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**MEASURING THE IMPACT OF MICROFINANCE INTERVENTION: A  
CONCEPTUAL FRAMEWORK OF SOCIAL IMPACT ASSESSMENT**

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# MEASURING THE IMPACT OF MICROFINANCE INTERVENTION: A CONCEPTUAL FRAMEWORK OF SOCIAL IMPACT ASSESSMENT<sup>1</sup>

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Social impact analyses of microfinance programs aim at gauging the ‘wider impacts’ of micro-lending on the lives of the poor. This wider impact can be taken to be a ‘public good’ that benefits the sector in its entirety: the microfinance institutions (MFIs), donors, borrowers, and even the non-borrowers. The question that arises is how can we assess the impact? What methods, tools, concepts, principles, underlying theories, approaches and procedures are adapted to reach such conclusions that are truly representative of the manner by which microfinance impacts the lives of stakeholders? This paper reflects on the concept and practice of Social Impact Assessment (SIA), by looking at the social dimension of relevant development theory and practice, the key components of analyses, the conceptual framework of SIA and the principles that underlie the entire process. The paper further identifies the variables and indicators of an impact assessment and builds a generic model of the process. It goes on to develop a social impact measurement index (SIMI) to act as a framework for measuring social impact.

**Keywords:** Social Impact Assessment; Microfinance; Poverty alleviation; social impact measurement index (SIMI)

**JEL Classification codes:** I32, O2, O18

## 1. Introduction

Regardless of their scale, outreach, location and the type of clients, all microfinance program interventions share the common goal of human development, specifically the economic and social uplifting of those for whom the program is targeted. From this underlying objective there are a diverse range of secondary or intermediate outcomes with powerful and far-reaching effects. Researchers have come up with an array of terms that reflect this diversity in the resulting impact: ‘wider impacts’ or ‘externalities’ (Khalily 2004 and Zohir and Matin 2004), ‘spill-over impacts’ (Khandker 1998) and ‘intermediaries’ (Hulme 2000). Irrespective of the varying terminology used to depict such secondary outcomes, the fundamental rationale and purposes remain identical.

These secondary effects go beyond merely influencing the lives of individuals alone, but also impact entire households, communities and the society at large, thereby eventually having a multifarious impact on the beneficiaries in the broader perspective. Khalily (2004:334) argues that these consequential, secondary and intermediate outcomes have a compounded impact on the end-outcome of poverty reduction programs. The questions that arise are: *what are these*

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*secondary or intermediate impacts, and what is their implication on the primary program objectives?*

As research on development-related issues broadens, both donors and lenders have become increasingly conscious of the non-income aspects associated with poverty. Tackling poverty has taken a new and broader dimension which advocates that increasing income and savings and helping build assets are not the only means to combat poverty. Consider the World Bank's (World Bank 1980, in Rawson 2001) definition of poverty: 'a condition of life so characterized by malnutrition, illiteracy, and disease as to be beneath any reasonable definition of human decency'. Quite evidently, this definition does not mention anything about material gains, income, savings or assets; it focuses more on the *state* of poverty: it refers to human rather than income poverty, which points to a multidimensional concept going beyond the mere shortage in income, unemployment or scarcity of resources, but extends to deprivations in areas of essential healthcare, sanitation and basic hygiene, gender weakness and repression, illiteracy, infant mortality, food and malnutrition, etc.

Microfinance programs target both economic and social poverty. To assess the effectiveness of these programs, Microfinance Institutions (MFIs) need to measure the impact of such programs on the borrowers. The theme of this paper pertains primarily to social impact assessment studies. As opposed to studies on economic impact, information on social impact indicators is usually limited and descriptive and cannot be used as a basis for numerical reasoning, quantification, forecasting and making predictions of how microcredit programs transform livelihoods. The purpose of this paper can now be stated with greater clarity: to present a set of variables that operate as indicators for social impact assessment. Once identified, these variables will next be used for developing a standardized measurement index and a generic model of Social Impact Assessment (SIA). The paper will also build up a conceptual framework for SIA and discuss the principles and procedures to be followed while conducting such an assessment.

## **2. The perspectives of impact assessment studies**

The rationale and the underlying objective in advancing micro-loans to the poor is to improve their liquidity constraints as 'any additional flow of external financial resources, be it from MFIs, banks, NGOs, or even individuals will relax the intensity of the constraints' (Khalily 2004:334). The resulting improvement in liquidity ensues by a range of means to broaden the portfolio mix of the borrowers, which eventually has a positive impact on the individuals, households, communities and on the society at large.

The end-outcome as well as the primary objective of all MFI interventions is poverty reduction. By convention, poverty reduction is perceived from the *economic* point of view alone. Impact assessment studies look for indicators and variables that measure prosperity in terms of material and tangible assets that can be awarded numeric values: increased income, greater employment, enhanced savings, access to more resources, patterns of changes in expenditure and consumption, ownership of physical assets, etc. While economic impacts may present a fair view of the effectiveness of MFI intervention, they fail to measure the *social* impact of these efforts. Zohir and Matin (2004:301) argue that the 'impact of microfinance intervention is being under-estimated through conventional impact studies which do not take into account the possible positive externalities on spheres *beyond* households and the subsequent feedback effects on both the participant and non-participant households'.

As opposed to economic impacts, the *social* impact that results from MFI lending and support services produces such results that cannot be quantified so easily. Gaining rapid popularity from the early 1980s onwards, such efforts were recently extended to the socio-political arena in an attempt to assess whether microfinance can promote empowerment (Hulme 2000:7). This led to a shift in impact assessment studies; for instance, now studies may include the measurement of individual control over resources, involvement in household and community decision-making, levels of participation in community activities and social networks, electoral participation, educational status, access to health-care services, nutritional levels, and anthropometric measures (*ibid.*).

