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FEMIP

A review of the economic and social impact of microfinance with analysis of options for the Mediterranean Region

A review of the economic and social impact of microfinance

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With analysis of options for the Mediterranean Region

Foreword by the Vice-President

The rapid growth of the microfinance industry in Mediterranean Partner Countries reflects the widespread belief among practitioners and stakeholders that entrepreneurial activity can flourish even in the poorest communities, and that access to financial services can enable clients to take control of their lives, raise their standard of living and increase the wellbeing of the local community. Whilst these benefits may be self-evident to practitioners on the ground, attempts to provide scientific proof have been indecisive. At the same time, the demands on microfinance institutions to demonstrate that programmes are living up to their economic and social potential have prompted a large number of quite diverse impact assessment studies.

Therefore, the Bank was pleased to receive Sanabel's request to take stock of current views of the impact of microfinance and to prepare this discussion paper on where we stand in the Mediterranean region. To the best of our knowledge this is the first time that the Mediterranean impact studies have been reviewed in a comprehensive way. Furthermore, the analysis is closely related to some interesting possibilities that the Bank is assessing to provide support for the coordination of impact assessment among MFIs, and the mobilisation of remittances as a potential source of finance.

The study was supported by the FEMIP Trust Fund in line with its objectives to share and increase understanding of the economic and financial issues associated with the development of the partner countries, and will be presented at the FEMIP conference on "Microfinance in the Mediterranean: what impact?" in Tunis in May 2008.

I look forward to your participation in the debate starting in May and the discussion of microfinance impact and its implications for the financing and implementation of investments programmes in this particularly dynamic sector.

Philippe de Fontaine Vive Curtaz
Member of the EIB's Management Committee responsible for FEMIP

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Final Report

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Table of Contents

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The study is financed under the FEMIP Trust Fund. This Fund, which was established in 2004 and has been financed – to date – by 15 EU Member States and the European Commission, is intended to support the development of the private sector via the financing of studies and technical assistance measures and the provision of private equity.

The authors take full responsibility for the contents of this report. The opinions expressed do not necessarily reflect the view of the European Investment Bank.

Executive Summary

The European Investment Bank was requested by Sanabel, the microfinance network of Arab countries, to prepare a study examining the economic and social impact of microfinance in the Mediterranean region.

This study[1] fills a gap in our knowledge of the microfinance industry in Mediterranean Countries. Although many studies from other regions of the world, dating back to the 1990s, have been published in academic journals and subject to extensive review, the more recent impact assessment studies from the Mediterranean countries have until now been largely neglected. Much of this work exists in the domain of the microfinance institutions themselves rather than in the academic journals and therefore this study goes beyond a straightforward review of the academic literature. Indeed it was necessary to contact the microfinance institutions directly in order to get a comprehensive overview of this information, and the value added of the study is that it helps to better understand the regional perspective.

Economic and social impact assessment has an important role to play in the development of the industry. At a strategic level, it helps to identify the way ahead and to support pragmatic solutions against a background of increasing and sometimes unrealistic expectations of what the industry can deliver. In addition, by informing on the outreach of microfinance, impact assessment plays an essential part in attracting funds from public sector donors and other stakeholders.

Main findings of the study

Micro-credit is the predominant microfinance offering in the Mediterranean region, and clients typically do not have access to services such as micro-savings, insurance and money transfer systems. In contrast to other regions of the world, banking sector regulations in the Mediterranean constitute a relatively high hurdle for microfinance institutions that might consider accepting deposits and none has made the transformation to banking status[2].

The review of impact assessment studies both from the Mediterranean region and worldwide shows an accumulation of evidence of the beneficial impact on individual clients, households, and micro-enterprises. Whilst this may not constitute proof in scientific terms due to the inherent methodological difficulties involved in impact assessment, it nevertheless provides some well-based support for what many practitioners regard as the self-evident benefits of microfinance. The impacts in the Mediterranean are largely similar to those reported in other regions, and the most robust results are the improvement in household income and enterprise profits and revenue. There are some differences however: whereas the increased income is reflected in improved housing and increased food consumption in other regions, these variables are not affected to the same extent in the Mediterranean.

At the enterprise level, the impact on employment is generally weak, because the majority of micro-enterprises remain one-man businesses. However, benefits to enterprise are more apparent from increases in productivity, and improved

[1] The study was financed by the FEMIP Trust Fund and undertaken by NODUS Consultores in association with the University of Salamanca. It was prepared for discussion at the 2008 FEMIP conference "Microfinance in the Mediterranean: what impact?" in Tunis May 2008.
[2] With the exception of Yemen among Sanabel's member countries.

relationships with suppliers. Credit is typically used for working capital which is often the binding constraint on enterprise development, and lending for capital formation is less common. The impact on household savings is also difficult to identify as the boundaries between the household and the enterprise are often indistinct, and savings may be held in the form of enterprise inventories. Furthermore, measures of clients' perception in the Mediterranean show a highly positive view of the impact of microfinance on living conditions.

The way ahead

Two main options can be considered for the further development of microfinance in the region. The first is the expansion of micro-savings. Experience from other regions suggests that micro-credit works better when micro-savings are available at the same time. Furthermore, there are strong economic arguments to support the view that in many situations micro-savings are superior to micro-credit as a means of meeting the needs of the poor.

The second option concerns the provision of other non-credit services, including money-transfer and micro-insurance, for which there is also evidence of substantial potential benefits. For example, the application of new technologies in money-transfer has potentially far-reaching synergies with other microfinance services by addressing the problem of transactions costs at its root. Use of remittances is a particularly interesting case, as empirical evidence suggests that the choice of transfer channel may be sensitive to cost.

Whilst the practical difficulties should not be underestimated, regulatory reform permitting deposit-taking and broader provision of other non-credit services by microfinance institutions is therefore an option that deserves to be considered. Should this materialise the EIB could consider how to support the development of these products.

The future options for improving consistency of impact assessment as well as filling gaps and addressing the changing needs of the industry are summarized as follows. First, recent methodological developments to reduce sampling bias (so-call “randomized control” techniques) offer the potential to address some of the problems of impact assessments seeking decisive scientific proof. A number of these studies are currently in progress and the first batch of results should be analysed before applying the technique more widely. Second, panel data (looking at both changes over time and differences between treatment groups) are recommended particularly for follow-up studies. And third, pooling of effort has the potential to spread costs, increase consistency and to improve understanding of what works where.

Support from the EIB

The European Investment Bank is currently exploring two specific proposals to support impact assessment and the development of new products with technical assistance from the FEMIP Trust Fund.

- Introduction of impact assessment tools for microfinance operations, together with Sanabel, with the aims to standardise methodology and improve communication in order to better meet the needs and expectations of stakeholders. The project would assist microfinance institutions in establishing impact indicators and provide support for IT development, data collection, training, and reporting.
- Funding of technical assistance for an internet-based solution to connect the remittances of Mediterranean migrants with micro-credit operations. This project aims to enhance the benefits for these substantial financial flows building on the potential outlined in the “Study on Improving the Efficiency of Workers’ Remittances in Mediterranean Countries”, EIB (2006).

Abbreviations

AfDB	African Development Bank
AIMS	Assessing the Impacts of Micro-enterprise Services
AFD	Agence Française de Développement
ASALA	The Palestinian Businesswomen's Association
BTS	Banque Tunisienne de la Solidarité.
CGAP	Consultative Group to Assist the Poor
DFID	Department for International Development
ESGC	Enterprise Solutions Global Consulting
FDF	Family Development Fund, Egypt
FNAM	Fédération Nationale des Associations de Microcrédit (Maroc)
FONDEP	Fondation pour le Développement local et le Partenariat
IDS	Institute of Development Studies
IKM	Impact Knowledge Market
IPCRI	Israel / Palestine Centre for Research and Information
KfW	Kreditanstalt für Wiederaufbau
MFI	Microfinance Institution
PIA	Participatory impact assessment
ROSCAS	Rotating Savings and Credit Associations
SEEP	Small Enterprise Education and Promotion
SME	Small and Medium Enterprises
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
UNRWA	United Nations Relief and Works Agency
USAID	United States Agency for International Development

1 Introduction

The European Investment Bank was requested by Sanabel, the microfinance network of Arab countries, to prepare this study for discussion at the 2008 FEMIP conference "Microfinance in the Mediterranean: what impact?", in Tunis May 2008. The study was financed by the FEMIP Trust Fund and undertaken by Nodus Consultores in association with the University of Salamanca.

Much of the recent empirical work has already been surveyed in the Economic Journal (2007) and other publications[3], and the objective of this study is to draw out the relevant conclusions for the Mediterranean. Indeed, regarding impact assessment, this is the first study to attempt a comprehensive review of all of the assessments made in the region. Many of the studies from other regions of the world, dating back to the 1990s, have been published in academic journals and subject to extensive review. However, the impact assessment work in the Mediterranean countries, is more recent and has not been so widely debated. Much of this work is in the domain of the microfinance institutions themselves rather than the academic journals and therefore this study goes beyond a straightforward review of the academic literature. In order to get an overview of this institutional information, a survey of 53 MFIs in the region was conducted and informal discussions took place with a number of other institutions.

