1998. It aims to reduce poverty by using the internet to promote the development of microfinance. Under PlaNet Rating can be found details of its methodology for assessing MFI impact and a number of case studies. The methodology takes into account the financial performance of the institution and is backed up by more qualitative information from other sources including staff and clients. The result includes both a global rating and a composite rating over six areas of assessment and training in its use is available.

www.postconflictmicrofinance.org

Post Conflict Microfinance (PCM) is a DFID-funded project to enhance awareness, skills and knowledge for the implementation of

successful pro-poor post-conflict microfinance. In the first phase, qualitative research is carried out in Mozambique, Angola, Rwanda and Cambodia. Then a pilot project will test hypotheses, tools and principles of better practice identified in phase one and elsewhere. Materials are being made available on the web site and workshops will be held to disseminate findings. On the site you can read the newsletter and register to receive more information as it becomes available.

Conferences

Strengthening the microfinance industry in Africa: the role of national networks in performance monitoring.

5-9 November 2001, Harare, Zimbabwe

Organised by the SEEP Network, the conference aims to promote performance monitoring by networks, to build consensus on core indicators, to discuss approaches and methodologies, to ensure workshop output contributes to in-country ownership and commitment to performance monitoring and to establish a core set of data to measure MFI performance across the continent.

For more information contact Sharyn Tenn, email: tenn@seepnetwork.org

From donations to investments: donors and sustainable microfinance - a seminar on microfinance principles and practice for donors.

12-16 November 2001, Phnom Penh, Cambodia

Hosted by UNCDF/SUM in collaboration with CGAP, this five day workshop is aimed at UN agency, multi- and bi-lateral donor staff and is designed to develop the staff analysis skills required for donor support of sustainable microfinance. It covers the analysis of the initial investment and the support required over the life of the donor-MFI relationship. The course language will be English and translation will be available during panels with Cambodian MFI leadership. For more information contact annette.krauss@undp.org ■

The Enterprise Impact Assessment Newsletter was produced by Sarah Mosedale, Project Research Officer, as part of the Enterprise Development Impact Assessment Information Service (EDIAIS), which is managed jointly by the Institute for Development Policy and Management at the University of Manchester, and Women in Sustainable Enterprise (WISE) Development Ltd.

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