In contrast to economic impacts, however, social impacts are much more complicated to measure. How can one quantify a shift in gender relations and decision-making at the household level, for instance, or how can a researcher allocate percentages to elements such as social well-being, enhanced self-perceptions, improvements to livelihoods, and the levels of participation in social activities that make a borrower feel part of a community? Naila Kabeer's (1998) seminal work on gender relations, program effectiveness and economic prosperity: *'Money Can't Buy Me Love? Re-evaluating Gender, Credit and Empowerment in Rural Bangladesh'*, illustrates the intricacies involved in evaluating and measuring a social variable such as *gender*. For example, how does one measure whether women have, or have not benefited from MFI programs and whether they feel better-off than prior to borrowing, and if so, to what extent? Kabeer attributes previous contradictory evaluations partly to conflicting empirical findings. More significant sources of conflict, according to Kabeer relate to differences in the methodologies used, in the questions asked and above all, in the models of power which underpin the various evaluations. This reiterates the fact that devising a universally acceptable methodology for social impact assessment is almost impossible, since such impacts are deeply-rooted not only in human behaviour, perceptions, beliefs and values but also in external elements such as social, cultural, political and socio-economic factors.

### **3. The social dimension in development theory and practice**

Traditionally, development initiatives have been synonymous with raising people's incomes and employment opportunities, increasing their consumption and helping them build assets and accumulate savings. Poverty reduction programs were considered to deal primarily with helping borrowers obtain tangible, material gains. Quantifiable results were envisaged as the foremost and principal measure of assessing poverty mitigation and program success.

Until a few years ago, the social dimension was not regarded as an important planning and evaluation level of development cooperation. Although initial steps towards operationalizing socio-economic impacts were developed by the research community as part of the 'basic-needs approach' of the seventies, the social dimension has been the focus of project evaluation only since the public debate on the effectiveness of development projects began, and the legitimacy of the entire area of development cooperation policy was questioned. A significant step towards establishing the nexus between the economic and social impact was the rendition of the *'multidimensional view of poverty'* by the United Nations Development Program particularly while preparing the *National Human Development* reports (Neubert 2000).

The World Bank has been at the forefront in development-related initiatives on a global scale. According to a (1997) group report of the *Social Development Task Group* of the Bank, during the fifty years in which it has been in existence, the concept of development has evolved from 'an almost exclusive focus on bricks and mortar and investments in physical capital to an approach that recognizes human and social capital as critical factors for

sustainable development' (The World Bank 1997:1). Mentioning the integration of the social aspect in its development work, the report continues to state that 'with this evolution, building social infrastructure, like the creation of physical infrastructure, has become a cornerstone of development ongoing process of incorporating the social dimensions of development in its work' (*ibid.* page 5).

Micro-lending initiatives endeavour much more than mere asset building and raising savings. The social development of the population that they cater for is increasingly becoming one of their foremost purposes, and as the World Bank puts it: 'development and poverty reduction has shifted from the initial brick and mortar approach to targeting basic human needs' (1997:11). Thus, current development literature makes continual references to social capital, social development, social analysis, social evaluation, social policy and social impact. The primary reason for this is the gradual shift in the development paradigm from building tangible, physical assets to developing human and social capital.

When development professionals mention society, social policy, social capital, social change and social impact, they do not signify isolated individuals and stand-alone institutions; they connote a complex and intricate web of interactions that occur both within the population and also external to it. The 'social dimension' is thereby a cross-section of a range of elements that play a vital role in the world of development cooperation. Out of the major factors that influence the social sphere, the economic, cultural and political dimensions play the most prominent roles by overlapping with the social aspect and bringing about the social change in question.

The **socio-economic** area of overlapping, for instance, encompasses matters that can be physically defined and in which economic circumstances are examined, with the non-economic variables being taken into account. The focus is on the distribution of resources through rights and status or power and macro and sectoral policies and the consequent implications for individual social groups. The **socio-cultural** area of overlapping, on the contrary, concerns the non-physical features that relate to a society's system of values and are thought of, or represent its unique cultural identity. Issues relevant to ethnicity, gender, religion, traditions, customs, etc. form the focal point of this dimension. In the **socio-political** realm, areas of concern pertain to matters relevant to the civil society, issues raised by human rights affairs, and post-conflict scenarios (The World Bank 1997; Neubert 2000).

### ***3.1. Social impacts: the meaning and key components of analyses***

As stated earlier, any impact resulting from microfinance intervention can be broadly classified into either social or economic. Practitioners view impacts from perceptions that vary according to their individual requirements. A general consensus therefore is difficult to obtain on what is meant by evaluation and analysis of social, political, cultural, and economic factors.

The Expert Group on Aid Evaluation set up by the OECD's Development Assistance Committee (DAC), attempts to describe 'evaluation' in a fairly comprehensive manner: '*an evaluation is an assessment, as systematic and objective as possible, of an on-going or completed project, program or policy, its design, implementation and results. The aim is to determine the relevance and fulfilment of objectives, development efficiency, effectiveness, impact and sustainability. An evaluation should provide information that is credible and useful, enabling the incorporation of lessons learned into the decision-making process of both recipients and donors:* (OECD 1992:132)

It is evident from the committee's depiction that any form of evaluation, assessment or analysis should be very clearly able to determine the relevance as well as the accomplishment, efficacy, effect and the sustainability in order to be comprehensive in order to make it useful to the stakeholders involved.