1.1 Objectives of the Study

The specific objectives of the study, as described in the terms of reference are:

- *to appraise the existing literature and to understand what valid conclusions can be drawn about the economic and social impact of microfinance with a particular focus on the circumstances and specific issues applying to the Mediterranean Partner Countries;*
- *to set out the implications of the foregoing analysis for the future design and implementation of microfinance impact assessment in the Mediterranean Partner Countries (taking note of available information on the monitoring tools and methods used by microfinance practitioners);*
- *to identify and appraise gaps in the existing literature with regard to geographical coverage of Mediterranean Partner Countries and to the methodological and analytical limitations of the existing studies;*
- *to summarise the general implications for the design and implementation of microfinance instruments; and*
- *to outline options for the way forward with microfinance impact assessment in the Mediterranean Partner Countries.*

1.2 Background

The microfinance industry is going through a period of rapid scaling up. In each year over the period 2004 to 2006 the number of borrowers worldwide, according to Mix data, grew at an annual rate over 20%, and the gross loan portfolio increased over 40%. In the Mediterranean the expansion of the industry has been even faster[4] with both the number of borrowers and the gross loan portfolio increasing at rates in excess

[3] See also the World Bank (2008).
[4] Key aspects of the microfinance markets were covered in EIB (2006a) for Morocco, and EIB (2006b) for Egypt, Gaza West Bank, Jordan, Lebanon and Syria.

of 43% each year. Even so, microfinance remains relatively small with estimates of total outstanding loans in the order of one quarter of a percent of developing country GDP, and an aggregate penetration rate of approximately 1% (measured as the ratio of clients to total developing country population), though penetration is much higher in some countries.

For the advocates of microfinance, its small scale and low penetration rates are indicators of future possibilities. If microfinance is to realise its potential to make inroads into poverty, through enterprise and job creation, and contribute to the achievement of the Millennium Development Goals, it must continue to scale up. This proposition raises many issues relating to the future needs for subsidies, which have a particularly important role in the Mediterranean region, the need for enabling legislation and regulatory reform, and the risks of "mission drift[5]" as the MFIs (microfinance institutions) target increasingly commercial goals. Despite the uncertainties, microfinance nevertheless has some very attractive characteristics. As an instrument for economic development it offers a home-grown solution, or at least one that can be rapidly assimilated after a relatively short period of external support. Once the MFI reaches a position of financial sustainability, access to commercial finance enables a rapid roll-out of the programme. Moreover, if it is correctly targeted, access to finance lifts what would otherwise be a constraint on micro-entrepreneurs and enables them, by their own enterprise, to raise income and reduce poverty. In this way, it potentially avoids many of the pitfalls of scaling up aid with its associated constraints of diminishing returns and planning overheads.

However, the potential of microfinance has probably been over-stated. Despite many studies addressing the social and economic impact of microfinance, decisive proof remains elusive, and there is a growing body of literature expressing doubts about some of the more extravagant claims of microfinance advocates. The backlash not only points out the some of the pitfalls of impact assessment but also expresses deeper concerns. For example, "What's Wrong with Microfinance" (2007), raises questions about opportunity costs, and potentially harmful impacts; "Microfinance Banana skins" (2008), surveys the concerns from within the industry on governance and other issues, and "Finance for All" (2008), expresses doubt about using subsidies to support credit instead of non-credit instruments such as savings and money transfer systems.

1.3 Outline of the Report

Chapter 2 discusses the industry context, highlighting the key lessons from the recent empirical academic literature. The difficulties and issues involved in impact assessment are analysed in Chapter 3. Chapter 4 reviews the ten impact assessments identified in the Mediterranean region, and discusses the results in comparison with the much larger sample of impact assessment studies worldwide. Taking account of this evidence, Chapter 5 sets out the options for the industry, comments on the future conduct of impact assessment and discusses options for EIB support. Conclusions are in Chapter 6.

[5] Defined by Greeley (2004) as a tendency for the market-led approach to direct organisational culture and operational practice away from the MFIs poverty mission.

2 The microfinance industry

The growth in the microfinance sector has prompted a large number of academic empirical studies[6] examining different aspects of the industry. These studies have implications for the design of microfinance programmes as well as broader issues relating to the structure and regulation of the sector. This chapter reviews the findings of this literature which are relevant for the situation in the Mediterranean region, and this discussion places in context more specific questions relating to microfinance impact assessment.

2.1 How microfinance works

The basic rationale for intervention in microfinance is due to the failure of financial markets to adequately supply services to the poor and the economically marginalized. The lack of ability to enforce contracts, combined with information failures and high transactions costs mean that markets either do not exist or fall short of the required level of service.

High transactions costs are often cited as an obstacle to increasing outreach. MFIs that seek to cover their operating costs must pass on the cost of providing small loans in remote areas in the form of high interest rates. However, two sets of empirical studies suggest that this obstacle may not be as serious as it appears. First, case studies in Sri Lanka[7] and Mexico[8] show that micro-enterprise returns are generally high, and returns greater than 10% per month are not exceptional. Second, results from Dhaka[9] and S Africa[10] suggest that the elasticity of demand for credit is low. Taken together, these findings suggest that high interest rates[11] need not be an obstacle to growth of sustainable microfinance.

Different types of market failures have been widely examined in the literature. Bester (1985) discussed the use of interest rates and collateral as screening mechanisms in cases of asymmetric information. However, collateral is not typically available for microfinance and when lenders cannot distinguish between high-risk and low-risk enterprises there is a tendency for loan pricing to discourage the low-risk projects. This problem of adverse selection may mean that there is no market-clearing price and that services cannot be provided by the market[12]. High transactions costs tend to accentuate the problem by raising interest rates to a point where low-risk projects are discouraged. Furthermore, when asymmetries of information prevent lenders from monitoring what the loans are spent on, and when contract enforcement is weak, there are problems of moral hazard where loans may be diverted to uses where repayment rates are low.

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[6] The recent academic empirical literature has been reviewed in the Economic Journal (2007), and the World Bank (2008).
[7] DeMel, McKensie and Woodruff (2006)
[8] McKensie and Woodruff (2007)
[9] Dehejia, Montgommery and Morduch (2005)
[10] Karlan and Zinman (2007)
[11] Local money-lenders and other altenative sources of finance for micro-enterprises usually charge much higher rates than MFIs.
[12] Stiglitz and Weiss (1981) analysed a situation where lenders are reluctant to raise interest rates because of concerns about adverse selection but instead prefer to keep interest rates low and ration credit by non-price criteria.

Group lending has offered a practical way to address these market failures. The group model provides a screening and selection process undertaken by insiders who have access to the relevant enterprise-specific information. Combined with incentives of progressive access to larger loans, social pressure from within the group also serves to enforce repayment. The effectiveness of these incentive mechanisms is evident from the high reported rates of repayment[13].

2.2 Implications for the design of microfinance programmes

The diversity of microfinance programmes, both because of country differences and differences in the MFIs, means that it is difficult to transfer a successful lending model from one context to another. However, the recent empirical literature, indicates a number of general lessons about screening and enforcement. In addition, experience of conversion from group to individual lending is particularly relevant in the Mediterranean context. The switch from group to individual lending by some MFIs has provided interesting evidence on the relative merits of the two lending models. Experience from the Philippines[14] shows that the conversion to individual loans does not reduce the repayment rates on pre-existing loans, and furthermore, the conversion makes an important contribution to growth by attracting new clients. The results suggest that potential clients are deterred by the peer pressure of group lending and that clients with low risk micro-enterprises tend to avoid it because of the additional risks that they would take on as a result of entering joint liability commitments.

Screening and monitoring are important aspects of programme implementation. Evidence from Peru[15] confirms that screening ex ante and monitoring ex post both have a significant impact on success. Furthermore, the same study shows that group lending is more effective when groups are formed voluntarily than when clients are assigned to groups by the lender. This suggests that screening by the group members themselves plays an important role in risk mitigation. In addition, results of a study in Thailand[16] suggest that this ex ante screening is particularly appropriate in relatively affluent areas, whereas in poorer communities moral hazard is the primary concern and it is more important to focus on informal sanctions as a means of enforcing repayment.

2.3 Beyond micro-enterprise credit

2.3.1 Savings

Until now, the focus of microfinance in the Mediterranean has been largely on credit with a particular focus on support for micro-enterprises. However, the possibilities of providing other microfinance services are being debated and in some cases regulators are considering the transformation of MFIs to banking institutions. Therefore empirical evidence from the provision of non-credit microfinance services in other regions is particularly relevant to the Mediterranean.

[13] A number of studies have offered explanations of how group lending works, emphasising issues of moral hazard (Stizlitz 1990), adverse selection (Ghatak 1999), and contract enforcement (Besley and Coate 1995). In a recent study of group lending in Thailand, Ahlin and Towshend (2007) concluded that as microfinance markets become more mature, there is a tendency for the binding constraint to shift from contract enforcement to more subtle problems of information and selection.
[14] Giné and Karlan (2006)
[15] Giné et al (2006)
[16] Ahlin and Townshend (2007)

There are strong economic arguments to support the view that savings products are complementary to credit[17], and in some ways preferable to it, in meeting the needs of the poor. Clients have different needs, and micro-credit is not always the best product. Dercon (2008), for example, makes the case that risk weighs heavily on poor households and prevents them from taking the risks attached to new and more productive enterprises that would potentially break the cycle of poverty and low growth. These economic arguments are supported by recent evidence showing that when savings are made available the demand for credit declines[18]. This supports the view that the underlying need of the clients is for consumption smoothing, or reduction in risk, and that credit is a poor substitute for savings in meeting this need.

Consumer protection is a greater concern for deposit-taking than for provision of credit. This is particularly the case in the Mediterranean where the distribution of MFIs has a long tail of relatively small MFIs without the capital base required to qualify as banks and with limited resources to build what would be a new line of business with quite different operation and managerial needs. Furthermore, for historical reasons the role of the state in many of the regional financial markets has not promoted entry of private sector entities. Therefore, despite the arguments in its favour, the development of micro-savings in the region faces difficult regulatory and structural constraints.

2.3.2 Money transfer and remittances

Transactions costs are a key consideration in nearly all microfinance activities. For the micro-entrepreneur, carrying cash may be significant business risk, and for the MFI disbursements and collections have a large impact on operating costs. Therefore, initiatives to reduce money transfer costs have important synergies with nearly all other microfinance activities.

New technology is reducing the cost of money transfer both within countries and across borders (remittances). Some of the key issues relating to the potential benefits of these money transfers and the importance of transactions costs are addressed in the EIB's "Study on Improving the Efficiency of Workers' Remittances in Mediterranean Countries"[19].

Recent evidence from the academic literature supports the view that reducing transactions costs will lift a constraint on these flows. Gibson et al (2006) for example, estimated that an 10% reduction in costs would increase remittances by 2%. Clearly, the potential cost reductions associated with internet or mobile phone money transfers are far greater than 10%, and this indicates the significant potential to further support and enhance these financial flows. Furthermore, there is evidence from El Salvador[20] that when remittances are channelled through the banking system they have a positive impact on outreach.

2.3.3 Consumer credit

Consumer credit is a significant part of the global microfinance industry. In Indonesia, for example, it makes up as much as 50% of micro-credit[21]. It is important to distinguish this from micro-enterprise lending both in terms of its social and economic impact and its risk profile. Enterprise lending, for example, has the objective of generating new income that will cover the repayments, whereas consumer credit relies on a pre-existing source of income. However, the benefits of consumer credit should

[17] Ahlin and Jiang (2007) develops the long run equilibrium theory, which suggests that lasting impacts of micro-credit depend on the simultaneous facilitation of micro-savings.
[18] Ashraf et al (2006)
[19] EIB (2006).
[20] Demiguc et al (2007)
[21] Johnson and Morduch (2007)

not be underestimated, and Karlan and Zinman (2006) report a robust link between consumer credit and household welfare. A mix of consumer and micro-enterprise products may be a cost-effective solution for MFIs, as appears to be the case in a number of cases in the Mediterranean.

2.3.4 Other non-credit services

Micro-insurance has some obvious attractions in offering clients the possibility to reduce risk. However, recent studies draw attention to the reluctance of clients to take up these products. In a case study in India[22], the up-take of rainfall insurance was very low, and the study highlighted the difficulty in achieving a good client understanding of the product, and a lack of trust due to failures of what clients perceived as similar products in the past. Experiments linking insurance to credit in Malawi[23] also achieved a lower up-take than straight credit, even taking account of the additional cost.

In contrast to the poor up-take of insurance, studies show that clients place a high value on extension services. This is a broad category of services including business skills and technical advice about operation of specific micro-enterprises. Two recent studies by Karlan and Valdivia (2006), and Asraf, et al (2007) both confirm that programmes that include extension services achieve a better client retention rate.

2.4 Sustainability and opportunity costs

Achieving a position of sustainability, where revenues cover costs, is the goal of many MFIs. Whilst the reduced dependence on subsidies enables the MFI to expand and reach new clients, it also brings new commercial pressures and risks of mission drift. The debate remains far from settled on whether sustainability on a broad scale is desirable or even feasible.

Two recent papers by Aremdariaz et al (2005), and Cull et al (2007) show that many MFIs, and particularly the smaller ones remain dependent on subsidies. In a sample of 124 MFIs in 49 countries, only half of what are probably the world's most cost-efficient MFIs are found to be self-sustainable.

This raises two issues which have particular relevance in the regional context. First, many MFIs are too small to benefit from economies of scale. In the Mediterranean lack of expertise and resources in part explains why many MFIs are unable to undertake impact analysis. Second, many MFIs that focus explicitly on serving the poor rely on some form of subsidy. Some are charitable institutions and others, particularly in the Mediterranean, receive government subsidies aimed at achieving social objectives. (Implicit subsidies are also present where MFIs are structured in such a way that they do not need to earn a market return on capital). These subsidies have an economic opportunity cost, and a critical issue for the industry is the relative merit of support for micro-credit rather than non-credit financial services (such as savings and development of money transfer systems), and the justification for subsidising microfinance versus the alternative provision of services to the poor such as healthcare, education and infrastructure.

This concept of economic opportunity cost, which is central to the cost-benefit analysis of investment projects, is typically absent from microfinance impact assessment. The first step in cost-benefit analysis is to ask what the alternatives are against which the project is to be evaluated. However, impact analysis for microfinance neither evaluates opportunity costs nor does it identify and appraise the alternatives. It implicitly

[22] Giné, Townshend, and Vickery (2007)
[23] Giné and Yang (2007)

compares microfinance against a do-nothing scenario, and this amounts to setting a very low hurdle for acceptability[24].

Indeed, over the medium term the use of subsidies in microfinance has a real opportunity cost and the justification for these subsidies is a key issue for the industry. However, in quite a few cases alternatives for reaching the poor are limited. Investments in health, education and infrastructure are subject to their own constraints, and microfinance may provide one of the few opportunities to target specific social and economic goals in the short term. In such cases the do-nothing scenario is arguably the only realistic alternative.

[24] Ellerman (2007)

3 Impact assessment methods and issues

The choice of experimental method plays a large part in determining the cost of the impact assessment and the validity of the conclusions that can be drawn from it. In practice, compromises are frequently made in experimental design and the use of control groups. Most impact assessments may be described as quasi-experimental, and they seek to draw inferences from differences between groups with different situations or treatments. Studies that use non-experimental methods and non-random survey data inevitably face criticism regarding the validity of their conclusions. This chapter describes some of the key difficulties in conducting impact assessment and the tools that have been developed to address these issues.

3.1 The challenges for economic and social impact assessment

The more mature phase of market development poses new problems for intervention. In many ways, the questions of how best to proceed in a growing market are more complex than those in the start-up phase. Governments and donors have to make difficult decisions about when to draw back from sustainable MFIs and when further support is needed to move into new areas or products, and how to regulate. These developments in the market raise a host of new questions for impact assessment. In their recent paper for the World Bank, Karlan and Goldberg (2007) concluded with 21 outstanding issues for impact analysis, divided into nine categories. Faced with such a laundry-list of issues there is a risk that impact analysis will simply be unable to live up to expectations.

Competition and growing financial autonomy mean that MFIs have increasing needs for market and client data[25]. At the same time there is a perception of increasing pressure to demonstrate economic and social benefits. The microfinance industry is not alone in this regard, and increasing attention is paid to social and environmental impact assessment in other sectors of the economy. For large industrial projects, for example, these assessments are part of the process of planning consent.

Over and above this general trend, impact assessment for microfinance faces a number of specific challenges. The track record can be described at best as a partial success, and impact assessments to date have fallen short of conclusive proof. The assessment cost is a potentially significant item for MFIs pursuing commercial objectives. Furthermore, it is not clear that the current impact assessment studies are responding to the changing needs of the industry. These problems are at least in part due to the difficulty of conducting assessments against a background of multiple objectives.

Different groups of stakeholders have different needs and expectations regarding impact assessment. A common distinction is made in the literature between two stakeholder groups. Donors and policy-makers require proof that the microfinance program is having the desired outcome, which may be a condition for continued support for the program or the application of a similar model elsewhere. Practitioners, however, tend to be more focused on questions that might affect the operation of the business, and want to learn lesson that will improve the offerings to clients, the rate of client retention, the recovery rate, and so on. Impact assessment is sometimes also

[25] In some cases the amount of detailed information published by MFIs about clients by far exceeds what would be expected of a typical private company operating in any other sector of the economy.

considered an integral part of the MFI's governance, with implications for monitoring social performance and setting the policies and strategy of the MFI[26].

Furthermore, access to new sources of finance brings new stakeholders who have their own needs for impact assessment albeit in a different form. Socially responsible investors, who make up a large proportion of the international capital flows into the sector, have an interest in social and economic impacts, as do microfinance ratings agencies. In the long term, the fulfilment of social objectives gives the MFI legitimacy which ultimately affects its licence to operate and its business risk. These broader concerns are shared by governments and regulators as well as investors.

3.2 Methods and tools for impact analysis

Impact assessment methods have adopted different techniques to address the fundamental problems of i) establishing a counterfactual, or control group against which the impact is measured, ii) attribution of the impact to microfinance, as opposed to other differences in the environment and iii) determination of the statistical significance of the change. These problems are further exacerbated by selection bias resulting from the natural tendency of a microfinance business to be drawn to the more entrepreneurial clients, and vice versa. The general methodological issues have been reviewed in the literature (see SEEP, 2000, Karlan, 2001, Goldberg, 2005, Khandker, 2005, and Karlan and Goldberg, 2007), and some of the key points are discussed in more detail in Annex II.

3.2.1 Impact Assessment Tools

Much of the basic information required to assess the social and economic impact of microfinance also forms part of the management information system of the MFI. Details of client income levels, for example, would be required to make an assessment of poverty alleviation but would also be important criteria for commercial decision-making relating to loan sizes and other features of the microfinance services offered to clients. Furthermore, although no two MFIs are identical, their common needs for client and market information has made it worthwhile developing standard assessment tools which can be adapted to the specific local conditions. These tools, consisting of questionnaires and assessment methodologies have been developed to meet both the needs of the MFIs for cost-effective market information and at the same time provide a basis for a more general social and economic justification of microfinance programmes.