As the 'social' sphere of impact is the focal point of this paper, it is pertinent to have a very clear understanding of how the term is perceived in development research and academic circles and how it will be connoted in this study. Neubert (2000:6) describes it as '*concerning the order of human society*', by referring to it as a concept that pertains to the relationship between individuals, between individuals and groups and between groups within a society.

Taking a more generalized stance, the World Bank underscores the element of *human welfare* which stands out clearly in the description it puts forth: 'social dimension refers to the welfare of human beings, i.e. their quality of life, their education and the quality, permanence and sustainability of their institutions and relationships' (The World Bank 1997:4).

The Inter-organizational Committee on Guidelines and Principles for Social Assessment (1994, in Glasson 2000), presents an all-encompassing description of SIA, and suggests that *cultural impacts* also constitute an important element while assessing social impacts. According to the committee, '*social impacts*' mean the 'consequences to human populations of any public or private actions, that alter the ways in which people live, work, play, relate to one another, organize to meet their needs and generally cope as members of society. The term also includes cultural impacts involving changes to the norms, values and beliefs that guide and rationalize their cognition of themselves and their society'.

The 'International Association for Impact Assessment' (IAIA), an independent, not-for-profit organization that researches on IA issues, suggests that the primary constituents to look out for in any SIA study, are the sustainability and the equitability that ensue due to any form of program intervention. 'Social impact assessment', according to the association, 'includes the processes of analyzing, monitoring and managing the intended and unintended social consequences, both positive and negative, of planned interventions (policies, programs, plans, and projects) and any social change processes invoked by those interventions. Its primary purpose is to bring about a more sustainable and equitable biophysical and human environment' (IAIA 2003).

What stands out clearly in the various descriptions above is that in stark contrast to assessment studies that look solely and primarily at economic impacts, SIA studies look more towards abstract elements which cannot be assigned numbers and percentages, but can be seen, felt, and sensed in the overall social ambience of the social domain in question. Salmen (1987) has rightly articulated this as 'if time and space be thought of as length and width of a project's fabric, the social dimension may be thought of as its texture'. Just as the texture of a fabric can only be felt, but not quantified, so can the social and cultural issues in a society.

### ***3.2. The conceptual framework of a Social Impact Assessment***

In order to be effective, an impact assessment exercise needs to have a conceptual framework at its heart (Hulme 2000). This may vary in accordance with the nature, scale and the depth of the study being conducted. Listed below are the main questions around which the conceptual framework of a typical SIA study is built:

- (i.) Who are the stakeholders involved and why do they require the assessment?
- (ii.) What are the variables of Social Impact and how are they assessed?
- (iii.) What does a generic SIA model look like?

### 3.2.1. *The stakeholders involved and why they require the assessment*

Defining and categorizing stakeholders of microfinance initiatives forms an essential element in conceptualizing the framework of any SIA. Any effort to study program impact will always begin by identifying the stakeholders interested in the results of the assessment exercise. They can be classified broadly into primary and secondary groups, the primary ones encompassing those who are the main intended beneficiaries, which form the target groups of the poverty alleviation programs of the microfinance institutions (MFIs). Others may include the donors funding the programs, the MFIs acting as the facilitators of the entire process, and to a certain extent, the MFI staff, who will be interested to know how well their efforts are materializing into visible impacts.

**Table 1. The primary and secondary stakeholders involved in a social impact assessment**

Primary Stakeholders	Secondary Stakeholders
Borrowers	National and regional governments
Donors	Suppliers, customers, etc.
Microfinance Institutions (MFIs)	'Third party institutions', such as regular commercial banks, saving cooperatives, etc.
MFI Staff	

Secondary stakeholders may include the regional and national governments which aid in providing policies at the macro-level by means of passing acts in the constitution to provide a legal and constitutional administrative framework within which the MFIs and donors can operate conveniently. Programs run by MFIs ultimately have a substantial impact on the national economy, which makes it even more important for the policy formulators to have a clear idea as to how well the entire MFI sector is performing in combating poverty. Another set of secondary stakeholders may be the suppliers and the customers of the micro-enterprises along with any *third party* institutions, such as regular commercial banks, saving cooperatives, etc.

The core aim of any form of social impact analysis lies in the assessment of the development of societies; this encompasses both the people living within them and the institutions through which they are served. Analysis at the project level strives to assess and review project strategies for the impact that they emanate on the individuals, institutions and the social groups.

Empirical evidence has shown that if lending is monitored strictly and adequate guidance is provided during the course of the Microcredit program, the outcome will be almost always positive at both the household and individual levels. Due to this, professionals often question the need of such studies. Khalily (2004:334) argues that there is still the need for assessing the extent of outcome on several grounds:

- Financial resources should be allocated efficiently so that there can be a net positive welfare gain.
- The microfinance program impact can be externally validated for continuity in intervention.
- Effectiveness of microfinance can be compared against the rate of return on alternative uses, which in turn will contribute to efficient allocation of resources.

- There will be deeper understanding of the process through which microfinance intervention benefits poor households and the process through which spill-over impacts occur at the village and regional level.
- Incorporation of / reflection on gender and other social differences in microfinance project design may ensure that project objectives and incentives anticipated for change are acceptable to the intended beneficiaries
- Evaluation of the social impact of investment projects, may augment positive impacts, and where adverse impacts are identified, it may determine how they can be avoided or at least substantially mitigated for future purposes
- In addition to the above mentioned factors, donors have a special preference for impact analysis in order to justify their investment to their taxpayers.

Hulme (2000) audaciously states that impact studies are donor-driven and that they have little utility to the MFIs themselves. While this may be true, any empirical knowledge that is generated as a consequence to such assessment studies, ‘adds to our knowledge’ (Khalily 2004:334), which makes it all the more worthwhile to carry out such studies.

### **3.2.2. *The variables of Social Impact Assessment and how they are assessed***

Variables of social impact refer to measurable changes to the human population, communities and social relationships resulting from development initiatives instigated by third sector organizations, NGOs or MFIs. Broadly speaking, these variables pertain predominantly to indicators proposed by various institutions in an attempt to set forth a standardized and measurable set of indexes that determine human well-being in a society. Owing to the intricacy of human behaviour and the complexity of elements such as socio-political and socio-economic factors that come into play, it becomes extremely complicated to come up with such a set of variables and indicators that are universally acceptable, applicable and appropriate.

The Annual Human Development Report (HDR, 2006) published by The United Nations Development Program (UNDP) makes use of a number of such indicators that attempt to portray, amongst other aspects, the social well-being of people around the world. The Human Development Index (HDI), for instance, is employed as a comparative measure of social development; it makes use of variables such as *life expectancy* (measured at birth), *literacy* (taken as the prevailing adult literacy rate), *education* (the combined primary, secondary, and tertiary gross enrolment ratio) and *standard of living*, which is measured by the log of gross domestic product (GDP) per capita at purchasing power parity (PPP) in USD. The HDI endeavours to determine if a country is developed, developing or underdeveloped, and also to assess the impact of economic policies of the quality of life (Davies and Quinlivan 2006).

Since gender-related issues form a substantial and vital part of social impact research, it is critical that aspects relevant to empowerment are also assessed by means of a suitable indicator. The HDR by the UN uses the Gender-related Development Index (GDI), which focuses on the inequalities between men and women in areas such as knowledge, a long and healthy life and a decent standard of living. Another related indicator is the Gender Empowerment Measure (GEM) which is a composite index measuring gender inequality in three basic dimensions of empowerment – economic participation and decision-making, political participation, decision-making and power over economic resources.

The ‘Quality-of-Life Index (QLI)’, is also one of the most common propositions that have been devised and put forth differently by different organizations. The Economist Intelligence

Unit (EIU) came up with its nine-point QLI in 2005: material well-being, health, political stability and security, family life, community life, climate and geography, job security, political freedom, and gender equality (EIU, 2005).

This paper suggests a model based on four variables designed to contain as many (if not all) indicators through which social impact takes place. Social impact pertains to human lives, human behaviour, social interaction and a wide range of external factors, which themselves are influenced by philosophical, sociological, socio-economic and cultural dynamics that interplay to result in the impact that we seek to assess. The intricacy and complicity of reaching a conclusive and exhaustive set of variables becomes all the more unattainable due to such elements that come into play. The four proposed variables are livelihoods, literacy, community relations and health. These will be discussed in depth later in the paper while developing the measurement index.

### 3.2.3. A generic model of Social Impact Assessment

Social impact by means of micro financing activities and its evaluation can be best understood by means of a standard model. The proposed model makes use of a control group. In an experiment, a *treatment or participation group* is the one receiving the intervention, in this case, a microfinance intervention, whereas a *control group* is used as a baseline measure. Ideally, the control and treatment groups should have identical characteristics with the only difference being the administration of the treatment in question to the latter.

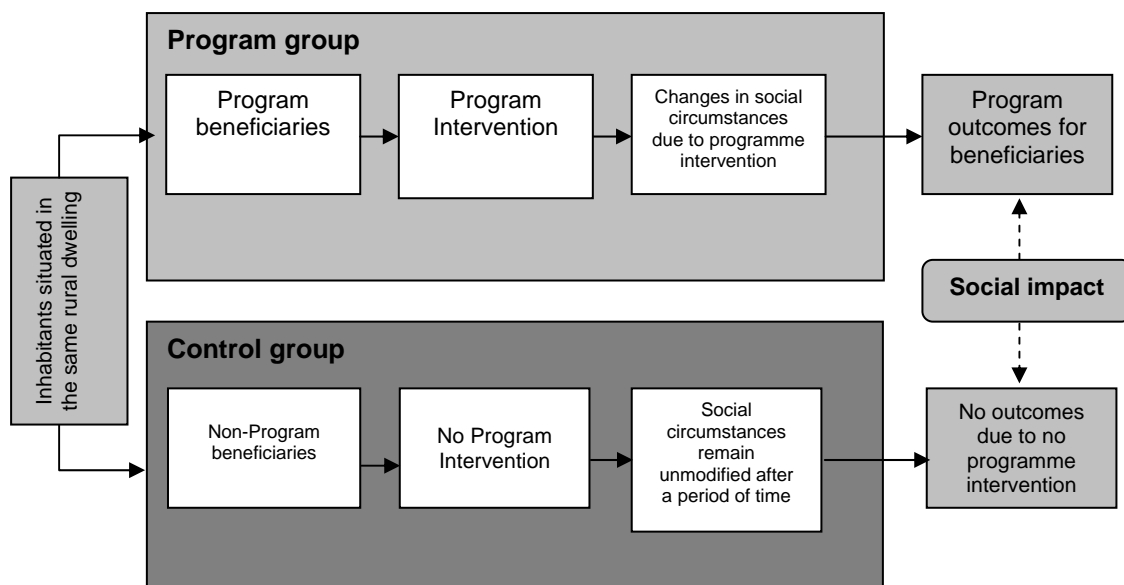


Figure 1: The Generic Social Impact Assessment Model

To begin with, the model employs two sets of groups, both from the same rural dwelling and living in identical economic and social conditions. The only difference is that one set of individuals (the program group) is subjected to microfinance intervention, while participants of the other (control) group are not subjected to any lending. After a given period of time, the program borrowers (*ceteris paribus*) start to show signs of improvement in terms of literacy, health, gender-related issues and community relations. Subjects of the control group on the contrary, continue to lead lives as before. The difference in the quality of lives, between the

two groups measured against a set of social impact variables and indicators exhibits the impact that has taken place due to the microfinance intervention.