The first set of assessment tools was launched under the AIMS (Assessing the Impact of Microenterprise Services) project by USAID in 1995. Even though AIMS reports were conducted more than 15 years ago, it continues to be the most prominent world reference regarding microfinance impact assessment. Five tools were proposed comprising both quantitative and qualitative methods (SEEP, 2000): impact survey, client exit survey, analysis of the use of loans, services and savings over time, client satisfaction survey and client empowerment analysis. Concerning the impact survey, which represents the core of the impact assessment, AIMS proposal is to use a control group comparison formed by incoming clients. Studies are statistically validated, but usually no further econometric instruments are applied.

Two focus groups elicit qualitative feedback from clients on satisfaction with the microfinance services provided, and more complex issues relating to client empowerment. In order to avoid the so-called fungibility bias, that is, the possibility that the credit provided by the MFI is not used for the productive intention for which it was requested and, therefore, no impact is perceived in the enterprise level, AIMS focused

[26] Sanabel is coordinating a social performance management project in the region, funded by Oxfam Novib, in cooperation with MFC as technical assistance provider.

on the client and his business in the context of the household, and developed the concept of "Household Economic Portfolio model". AIMS proposes a mid-range methodology, which costs less than the scientific methods used in academic research. This methodology is intended for microfinance practitioners conducting periodical impact assessments, to support the development of their activities. With this purpose, it also includes some aspects of market research.

The IKM (Impact, Knowledge, Market) methodology, developed by Planet Finance and particularly present in the Mediterranean region, also uses a combination of quantitative and qualitative methods. Surveys address the impact on clients as well as details of household income and characteristics, client satisfaction, analysis of existing and potential market demand, and monitoring of drop-outs. Qualitative tools are based on focus groups and participatory rapid appraisal. A distinguishing feature of the IKM methodology is the support at the planning and design phase to identify the key issues that the MFI wants to address and to set out the institutional and market context for the assessment. IKM is also among the middle range methodologies, and the broad focus of the reports is shared with the AIMS project. The main difference is that IKM has a section devoted to market research, “Financial services use and access”.

3.2.2 Social performance assessment tools

For MFIs with a social mission there are broader issues, relating to the social context, that go beyond the assessment of direct social and economic impacts. These issues include the governance of the MFI itself (social performance auditing), its mission statement and implementation capacity (human resources), and the assessment of indirect social impacts beyond the client base. Social Performance Assessment (SPA) tools which address these issues are based on relatively simple, low-cost indicators which may be adapted to the specific needs of the MFI. SPA potentially satisfies many of the requirements[27] for social impact assessment. Hence, SPA might in some cases provide a low-cost alternative to impact assessment.

A number of SPA tools, encompassing different approaches and emphases, have been developed and tested in recent years[28]. An initiative by CGAP, the Ford Foundation and the Argidius Foundation in 2005 led to the formation of the Social Performance Task Force tasked to reach a common understanding on learning from this work and to try and establish industry standards. Several of these approaches are now being assessed through user surveys.

For example, the CERISE tool evaluates the intentions and actions of the MFI with a focus on internal systems and organisation process in order to determine whether the institution has in place the means to attain their social objectives. Another tool, the Progress out of Poverty Index focuses on assessment at the client level by measuring changes in poverty-related outcomes. And M-CRIL’s social rating tool aims to assess the likelihood of an MFI achieving its social mission in line with accepted social values.

3.3 Cost considerations

The cost of microfinance impact assessment varies greatly both in terms of the financial cost and the time necessary to establish a baseline and assess the changes. Impact assessment studies typically do not report their costs, and there has not yet been any accurate survey of the costs of impact assessments. Hulme (1997) gave some indications of the wide range in possible costs, which can vary from tens of thousands for a limited field survey to millions for a full-blown scientific assessment, and this wide range is still relevant today.

[27] Some would take the view that microfinance is a forerunner of a broader and deeper financial system whose social effects are better understood.

[28] Described by CGAP (2007).

In some cases the costs are borne by microfinance institutions. For example, a small scale client survey, with recall methodology if there is no baseline, using triangulation to check accuracy, may be undertaken by the field staff of the MFI. Moderate budget studies typically use a mix of techniques incorporating both qualitative and quantitative analysis. This mixed approach has become widely accepted. Furthermore, there are important connections between monitoring at the program level and the impact assessment itself.

Table 3.1 Summary of Assessment Tools

Tools	Description
Impact Assessment Tools	
AIMS	5 tools combining quantitative and qualitative methods
IKM	Quantitative and qualitative assessment methodology as well as research planning methodology
Social Performance Tools	
CERISE	Evaluation of the intentions and actions of the MFI
SPA	Use of financial and client information as proxies for social performance indicators
ACCION SOCIAL	Comprehensive social assessment with validation through external surveys and other secondary data
Progress out of Poverty Index	Low-cost score card approach to assess poverty and track changes
FINCA	Comprehensive tool covering: loan data, household expenditures, social metrics, etc.
Social Rating Tools	
M-CRIL Social Rating	Covers both organisation systems and results to assess efficacy in meeting client needs and inclusion of the poor.
Microfinanza Social Rating	Two tools to assess how well the institution is meeting its social mission in terms of service provision and reaching the poor.
Planet Rating	Evaluation based completely on information available at the MFI level.

Moderately complex impact assessments receive support from governments, donors and commercial sources. They use statistical analysis, to examine samples of households in the thousands. In many instances they conduct repeated rounds of interviews to track performance over time. The most complex studies have been oriented towards "proving" the level of impact with high levels of reliability, and were targeted to an audience of policy-makers and researchers. These studies conducted research over a period of more than 5 years including three rounds of interviews of a sample of over 10 000 households[29].

Furthermore, cost is no indication of quality. While small-scale approaches have provided useful practical guidance, there are also cases where much higher-cost studies have failed in their intended objectives due to poor design[30]. Qualitative / participatory studies are not necessarily cheap, and the quality depends on the quality of the researchers. However, it is clear that high-quality "scientific" studies with rigorous control and analysis cannot be achieved on a low budget.

3.3.1 Alternative approaches

The expense and difficulty involved in making a thorough impact assessment have led to the consideration of an alternative approach which seeks to identify valid impact

[29] Hulme op.cit.
[30] "The growing literature… is replete with details of the pitfalls of various approaches", Ledgerwood (1999).

proxies. This approach inevitably implies a focus on the institutions providing the service (Otero and Rhyne 1994), rather than the clients themselves. For example, evidence that clients are willing to buy the service suggests that it meets a need and generates economic value. High repayment and low arrears are indicators of high willingness to pay. However, these proxies have drawbacks. A client drop-out, for example, could be due to a failure of the product to meet the underlying needs, or it may reflect a change in the client's circumstances due to factors outside the scope of the microfinance program. If the interest rate is subsidised, the clients' willingness to pay may be below the cost of providing the service. And in addition, these proxies cannot estimate the magnitude of the impact, intra-household effects are not captured, and long-term development impacts and the benefits in terms of poverty reduction are not measured.

3.3.2 Cost –effectiveness

The cost-effectiveness of the more sophisticated impact assessments, aimed at convincing or influencing governments and donors, have not been subject to formal analysis. The costs of these studies can be relatively large, but it is not possible to assess whether a less costly study would have achieved the same result. Therefore, the budget allocations for these kinds of impact assessments rely to a large extent on judgement.

However, the benefits of smaller-scale impact assessments to the MFI are more tangible. Client surveys, for example, may have measurable financial impacts if they lead to changes in operational design. This question was addressed by Copestake (2004) in a study of social performance assessments in a sample of four MFIs in Africa, Latin America and Eastern Europe[31]. The institutions vary considerably in size, and face a diverse set of market conditions. Therefore it is not possible to make generalisations about what constitutes a reasonable level of expenditure of assessment for a given MFI. However, three of the four cases reported that assessment costs were covered by induced financial savings to the MFIs. In particular, the largest benefit was attributed to reduced client exit rates[32]. Nevertheless, it remains unclear whether market research could provide comparable benefits to the MFI at lower cost.

3.4 Current best practice

A state-of-the-art impact assessment is defined by the recognition of all of the methodological problems and the application of proper solutions. The ideal study is one that identifies the cause-effect relationship from economic and social theories, accurately measures cause and effect, employs a counterfactual analysis that isolates the effects of microfinance from other changes, takes into account self-selection issues, and calculates the statistical significance of the impacts.

Taking these factors into account, the most rigorous impact assessment study would be based on the derivation of testable hypothesis from the economic theory and the use of panel data techniques on random samples. Panel data allows the researcher to obtain statistical significance for trend shifts and comparisons with natural control groups, whilst controlling for changes in other variables in order to isolate the effects of microfinance. Self-selection bias is not an issue if the sample is randomly selected, not among the clients (and non-clients) of a certain microfinance institution but among the inhabitants of the region where the institution is working. This feature, along with the need to perform repeated surveys and to use large samples, raises the cost of panel

[31] SEF (S Africa), Prizma (Bosnia-Herzegovina), Covelo (Honduras), and Finrural (Bolivia)
[32] In particular, Woller (2004) in a study on Prizma in Bosnia and Herzegovina demonstrates that the MFI will be able to recover the USD 40 000 in development and implementation costs from its social performance management system through retention of only an additional 2.2% of their clients.

data techniques and puts it beyond the reach of many MFIs. This is undoubtedly the reason why so few impact assessment studies are based on panel data, despite its clear methodological benefits.

4 Impact in the Mediterranean and worldwide

The majority of the existing impact assessment studies have focused on long-standing microfinance programmes in Asia, Latin America, and sub-Saharan Africa. In particular, the Grameen Bank operations in Bangladesh, and USAID activity in Latin America have been the subject of a number of in-depth assessments that led the debate on microfinance impact. While a number of studies have reviewed this literature, the survey reported in this chapter is the first to make a comprehensive overview of impact assessment studies carried out in the Mediterranean. Impact in the region is compared with experience from other parts of the world.

4.1 Review sample and method

An initial sample of 34 impact assessment studies was selected to give a broad geographical coverage and analyse a range of microfinance products and study methods. Special care was taken to incorporate as many studies from the Mediterranean area as possible, which lead to the inclusion in the initial sample of 10 reports that focused on institutions from the region.

The results reported in this chapter are based on a reduced sample of studies that satisfy two methodological criteria. First, studies must be able to isolate the effects that can be attributed to microfinance from those that are due to other factors in the economic environment. Second, they must estimate the statistical significance of the impacts. These selection criteria provide a greater level of consistency in order to obtain higher confidence in the results. They reduce the sample to 22 reports worldwide (see Annex I), and 5 in the Mediterranean region (see Table 4.1). Other methodological problems (such as biases due to reporting or selection) also limit the validity of many of the studies but have not been considered as exclusion criteria[33].

In order to get a comprehensive view of impact assessment in the Mediterranean, and to understand the regional perspective, a questionnaire was sent to 53 members of Sanabel. 25 responses were received showing a clear interest in conducting impact assessment. Approximately half of the respondents have already conducted an impact assessment. For the other half the cost of these studies and the lack of specific expertise are perceived as major obstacles.

Many MFIs report that impact assessment could help them improve their business, and the studies conducted by MFIs tend to focus on market research. Furthermore, some of the responses tend to suggest that impact assessment is driven by donors or other stakeholders as an implicit or explicit condition for financial support.

Regarding the information collected by MFIs, there appears to be a generally high level of computerization. However, there is less data centralization and mixed use of computers with traditional methods of information storage. MFIs collect information on the client profiles, enterprise, household and the services accessed. However, clients'

[33] It would be misleading to present the results of the studies as the regular economic research. Many of the studies have not been subject to the process of peer review entailed in academic publication. The conclusions are usually based on correlations without reference to an underlying economic theory and therefore causality may be called into question. Furthermore, the data may be subject to bias and the validity of the quantitative results is in some cases weak due to small sample sizes and methodological issues. As a result of these limitations, the results must be interpreted with caution.

living conditions, which are the focus of impact assessment, represent the least studied variables. In any case, MFIs' client databases are not generally sufficient to make a valid impact assessment because in most cases they lack counterfactual comparisons, and do not incorporate measures to address induced bias.

Table 4.1 Use of Impact Assessment Tools in the Mediterranean Partner Countries

Study	Funding	Tools Used	Incl.
Egypt - FDF	Donor (UNICEF)	Before and after, control group and qualitative assessment	No
Morocco – FONDEP	MFI	CGAP poverty assessment tool, GRET	No
Morocco – Planet Finance	Donor (Planet Finance)	IKM	Yes
Morocco – Al Amana	MFI	AIMS – SEEP	Yes
Morocco – Zakoura	Donor (UNDP)	AIMS – SEEP	Yes
Jordan – Planet Finance	Donor (AFD)	IKM	Yes
The Palestinian Territories	Donor (Harvard University)	Qualitative review	No
The Palestinian Territories – ASALA	Donor (Oxfam)	IKM	No
The Palestinian Territories – UNRWA	MFI	IKM	Yes
Tunisia – ENDA	MFI and donor	AIMS – SEEP	No

4.2 Overview of impacts worldwide

The findings presented in this section refer to the whole world, including the Mediterranean countries. This forms a basis for comparison with the impact found specifically in the Mediterranean region. The results refer to the impact of micro-credit, and not of microfinance in a broad sense, since nearly all the reports are specifically considering credit from MFI programs. While some of the reports claim to be analysing the impact of microfinance services in general, the sample design and measured impacts in almost all cases apply only to credit.

The impacts are analysed at the individual, household and enterprise level.

4.2.1 Impacts at the individual level

Only 5 reports examine impact at the individual level and only two or three variables are considered. Approximately half of the reports find no evidence of impact at this level. However, all reports measuring empowerment of women find a clear impact which leads to a greater autonomy and decision-making power within the household, and two reports find a negative impact on clients' stress.

4.2.2 Impacts at the household level

All of the reports examine the impact of credit at the household level, and the broad agreement between them is evidence of a number of robust results: a positive impact on household income (13 out of 17 reports), improvements in housing (8 out of 13 reports), and increased expenditure on food (7 out of 10 reports). In addition there is a wealth of more detailed evidence of impact, from studies focusing of specific local conditions. These results are not corroborated by such a large number of studies, but nevertheless add weight to the evidence of household benefits.

The impact on poverty reduction was reviewed by Morduch and Haley (2002) and two of the reports surveyed here find a greater impact on poverty for low-income households[34]. Aroca (2002), reports a more favourable impact on income for Bank clients, than NGOs. Evidence from India[35] indicates that improvements in income are greater for clients who get their income from trade and in Bolivia[36], clients with non-agricultural enterprises saw their income increase more sharply.

Concerning the impact of micro-credit on household savings, the studies report a number of different findings, and methodological issues. Some reports indicate a positive change in the savings, whereas others find no significant impact, and two reports found a negative impact, arguing that the clients made use of savings to repay loans. Chen and Snodgrass (2001) in India is the only report that assesses the impact of savings, not only credit. The results show that savings have a greater impact on poor households which are particularly vulnerable to economic shocks. For these households savings appear to be a more effective tool than credit to manage crises.

The ability of households to respond to economic shocks was also examined by Dunn and Arbukle (2001) who found that households receiving micro-credit were more likely to cope with shocks by reducing productive assets. With already low income levels, the poor have fewer options for coping with shocks while continuing to make payments on loans. This argument is further reinforced by Mosley (1999) in Bolivia, who finds that poorer individuals are more likely to choose coping strategies which reduce the household's long term income prospects, because of risk aversion and the lack of available options.

The impact on school enrolment was found to be positive in 6 out of 11 reports dealing with this issue, while one finds a negative impact. In addition, some reports, particularly Khandker (2005) in Bangladesh and Mknelly and Lippold (1998) in Mali, suggest that micro-credit directed to women is translated into a greater contribution to household welfare.

4.2.3 Impacts at the enterprise level

All of the selected reports deal with variables related to the enterprise level and the most robust result is a positive impact on enterprise revenues and profits, found by 9 out of the 12 reports. Credit typically allows entrepreneurs to increase working capital which is often the binding constraint on sales.

The impact on employment is more difficult to evaluate as any change in the workload is generally absorbed by the owner or by unremunerated family workers. Some studies find no significant impact, while in the reports that do find a significant impact, the impact is on the number of working hours and not the number of employees. Mosley (1999) in Bolivia argues that in less poor households, micro-credit impact increases employment, whereas lower income households are more reluctant to hire employees and usually absorb any rise in the workload.

Two reports find a positive impact on accumulation of assets. Mosley (1999) in a study in Bolivia, and Dunn (2001) in Peru find a positive correlation with wealth and an increasing impact on fixed assets over time. However, seven out of the ten reports find no significant impact on fixed assets, and this is consistent with more immediate needs for working capital and the view that a longer elapsed time would be required for increased profitability to be translated into fixed capital.

For the rest of the analyzed variables, a positive impact is perceived in some studies in market access, income diversification, relation with other enterprises (particularly suppliers), level of professionalism (better record-keeping and separation of the household and enterprise budgets), enterprise development (product diversification,

[34] Mosley (1999) in Bolivia and Khandker (2005) in Bangladesh
[35] Chen and Snodgrass (2001)
[36] Mosley (1999)

product transformation and increase in productivity). Nevertheless, these results should only be taken as suggested impacts, since the information is insufficient to establish robust conclusions.

4.2.4 Influencing factors

Many of the authors acknowledge the influence of the country context in the impact results achieved, although these factors were not integrated in the analysis, but rather given as a possible explanation of the impact results. Inflationary environment, economic depression periods, political instability or post-war reconstruction periods are mentioned among these factors in reports conducted in Peru, Haiti or Bosnia and Herzegovina among others.

This means that although the studies methodologically comply with a minimum standard, the authors themselves are concerned about whether the results are over or underestimated and whether they are attributable to the effect of microfinance.

4.3 Impacts in the Mediterranean region

This section concentrates on 5 studies in the FEMIP countries. Three of these reports are from Morocco, one from Jordan and one from the Palestinian Territories. The results are discussed under the same headings as the worldwide results, covering impacts at the individual, household and enterprise levels. In addition, clients' perceptions are included to offer a view of the client's opinion on how their lives have improved[37].

4.3.1 Impacts at the individual level

The most robust conclusion is for clients' autonomy, and all of the 4 reports measuring this variable find a positive impact. In the case of Morocco, autonomy applies particularly to women who make up the majority of MFI clients. For IKM (2007) in Jordan the positive correlation between participation in a microfinance program and increased autonomy differs by gender and the probability that a woman client will perceive a positive change in her sense of autonomy is 21% lower than the probability for a man. Other variables where a positive impact is perceived in some of the reports are individual income, participation in the community, improvement in family conflicts, and in the client's management abilities.

4.3.2 Impacts at the household level

The most robust result is for household income, where a positive impact is found in all 4 reports that measure this variable. This result coincides with the findings of the impact assessments worldwide. Al Amana finds a positive impact only for female clients, and the benefits for the individual are greater than for the household[38]. The studies also provide evidence of many other benefits to households. However, given the small number of studies in the Mediterranean, these findings lack corroboration.