Needless to say, there will a wide range of factors that come into play, and social impact being a highly complex phenomenon is not an entity that can be quantified in mathematical and econometric terms. As mentioned earlier, the model assumes that other conditions remain the same and the loan is utilized for the purpose that it is taken out for.

In order to illustrate the model with the help of an algebraic equation, we can consider the following variables:

- $a$  = existing conditions of the inhabitants at start of program
- $\delta$  = dummy variable, will have a nil value if no borrowing has occurred, and '1' if the person is a program beneficiary
- $x$  = the change in social circumstances
- $y$  = the social impact

Since social impact will be equal to the existing social conditions of the borrowers (or non-borrowers) plus any changes that have taken place in the social circumstances subsequent to program intervention, the following equation can be derived:

$$y = a + \delta x \quad \dots\dots\dots (1)$$

This equation will now be tested under two possible scenarios:

**Scenario 1:** *no loan has been taken out, case of non program-beneficiaries:*

$$\begin{aligned} \delta &= 0 \\ y &= a + 0x \\ y &= a \quad \dots\dots\dots (2) \end{aligned}$$

Other things remaining the same, the conditions of the inhabitants remain the same with no change, due to no borrowing taking place.

**Scenario 2:** *A loan has been taken out, case of program-beneficiaries:*

$$\begin{aligned} \delta &= 1 \\ y &= a + 1x \\ y &= a + x \quad \dots\dots\dots (3) \end{aligned}$$

The change ( $x$ ) occurs in the social circumstances due to borrowing, over and above their existing conditions ( $a$ ).

*The difference between the two scenarios*

$$\begin{aligned} y &= [a + x] - [a] \\ y &= a + x - a \\ y &= x \quad \dots\dots\dots (4) \end{aligned}$$

The difference between the two scenarios demonstrates that the program group benefits, by an amount equal to 'x' from the borrowing, which shows the change in their social circumstances, while the control group remains the same in terms of social conditions, with no impact due to no borrowing taking place. This has been represented graphically below:

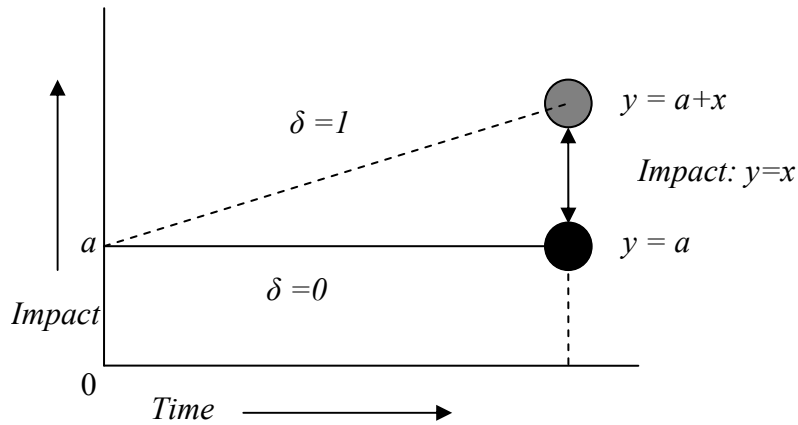


Figure 2. Graphical representation of the social impact after program intervention

#### 4. The Social Impact Measurement Index: towards a concept for determining Social Impact

As evidenced above, no amount of research effort can ever come up with an exhaustive list of features that fully covers all the diverse features of social impact. In the context of such impact enacted by means of various micro-lending programs at the rural level, a range of factors have to be kept in mind while attempting to come up with a comprehensive index that caters for most, if not all of the social aspects of human lives that are affected by such programs.

The Social Impact Measurement Index (SIMI), attempts to classify and evaluate broad categories that encompass a wide range of such aspects which affect borrowers in particular, and the societies and communities in the broader perspective. These variables can be considered as the vehicles or the channels through which the actual process of social impact takes place in development-related initiatives.

The four variables that form the basis of the model, (alongside their sub-categories) are **Livelihoods** (lifestyle and empowerment) **Literacy** (knowledge and awareness) **Community** (social and cultural interaction) and **Health** (physical and mental well-being). The table below lists the four variables along with key indicators that act as the processes to initiate social change.

**Table 2. The four variables and Indicators of a social impact assessment**

<b>Livelihoods</b>	<b>Literacy</b>	<b>Community</b>	<b>Health</b>
<i>Lifestyle and Empowerment</i>	<i>Knowledge and awareness</i>	<i>Social and cultural interaction</i>	<i>Physical and mental well-being</i>
Factors that influence the way people behave and relate to individuals, family, friends and cohorts on a day-to-day basis.	Children’s schooling Adult literacy Manual skills	The size, level of activity, infrastructure and services of voluntary associations, religious organizations and interests groups and how these institutions relate to one another.	Mental and physical health Nutrition
Attitudes and perceptions towards family and friendship networks.	Indigenous knowledge	Social well-being	Hygiene and sanitation facilities Family planning
Gender equality and empowerment issues		Activity networks and cohesion	HIV/AIDS prevention Child Survival
Participation in social activities		Shared customs	Reproductive Health
Self-reliance		Social and cultural obligations	
Residential stability		Social values	
Concerns about social well-being		Language	
Sense of place		Religious beliefs and other elements which make a social or ethnic group distinct	
Aesthetics and heritage			
Perception of belonging		Social support networks	
Security and livability			
Aspirations for the future			

Each of these variables has been discussed below alongside the indicators that point to any changes that take place.

**4.1. Livelihoods: Impacts on lifestyle and empowerment issues**

One of the foremost social impacts that occur is the way borrowers’ attitudes are influenced in terms of the lifestyle and behaviour towards individuals, family, friends and cohorts on a day-to-day basis. This comprises attitudes and perceptions that are displayed by individuals towards family and friendship networks while dwelling in a society.

A very significant outcome is the way women’s lifestyles are impacted by microfinance initiatives. Gender equality and empowerment issues in the world of development practice

have always been a subject of great interest to practitioners. Most Microcredit programs focus primarily on the social and economic empowerment of women, an indication of why the majority of the borrowers are women. For instance, as of May 2007, out of the 7.06 million borrowers of the Grameen Bank, 97%, 6.8 million are women (Yunus 2007). Quite naturally, such large numbers will warrant added interest in terms of assessing the success or otherwise of the lending programs. In terms of impact assessment studies concerning female clients, principal areas of evaluation include issues relating to mobility, contraceptive use, household income control, decisions relating to expenditure, children's education, self-perception, isolation and vulnerability, etc.

Other themes that come within the realm of this indicator include how and to what extent members of a society participate in social activities, how they perceive their self-reliance and independence, their residential stability and how concerned they are about their social well-being.

#### ***4.2. Community: social and cultural interaction impact***

The sense of social belongingness, shared customs, beliefs, practices and values, social and cultural obligations, community relationships, etc. are such elements that aid in building social capital and invoke a sense of social pride in the inhabitants of a particular society. Furthermore, the size, level of activity, infrastructure and services of voluntary associations, religious organizations and interest groups and how these institutions relate to one another also contribute to building activity networks, social cohesion and integration within the society.

Lending programs in the rural areas are not involved purely in the borrowing and lending of money, but also help build communities and social assimilation. While some NGOs and MFIs might introduce certain programs to promote social cohesion, some of the lending models and their administration have this aspect built as an integral part of their design. The 'peer group lending method', for instance consists of lending not to individual borrowers, but to a group of five to seven members who are responsible not only for the payment of their own instalments, but also of all the rest of the group members. Regular group-member meetings improve relations and make the entire process very productive.

#### ***4.3. Health: Impact on the physical and mental well-being***

Poverty is one of the leading killers in the world today, even outranking smoking as one of the leading causes of death (Haines and Smith 1997; Rowson 2001). The reason is evident: poverty exacerbates health and progressively pushes sufferers into declining well-being which sequentially instigates disease and death. Poverty and ill health, according to Rowson (*ibid.*) have a two-way relationship. Poverty leads to, and aggravates physical living conditions, poor sanitation, hygiene, and insufficient nutrition. As disease spreads, it leads to lower productivity, prevents people from working and drains their resources, thus driving them deeper and deeper into poverty.

The Global Health Council (GHC, 2007) reiterates this association between poverty and disease as follows: 'beyond the general ecology of many developing countries, a number of social and economic factors contribute to the high rates of infectious disease. Poverty, lack of access to health care, antibiotic resistance, evolving human migration patterns, new infectious agents, and changing environmental and development activities all contribute to the expanding impact of infectious diseases'. Farmer (1996:263) concurs by establishing the

association of disease with poverty: ‘one place for diseases to hide is among the poor, especially when the poor are socially and medically segregated from those whose deaths might be considered more important’.

The impact that health issues have on poverty and its eradication are so intertwined with so many other indicators of poverty that its significance can only be highlighted by posing it as an independent variable in a SIA study.

#### **4.4. Literacy: Impact on knowledge and awareness**

The need for education in rural areas can be deduced from a fact sheet published in January 2007 by the UNESCO Institute for Statistics (UIS 2007). The report estimated that 76.8 million school-age children did not attend school in 2004 (out of which 73.4 million live in developing countries). Out of that total, 7.2 million had dropped out, 23 million will enrol late and 46.6 million, about 61%, were unlikely to *ever* enrol. In terms of gender distribution, for every two boys who *never* enrol, three are girls.

Educating people and making them literate occupies a very critical role in the social development of any society. The primary reason being that the effects of education go much beyond merely sending children to school, they bring about a whole series of changes in the lifestyles, tolerance, behaviour, attitudes and perceptions of people towards others. Once educated, people tend to get a better notion of their rights, about others’ rights, and their duties and obligations to one another and the wider community.

Out of the four variables in the proposed Index, literacy is perhaps one of the most powerful one, as it creates knowledge, understanding and awareness – indicators which sequentially have a direct bearing upon issues relevant to health, for instance, to empowerment, community life and civil liberties, etc.

The four variables discussed above endeavour to encompass as many aspects of social impact as practically possible, given the fact that social and human behaviour add to the intricacies of measuring social impact. What needs to be appreciated at this stage is that each variable is *not* a stand-alone entity, and it should not be assumed that at any given instance, an individual is affected by only one indicator at a time. The process of social change is long and complicated and its outcome depends heavily on other social factors as well. Literacy for instance, raises awareness about HIV/AIDS prevention and educates people in how to take preventive measures, so it affects health-related issues, which, in turn, affects keeps them at work, and enables them to provide for their families, thus keeping them away from poverty, and thereby improving livelihoods. The whole process therefore works in coordination, as system. The next section discusses this characteristic of societies in detail.