Regarding housing improvements and expenditure on food, only one study finds a positive impact while two find no significant effect. However, some reports suggest that there is an impact on the diet quality, and this is found to be significant in one case study. These results differ from the findings in other regions where microfinance has a positive impact on housing and food consumption.

[37] The results of the study conducted by the MFI Asala market research report have also been included
[38] This result is consistent with the findings of Edgcomb and Garber (1998) in Honduras.

Micro-credit appears not to have a significant impact on savings. In this case, two reports find no significant evidence and one finds a positive impact. This result is similar to the conclusions reached worldwide.

IKM (2004) in Morocco indicates that the duration of participation in micro-credit programs increases the impact on savings, particularly for the poorest clients. However, Al Amana (2004), find no significant impact. On the other hand, IKM (2006) for UNRWA, in the Palestinian Territories, suggests that micro-credit has a negative impact on savings, since clients use savings to repay loans. This point is also made by ESGC (2004) in Malawi.

There is weak evidence of impact on school enrolment. Two reports in Morocco, where the completion rate for primary education is relatively low, find significant evidence but a third finds no impact. This result is similar to the conclusions reached worldwide.

The impact on contribution to the household budget is found to be significant in contrast to the results in other regions. Al Amana (2004) finds a positive correlation with the duration of the exposure to micro-credit, and IKM (2004) also identifies an increase in responsibility and contribution to the budget of the family, especially by women.

Finally, only one report finds a significant impact on education and healthcare and there is no significant evidence of impact on accumulation of assets or the client's ability to manage a crisis.

4.3.3 Impacts at the enterprise level

The most robust result is a positive impact on enterprise profits which is found by 4 of the 5 studies. This result is very similar to the findings of the impact assessments worldwide.

Mourji (2000), in Morocco, also asked the treatment and control groups why their profits had increased or decreased. Clients reported less trouble than non-clients in the acquisition of raw materials. This confirms the positive impact of working capital and is further supported by IKM (2004) in Morocco, where clients reported improved relations with suppliers.

Two out of four reports find a significant impact on employment. This weak result is similar to the worldwide findings and the differences between studies may to some extent reflect methodological differences. Studies such as IKM (2007) find little impact on the number of employees, whereas Al Amama (2004) finds a significant increase in reported work-hours. Clients of UNRWA in the Palestinian Territories report that they do not generate sufficient income to pay any extra employees. IKM (2007) in Jordan notes that employment creation in micro-enterprises is low because they generally do not have more than one paid employee, but finds that wealthier enterprises generate more jobs (which confirms Mosley (1999) in Bolivia, and Dunn and Arbukle (2001) in Peru).

Micro-credit mainly supports working capital and not investment in fixed capital such as shop premises or equipment which only accounts for a minority of the cases. The impact on accumulation of fixed assets is therefore relatively small. IKM in Morocco and the Palestinian Territories reports that the impact on fixed investment is greater for less poor households[39].

Two studies reported a positive impact on income diversification, similar to the findings of Barnes (2001) in Zimbabwe, and Copestake et al (1998) in Zambia.

The studies by IKM in Morocco, Jordan and the Palestinian Territories find a positive correlation between the time a person is a client and the impact at the enterprise level. This finding coincides with the findings of other authors worldwide (Dunn and Arbukle,

[39] This finding is consistent with Mosley (1999) in Bolivia and Dunn and Arbukle (2001) in Peru.

2001, Edgcomb and Garber, 1998, Tsilikounas, 2000, and Mknelly and Dunford, 1999).

4.4 Summary of results

The main conclusions from the literature review, bearing in mind the methodological limitations and inconsistencies of the studies, are summarized as follows:

- The studies, carried out in different regions, provide evidence of the generally positive impact of microfinance.
- The results are quite similar for the Mediterranean, despite the socio-economic differences between the regions.
- The most robust evidence is observed in household income and enterprise profits and revenue.

Impact at the individual level

- Microfinance generates a positive impact on empowerment, and specifically empowerment of women.

Impact at the household level

- Impact on household income has various effects on housing and household consumption, as well as health and education. The impact in the Mediterranean region seems to be different in this respect, since no significant impact has been found on housing or food consumption.
- Impact of micro-credit on savings cannot be confirmed.
- Micro-credit does not have a significant impact on clients' ability to cope with shocks. However one study[40] which examined micro-savings found savings to have a greater impact than credit on the ability of the poor to manage crises.

Impact at the enterprise level

- Worldwide and in the Mediterranean region access to microfinance typically does not enable the micro-enterprise to recruit additional employees and the impact on employment is weak. However, there is an increase in enterprise productivity and in the workload of the enterprise owner. Several studies, including some in the Mediterranean region, show that the impact on employment is higher for less poor clients. In addition the benefits of safeguarding micro-enterprise jobs should not be overlooked.
- Worldwide and in the Mediterranean the studies do not find a significant impact on accumulation of assets. However, such impact would probably only be apparent over a longer time horizon.
- An improvement in the relationship with suppliers and input purchasing is also found, especially in the Mediterranean region.
- Several studies suggest a connection between the length of time the client has been receiving credit and the impacts at the enterprise level, but this is uncertain due to methodological issues.

Client's perception of impact

- The studies for the Mediterranean region all report that the clients' perception of impact on living conditions is highly positive.

[40] Chen and Snodgrass (2001).

5 The way forward

The microfinance industry has entered a period of rapid change. Market growth is accompanied by new technology to reduce transactions costs, and changes in industrial structure as MFIs approach sustainability and regulators consider the options to enable provision of micro-savings. The recent studies, reviewed in the previous chapters, have provided new evidence about the impact of microfinance, and the objective of this chapter is to set out the options for the future of the industry in the Mediterranean, and to comment on possible directions for impact assessment.

5.1 Options for microfinance in the Mediterranean

The accumulated evidence on impact suggests that further scaling-up of microfinance has the potential to deliver benefits resulting from increased access to finance and outreach to the poor and economically marginalized. Unlike other aid interventions which are constrained by lack of absorptive capacity, lack of opportunities and diminishing returns, microfinance appears to have the potential to continue a period of growth. Options for supporting scaling-up vary according to the country-specific conditions. However, for the Mediterranean region the options may be divided into two broad categories related firstly to the provision of subsidies, and secondly to regulatory reforms to enable MFI to provide micro-savings.

Subsidies are a significant financing item for many MFIs and some of the key options for the industry are about applying these subsidies where they have the maximum benefit. In particular, there is a strong argument from the literature in favour of focusing subsidies on extending services to new geographical areas and new financial products. Development of money transfer systems is an interesting example.

Subsidised credit is more problematic, and this is a particular concern in several Mediterranean markets. Empirical evidence suggests that these subsidies have a relatively small impact in promoting the demand for credit and are more likely to lead to economic distortions and credit rationing. Moreover, anecdotal evidence indicates that they have a strong disincentive effect on the alternative supply of private credit. Experience from the SME sector in the EU suggests that promotion of market-based mechanisms works better than credit subsidies[41]. Furthermore, the alternatives of savings and provision of money transfer services would appear to be better candidates for support. With these previously-neglected areas of service provision beginning to open up, there will be increasing demand for the next round of impact assessments to provide evidence on the relative merits of the new instruments.

In the long term, local savings have many advantages as a source of finance for MFIs and also provide a potentially valuable service to clients, one which addresses some of the basic risks that cause poverty traps and hold back micro-entrepreneurs. A key option for Mediterranean countries is regulatory reform to enable the provision of micro-savings.

[41] European Commission (2003)

The cost and difficultly of such a change should not be underestimated. Deposit-taking is a different "metier" for the MFIs and would entail substantial changes in terms of financial structure and management. In addition, the specific regulatory issues are diverse across countries and depend on the individual characteristics of the financial sectors. Morocco, for example, is considering legislative changes whereas Algeria and Tunisia are more committed to direct government intervention, and the situation is different again in Egypt where banks are more active in microfinance. However, in contrast to countries such as Indonesia where the industry is built around micro-savings, micro-credit is almost the only product on offer in the Mediterranean. Whilst there are strong economic arguments in favour of micro-savings, there is little evidence from impact assessment to show its advantages over straight micro-credit. This remains a future potential direction for impact assessment[42] as these products are developed in the Mediterranean.

5.2 Impact assessment issues

A much-debated concern about scaling-up is the risk of mission drift. Many of the Mediterranean MFIs have an explicit social mission, in terms of reaching the poor or the economically marginalized, and for this group of MFIs the dual imperatives of growth and sustainability may constitute a potential risk to fulfilment of these goals. Concerns about mission drift led to the development of a number of tools for social performance assessment[43], and impact assessment plays an important part in verifying and re-confirming the MFI's strategic direction.

From an economic perspective, some degree of mission drift might not be a bad thing. While the question of impact of economic growth on poverty remains unresolved, recent evidence supports the view that improved access to finance for the non-poor has an indirect impact on the welfare of the poor[44]. At the same time, regulatory changes are opening up the possibilities for providing a wider range of products. Impact assessment may therefore play a role for MFIs in the re-assessment and re-focusing of their mission.