### **5. The society as a system: viewing the society and social impact from a ‘systems’ perspective**

*Systems* have been described by various authors in a variety of contexts. Ackoff and Emery (1972) define a system as a ‘*set of interrelated elements, each of which is related directly or indirectly to every other element and no subset of which is unrelated to any other subset*’. They deduce from the above, two points that are core to the definition:

- (a) A system is an entity composed of at least two elements, and a relation that holds between each of its elements and at least one other element in the set.

- (b) The elements form a completely connected set, which is not decomposable into unrelated sets.

From the second point, it becomes obvious that although a system might be part of a larger system itself, it cannot be decomposed into independent subsystems; therefore ‘each subsystem is *not* independent of the other but forms part of a set that is bonded by the *interrelatedness* of other parts of the whole system’ (Ghalib 2004).

Looking at the social setup of societies from a *systems* perspective, each society is composed of a number of parts or subsets, every one of them being inter-related and not independent of one another. All these components or parts cannot be decomposed into separate, unrelated sets and only once they are integrated, do they form a social system. Aspects of societies such as health, gender equality and empowerment, communal relations, religious and cultural festivals, friendship networks, residential stability, social well-being, security and liveability, aspirations for the future, children’s schooling, manual skills, indigenous knowledge, adult literacy, interest groups, shared customs and practices, social support networks, etc. act as parts of the social system, that taken together form the system in its entirety.

Another important concept that arises is that since the parts of any system are void if viewed as independent entities, it becomes evident that systems in themselves are actually ‘*wholes*’ and have to be viewed as such. Failing this, if we deem the components to be stand-alone entities, their interrelatedness fails to hold true, which renders it void for such entities to be considered as parts of a whole system.

When the parts of a system perform their intended functions, they produce a powerful and multiplicative effect that is greater than the simple sum of the functions of the parts taken individually. The resulting synergy makes us understand why we have to consider systems in a more holistic fashion. Laszlo (1972:36) has particularly pointed out the synergetic effect that the idea of wholeness brings about in systems thinking: ‘the concept of *wholeness* defines the character of the system as such, in contrast to the character of its parts in isolation. A *whole* possesses such characteristics that are not possessed by its parts singly; the whole is therefore, other (and greater) than the simple sum of its parts’.

In order to illustrate with the help of an equation, we can use the indicators of social impact identified above, and assign them variables such as  $v_l$  for livelihoods,  $v_e$  for education,  $v_c$  for communities, and  $v_h$  for impacts on health.

If  $V_s$  = Sum of the variables,  $v_l, v_e, v_c, v_h, \dots, v_n$  and S is the ‘Social System’ in question, then the sum of the constituents,  $\sum$  will *not* be actually equal to the simple sum of these parts as shown below:

$$S [V_s \neq \sum (v_l + v_e + v_c + v_h \dots v_n)] \dots\dots\dots (1)$$

Instead, the effect produced by the synergetic whole will be greater than the mere summation of the individual parts:

$$S [V_s > \sum (v_l + v_e + v_c + v_h \dots v_n)] \dots\dots\dots (2)$$

What systems thinking and the social systems theory propagate is the inter-relatedness of the components of the social system, which taken together produce an effect far more powerful than the individual parts acting individually and on their own. Livelihoods for instance, cannot be improved without improving gender relations, which consequently affects borrower performance and business output. Lower levels of income affect savings, children’s schooling, nutrition and health. Declining health, on the other hand, results in escalating cost of

treatment. This consequently drains any savings and affects productivity, output and earning capability.

## **6. Principles of Social Impact Assessment**

Social impact assessment is guided by certain principles that dictate the methods to be applied, the policies to be implemented, processes to be followed and the concepts to be borne while planning and conducting an assessment. Since the 'impact' in question appraises primarily the social aspect, the analyses are deep-rooted in certain concepts that draw principles from fields pertaining to the humanities and social sciences, such as sociology, politics, social and cultural anthropology and psychology. Listed below are nine principles of SIA, put forth by the Inter-organizational Committee of the US Department of Commerce (1994).

### ***6.1. Involve the diverse public***

An SIA process concerns the public at large, which makes it all the more pertinent to engage all individuals as well as groups who have the potential to be affected by the assessment exercise. Public involvement can fit into the assessment process by not only their identification, but also by an understanding and interpretation of the manner by which they are affected by the various elements of the assessment being conducted. Communication between the assessors and other concerned stakeholders also forms a significant part of the process.

### ***6.2. Analyze impact equity***

The principle of 'impact equity' signifies that a good impact assessment study should cater to all sorts of groups in the society. Building on the first principle of including various groups of the society in an SIA, the second principle spells the need for highlighting the plight of certain minority groups that are more prone to vulnerability. These may include female borrowers, for instance, if they are very few in number, children, the elderly and those suffering from health-related issues such as HIV/AIDS. Such groups should be identified earlier in the 'impact scoping' process while designing the study.

Impact equity becomes even more significant as the purpose of an SIA is to gauge the impact of micro lending on not only individuals and households, but also the communities and the society in its entirety.

### ***6.3. Focus the Assessment***

Time and resource constraints lead to a fundamental question: if the social universe cannot be covered during an impact assessment, what particular factors need to be addressed? The scoping of the assessment will be determined while designing the study, based on the nature, needs, and requirements of the research. Rapid appraisal and investigative techniques, coupled with research objectives and institutional structure and outreach will determine what elements will be focused upon.