As the market matures, there are new challenges for impact assessment. First, there is still a lot of work to be done to evaluate the social and economic impact of microfinance. Although many studies provide evidence of an increase in household income and enterprise revenue, the methodological difficulties and contradictory outcomes mean that the evidence falls short of conclusive proof. Many of the more detailed questions relating to changes in regulations, improvement in microfinance offerings and fine-tuning of financial structures still rely on this basic proposition. New developments in randomised sampling have the potential to offer new evidence. None has yet delivered results. The time and expense of these scientific studies precludes wide-spread application, and efforts are necessarily concentrated in a few case studies. The study of remote areas in Morocco by Al Amana (with support of AFD) has completed its baseline phase and is due for completion in 2010. Further application of this scientific approach may be justified in a small number of cases to test impact in different market situations in the Mediterranean.

Second, MFIs have accumulated detailed knowledge about what works in a given market context. Whilst there are many examples of transferring a general business model from one country or market to another (Grameen clones for example), and many studies of the resulting social and economic impact, there is potentially more to

[42] Issues of the impact on clients of savings products and their impact on the MFI client relationship are described by Karlan and Goldberg (2007) as "ripe for evaluation".
[43] See section 3.2.2.
[44] Finance for All (2008)

be gained from a more formal integration of impact analysis. In Morocco, for example, the four largest MFIs are conducting a joint study examining the impact on a sample of clients drawn from each institution. There may be further benefits from the drawing together of impact assessments on a national or regional basis in order to better understand what works where, and which instruments or strategies are transferable from one context to another.

From the point of view of donors and Development Finance Institutions, a key issue is at what point to withdraw support. The transition to financial sustainability takes place over a period of time, and during the transition period donor support must be withdrawn as other sources of finance become available to meet growth in the market. If support is withdrawn too soon there is a risk of constraining the growth of the market; but if support is kept in place for too long it would constitute a disincentive to the participation of private finance.

5.3 Options for future impact assessment in the Mediterranean

The future of impact assessment in the Mediterranean area will be driven by information requirements of MFIs and donors as well as new developments in methodology. There are many possible paths, but taking account of the balance of costs and likely benefits it seems interesting to explore the following:

Pooling of effort
Joint studies by groups of MFIs following a consistent methodology may fulfil requirements of the institutions while at the same time spreading costs and providing more general evidence about impact. Cross-country studies may increase knowledge of impact on poverty reduction and development, and supply arguments for the definition of donors' programmes and the reform of regulation.

Major proving studies
Though the advantages of panel data from random samples are clear in impact assessment studies, it is probably best to wait for the results of the first round of randomized sample studies in the Mediterranean region, currently being implemented in Morocco, in order to better evaluate the costs and benefits of this line of action.

Assessment of new products
As MFIs in the Mediterranean region develop new products, such as micro-savings and money-transfer systems, impact assessment studies will be required to verify the benefits of these new products.

6 Conclusions

Micro-credit is the predominant microfinance offering in the Mediterranean region, and clients typically do not have access to services such as micro-savings, insurance and money transfer systems. In contrast to other regions of the world, banking sector regulations in the Mediterranean constitute a relatively high hurdle for microfinance institutions that might consider accepting deposits and none has made the transformation to banking status[45].

The review of impact assessment studies both from the Mediterranean region and worldwide shows an accumulation of evidence of the beneficial impact on individual clients, households, and micro-enterprises. Whilst this may not constitute proof in scientific terms due to the inherent methodological difficulties involved in impact assessment, it nevertheless provides some well-based support for what many practitioners regard as the self-evident benefits of microfinance. The impacts in the Mediterranean are largely similar to those reported in other regions, and the most robust results are the improvement in household income and enterprise profits and revenue. There are some differences however: whereas the increased income is reflected in improved housing and increased food consumption in other regions, these variables are not affected to the same extent in the Mediterranean.

At the enterprise level, the impact on employment is generally weak, because the majority of micro-enterprises remain one-man businesses. However, benefits to enterprise are more apparent from increases in productivity, and improved relationships with suppliers. Credit is typically used for working capital which is often the binding constraint on enterprise development, and lending for capital formation is less common. The impact on household savings is also difficult to identify as the boundaries between the household and the enterprise are often indistinct, and savings may be held in the form of enterprise inventories. Furthermore, measures of clients' perception in the Mediterranean show a highly positive view of the impact of microfinance on living conditions.

The way ahead

The economic literature makes an important distinction between credit and non-credit microfinance services, although the limitations of impact assessment make it difficult to quantify the relative social and economic impact of micro-credit versus micro-savings for example. Two main options can be considered for the further development of microfinance in the region. The first is the expansion of micro-savings. Experience from other regions suggests that micro-credit works better when micro-savings are available at the same time. Furthermore, there are strong economic arguments to support the view that in many situations micro-savings are superior to micro-credit as a means of meeting the needs of the poor.

The second option concerns the provision of other non-credit services, for which there is also evidence of substantial potential benefits. For example, the application of new technologies in money-transfer has potentially far-reaching synergies with other microfinance services by addressing the problem of transactions costs at its root. Use of remittances is a particularly interesting case, as empirical evidence suggests that remittances are very sensitive to the cost of money-transfer.

[45] With the exception of Yemen among Sanabel's member countries.

Whilst the practical difficulties should not be underestimated, regulatory reform permitting deposit-taking and broader provision of other non-credit services by microfinance institutions is therefore an option that deserves to be considered.

Widening the scope of microfinance activities and increasing outreach to a larger number of clients raises the issue of financial sustainability. While microfinance is financially sustainable in some cases, in others it may not be so, despite providing substantial economic and social benefits. There are therefore cases where explicit or implicit subsidies might be justified in order to provide suitable incentives. But the use of subsidies requires particular care, and this review highlights two key issues for the Mediterranean.

First, it is difficult to balance the level of subsidy to microfinance against the alternative uses of these limited resources in health, education and infrastructure. While it must be acknowledged that the data do not exist to make precise calculations, the evidence of beneficial impact is strong and in many instances microfinance provides a practical way to advance social and economic objectives.

Second, which form of microfinance should be subsidised? For some forms of micro-credit subsidies might be justified, though not for others where there is a risk of introducing economic distortions. The development of micro-savings and money-transfer systems are alternative candidates for support. Ultimately this is an empirical question which highlights the importance of well-designed impact assessments.

Lack of expertise and resources are cited by MFIs as key constraints on the conduct of impact assessment. This reflects the underlying structure of the industry with a long tail of relatively small MFIs. The future options for improving consistency of impact assessment as well as filling gaps and addressing the changing needs of the industry are summarized as follows. First, recent methodological developments to reduce sampling bias (so-call “randomized control” techniques) offer the potential to address some of the problems of impact assessments seeking decisive scientific proof. A number of these studies are currently in progress and the first batch of results should be analysed before applying the technique more widely. Second, panel data (looking at both changes over time and differences between treatment groups) are recommended particularly for follow-up studies. And third, pooling of effort has the potential to spread costs, increase consistency and to improve understanding of what works where.

Support from the EIB

The European Investment Bank is currently exploring two specific proposals to support impact assessment and the development of new products with technical assistance from the FEMIP Trust Fund.

- Introduction of impact assessment tools for microfinance operations, together with Sanabel, with the aims to standardise methodology and improve communication in order to better meet the needs and expectations of stakeholders. The project would assist microfinance institutions in establishing impact indicators and provide support for IT development, data collection, training, and reporting.
- Funding of technical assistance for an internet-based solution to connect the remittances of Mediterranean migrants with micro-credit operations. This project aims to enhance the benefits for these substantial financial flows building on the potential outlined in the “Study on Improving the Efficiency of Workers’ Remittances in Mediterranean Countries”, EIB (2006).

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List of annexes

Annex I – Report evaluation

1 Summary of report evaluations

	Methodology			Method								Impact																
												Indiv		Household													Enterpr.		
	No isolation	No statistical significance	Endogeneity	Control group	New entrants as control	Group discussions	Case study	Before-after	Individual interviews	Qualitative	Mid-range	Gender equality	Empowerment	Income level	Income diversification	Income contribution	Savings	House improvements	School enrolment	School , boys	School , girls	Expenditure on food	Expenditure on health	Cope with shocks	The poor are reached	Household welfare	Net revenue	Net assets	Employment
MEDITERRANEAN AREA																													
AL AMANA (2004): Al Amana, Morocco				X	X					X			X	X	X					X	X	X	X						X
IKM (2004): Morocco				X	X											X	X	X				X					X		X
IKM (2006): UNRWA, the Palestinian Territories				X	X	X										X	X	X								X	X		
IKM (2007): Jordan				X	X	X								X				X		X	X		X				X	X	X
IKM (2007): ASALA, Palestinian Territories	X	X	X							X							X									X	X		X
MAHJOUB, A. (2005): ENDA, Tunisia		X		X	X								X	X			X	X									X		
MOURJI, F. (2000): Zakoura, Morocco				X	X	X			X				X	X					X			X					X		
REKENEIRE, A. (2004): FONDEP, Morocco	X	X						X		X			X	X															
ROULLET, L. (2005): the Palestinian Territories	X	X	X						X	X			X																
SULTANA, M. and NIGAM, A. (1999): FDF, Egypt		X		X	X		X	X	X			X	X							X	X	X	X						
AFRICA																													
AFRANE, S. (2003): SAT and SOMET, Ghana and South Africa	X	X					X	X		X			X	X				X	X			X	X			X	X		X
BARNES, C. (2001): Zambuko Trust, Zimbabwe				X	X		X	X	X					X	X		X	X		X	X	X		X					X