### ***6.4. Identify methods and assumptions and define significance of assessment***

Assessing impacts in the social sphere concerns not only individuals but also households and even entire communities. It becomes absolutely imperative that such vital stakeholders are involved in the process, before, during and after the course of conduct, by making them aware

of how the study is to be conducted and what methods and assumptions are to be used, and in what context.

#### ***6.5. Provide feedback on social impacts to project planners***

The process of feedback should be integrated in the overall design of the assessment exercise. If findings from the SIA feed back into the project design, corrective action can be taken to mitigate any adverse impacts and enhance positive ones. Impact assessment, therefore, should be designed as a dynamic process involving cycles of project design, assessment, feedback, remedial action, redesign, and reassessment.

#### ***6.6. Use SIA practitioners for conducting an assessment***

The need for professionally qualified, trained and competent people with social science training and experience cannot be overemphasized. An experienced SIA practitioner will know the data and be familiar and conversant with existing social science evidence pertaining to impacts that have occurred elsewhere, which may be relevant to the impact area in question. This breadth of knowledge and experience can prove invaluable in identifying important impacts that may not surface as public concerns or as mandatory considerations found in the institution's compliance procedures. A social scientist will be able to identify the full range of important impacts, which will result in his ability to select the appropriate measurement and impact assessment procedures to be followed.

#### ***6.7. Establish a monitoring and mitigation program***

Perhaps one of the most important principles to follow both before and during an impact assessment study is to monitor significant social impact variables and any programs that have been put into place to mitigate them. First, one needs to identify a monitoring infrastructure and embed it into the local planning process. In order to make it most effective and workable, ownership and responsibility of the processes of monitoring and mitigation should be taken up both between the agency as well as the community, and both activities should occur on an iterative basis throughout the project life cycle.

#### ***6.8. Identify data sources***

The quality of any impact assessment study relies heavily on the authenticity, robustness and integrity of the primary ingredient: data. The sources of the data have to be identified beforehand and one should determine the extent to which the sources will be relied upon and the methods of obtaining the source. This should be determined in the planning stages.

##### ***6.8.1. Primary Data from the Survey Area***

Perhaps the most significant source and the foundation of the quality, integrity and authenticity of any SIA will be the data gathered from primary sources. Face-to-face interviews, ethnographic observations, focus groups, participant observation and content analyses, etc. form sources of primary data. Researchers place a very high degree of reliance on primary data, which makes it all the more necessary that data collectors appreciate the value and ensure its legitimacy.

##### ***6.8.2. Secondary Data Sources***

Sources of secondary data include census surveys, physical and human geographical data, reports by insurance and financial regulatory agencies and law enforcement agencies, routine data collected by regional and national governments, and publications by the relevant sector organizations, etc. These secondary sources can be used in conjunction with primary data sources, in particular, key-informants and face-to-face interviews, thus ensuring verification of informant memories and allowing the interviewer to be aware of any potential sources of bias and conflict in such data.

### **6.8.3. *Published Scientific Literature***

The SIA should draw on existing, previously reviewed and screened social science literature which summarizes existing knowledge of impacts based on accepted scientific standards. Examples may include monographs, journal articles, books, and reports available from similar assessment studies undertaken in the past.

### **6.9. *Plan for gaps in data***

Despite all efforts, SIA practitioners sometimes have to produce an assessment in the absence of relevant or even necessary data. Evaluation of the missing information and developing a strategy for proceeding becomes important as well as necessary if the information is approximate. It helps to plan for such contingencies during the assessment planning process.

In instances of gaps in data, the level and degree of reliance to be placed on incomplete data and information is also vital and should be established beforehand. Likewise, it is also important to determine what issues are to be assessed and to what extent. Quite naturally, all assessors strive to identify and quantify significant impacts, thereby providing decision makers and the affected publics with information that is both as complete and as accurate as possible. In cases where the desirable goal cannot be met, it is better to be roughly correct on important issues than to be precisely correct on the unimportant ones.

## **7. Concluding Observations**

Microfinance institutions target the poor, with the aim of socially and economically empowering them. Donors make the funds available, while the MFIs facilitate their distribution and recovery. The donors, MFI staff and national and regional governments need and want to know how well the program is performing. Program evaluation by means of impact assessment studies provides the requisite information that provides vital feedback to make critical future decisions. Social impact assessment, in contrast to economic assessment, is still in its infancy. As research expands, the discipline will develop and more refined models will facilitate understanding of this multifarious area.

This paper has discussed perspectives of impact assessment studies with particular emphasis on the social aspect. The conceptual framework elaborated the stakeholders involved in the process and the channels through which the impact takes place. The main emphasis of the paper was to identify and discuss the variables of social impact and how they are assessed. While every impact assessment study, be it economic or social, will strive to achieve such results that portray a picture that is closest to reality, it has to be appreciated that such studies will always leave room for improvement, regardless of how rigorously they have been carried out. This holds true for social impact assessments in particular.

Whereas limitations are inherent of any model and measurement index of this nature, the social impact measurement index (SIMI) along with the generic model presented in this paper attempt to take into consideration the complexity and intricacy that comes along with social

indicators and their evaluation. Whilst striving for technical best practice should be a key goal for all players in this field, it will be imprudent not to recognize that impact assessment is a '*battle field of knowledge*' (Long and Long 1992) in which different actors seek to influence the knowledge creation process so that it meets their needs (Hulme 2000).

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