COPESTAKE, J. et al. (1998): PULSE, Zambia				X	X	X		X						X												X	X		X
ESGC (2003): Kenya	X	X				X				X								X								X	X		
ESGC (2003): LAPO, Nigeria											X		X	X			X	X	X					X	X		X		X
ESGC (2004): PRIDE, Malawi				X							X		X	X		X	X	X	X					X			X	X	X
GUBERT, F. and ROUBAUD, F. (2005): AdeFi, Madagascar				X				X										X		X	X	X				X	X	X	X
JONHSON, S. and COPESTAKE, J. (2002): FINCA, Malawi			X	X	X					X				X								X							X
MALINGA, M. (2004): Uganda Microfinance Union, Uganda	X	X	X					X					X		X							X					X	X	
MKNELLY, B. and LIPPOLD, K. (1998): Kafo Jiginew, Mali				X	X				X			X	X	X			X	X	X			X	X	X					X
WAMPFLER, B. (2006): CECAM, Madagascar		X		X	X		X		X				X	X		X						X			X				
LATINAMERICA																													
AROCA, P. (2002): Brazil and Chile				X	X									X															
DUNN, E. and ARBUKLE, J. (2001): ACP/MiBanco, Peru				X			X	X				X		X	X		X	X	X			X		X			X	X	X
EDGCOMB, E. and GARBER, C. (1998): ODEF, Honduras				X	X								X	X			X	X	X			X					X		
ESGC (2003): Haiti				X	X						X		X	X				X		X	X	X	X	X	X		X	X	X
MKNELLY, B. and DUNFORD, C. (1999): CRECER, Bolivia				X		X		X	X				X	X				X	X			X	X	X				X	
MOSLEY, P. (1999): Bolivia			X	X	X		X		X					X										X				X	
EUROPE																													
MUENCH, S. (2000): Mercy Corps, Bosnia and Herzegovina	X		X	X	X									X			X	X	X			X				X	X	X	X
TSILIKOUNAS, C. (2000): ICMC, Bosnia and Herzegovina				X	X									X			X	X	X								X	X	X
ASIA																													
ASHE, J. and PARROT, L. (2001): WEP, Nepal		X	X	X			X						X	X	X		X								X				
ASHI (2000): ASHI, Philippines	X		X	X				X						X														X	
CHEN, M. and SNODGRASS, R. (2001): SEWA, India							X	X						X	X			X		X	X	X		X			X	X	X
MURIEL, V. (2000): Grameen Bank, Bangladesh				X															X	X	X								
KHANDKER, S. (2005): Bangladesh				X				X						X								X			X				

GREEN COLOR: included studies
RED COLOR: excluded studies (due to methodological defects)

2 Review of all considered reports

AFRANE, S. (2003): “Impact Assessment of Microfinance: Interventions in Ghana and South Africa, A Synthesis of major impacts and lessons”, Journal of Microfinance, 4(1): 37-58.

Microfinance Institutions covered in the analysis: SAT (Sinapi Aba Trust, Ghana, 10000 clients) and SOMED (Soweto Micro Enterprise, South Africa, 78000 clients).

Main analysis methodology: Eclectic approach combining qualitative and quantitative methods. “Before and after” approach relying on respondents' memory.

Main results regarding microcredit impact:

- At the individual level: It is found that microfinance improved several social domains such as empowerment of women, public respect and participation in social activities while it had a negative impact on some others such as family life.
- At the household level: positive impact on income diversification, housing improvements, expenditures on children, food and health.
- At the enterprise level significant improvements in terms of increased business incomes

AL AMANA (2004): “Evaluation de la contribution de l’offre de micro-crédit d’Al Amana au développement des conditions des micro-entrepreneurs". An electronic copy may be downloaded from http://www.alamana.org

Microfinance institutions covered in the analysis: Al Amana, Morocco

Main analysis methodology: Control group comparison with incoming clients. Statistical significance is measured. Qualitative interviews on women’s empowerment. Quatitative survey on satisfaction, with clients and former clients.

Main results regarding microcredit program:

- At the individual level: Positive impact on women’s empowerment, managing abilities, public relations and income. Positive impact on clients' satisfaction and transformation of ambulant into sedentary enterprises.
- At the household level: Positive impact particularly on women, on income, on income diversification and on children’s school attendance.
- At the enterprise level: Positive impact on employment
-

AROCA, P. (2002): “Microcredit Impact Assessment: the Brazilian and Chilean cases”, Inter-American Development Bank. An electronic copy may be downloaded from http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=616092

Microfinance Institutions covered: Bank Bandesarrollo (Chile), NGO Propesa (Chile), Microcred bank from Sao Paulo (Brazil), NGO CEAPE (Brazil), Socialcred Bank from Rio de Janeiro (Brazil), NGO Bancri (Brazil) and NGO BCO (Brazil).

Main analysis methodology: survey samples randomly selected and control groups, built using the Propensity Score.

Main results regarding microcredit impact:

- At the enterprise level: The study measures the effect of microcredits on entrepreneurs' income. Results differ between the two countries and the credit’s origin, whether it was based on a Bank programme or an NGO one. The results of the Brazilian data show a high positive impact of the microcredit programmes, especially for those associated with banks. Weak evidence of positive impacts for the Chilean bank based programmes. For the Chilean NGOs the impact of microcredit seems to be negative.

ASHE, J. and PARROT, L. (2001): “Impact evaluation, PACT’s Women’s empowerment program in Nepal. A savings and literacy led alternative to financial institution building”. An electronic copy may be downloaded from http://www.gdrc.org

Microfinance institutions covered: Pact’s Women’s Empowerment Program (WEP).

Main analysis methodology: part of the sample used to run the analysis in not randomly selected. Furthermore, WEP operates in an environment where there is a strong ROSCA tradition, known in the region as the Dhukuti. The effect of this institution might be biasing the results.

Main results regarding microcredit impact:

- At the individual level: it seems that WEP has increased women's incomes and given them self confidence to change their social and economic environment.
- At the household level: WEP has increased family well being, income diversification and savings.
- At the enterprise level: positive impact is also found regarding income level.

ASHI. (2000): "Poverty reduced through microfinance: The impact of ASHI in the Philippines", AIMS Project from USAID. An electronic copy may be downloaded from http://www.microlinks.org/.

Microfinance institutions covered: ASHI (The Philippines)

Main analysis methodology: The study lacks survey and quantitative consistent methodology.

Main results regarding microcredit impact:

- At individual level: impact on client empowerment and self-esteem were found to be positive.
- At the household level: significant positive effect on poverty is marked. The proportion of poor people drops from 76% to 13%, most have moved from extreme poverty to moderately poor, and 22% have moved out of poverty. A strong relationship is also found between the size of the loan and poverty reduction.

BARNES, C. (2001): "Microfinance projects clients and impact: An assessment of Zambuko Trust, Zimbabwe". AIMS Project, from USAID. An electronic copy may be downloaded from http://www.microlinks.org/

Microfinance Institutions covered: Zambuko Trust (Zimbabwe).

Main analysis methodology: The survey was conducted in 1997 and repeated in 1999 with the same respondents, covering a random sample of Zambuko client and non-client micro-entrepreneurs who met Zambuko basic eligibility requirements. Quantitative analysis use statistical techniques to identify significant differences between groups. The impact variables were subject to an analysis of covariance using multiple covariants.

Main results regarding microcredit impact:

- At the household level: positive impacts on income level, income diversification, housing improvements, school enrolment of boys, expenditure on food and savings.
- At the enterprise level: positive impact in net revenue.

CHEN, M. and SNODGRASS, R. (2001): "Managing resources, activities and risks in urban India: The Impact of SEWA Bank". AIMS Project, from USAID. An electronic copy may be downloaded from http://www.microlinks.org/

Microfinance Institutions covered: SEWA BANK (India).

Main analysis methodology: quasi-experimental research design and ANCOVA (analysis of covariance) to control for the possible impact of personal characteristics in the impact variables. An extensive set of moderating variables is used to minimize selection bias.

Main results regarding microcredit impact:

- At individual level: increased women's influence over household economic decisions.
- At the household level: the financial services of the SEWA Bank are found to raise household income, income diversification, spending on housing improvements and school enrolments (especially for boys).
- At the enterprise level: the results are less evident than at the household level. Participation has a clear effect on informal sector earnings, on total micro-enterprise revenues and employment.

COPESTAKE, J., BHALOTRA, S., GODWIN, M., GRUNDEL, H, JONHSON, S. and MUSONA, D. (1998): “Impact Assessment of the PULSE microfinance programme in Lusaka, Zambia”. Centre for Development Studies, University of Bath. An electronic copy may be downloaded from http://www.microfinancegateway.org/content/article/detail/2044/

Microfinance institution covered in the analysis: PULSE (Zambia, 4200 clients).

Main analysis methodology: control group comparison and group discussions, lack of indicators for statistical significance.

Main results regarding microcredit impact:

- At the household level: 37% of borrowers said their real income had fallen, compared to 28% of pipeline participants, which suggests that at least 9% of borrowers were worse off as a result of taking a loan.
- At the enterprise level: differences in profits between treatment and control participants were not statistically significant. However, difference in the growth rates of profits for the two groups (from March 1997 to March 1998) was statistically significant. For the average loan recipient in the sample, it was estimated that profits were 19.7% higher than they would have been.

DUNN, E. and GORDON ARBUKLE, J. (2001): “The impacts of microcredit: A case study from Peru”. AIMS Project, from USAID. An electronic copy may be downloaded from http://www.microfinancegateway.org/files/3268_03268.pdf

Microfinance institution covered in the analysis: ACP/Mibanco (Perú, 30.000 clients).

Main analysis methodology: panel designed control group comparison, the survey occurred at two points in time. Analysis of Covariance (ANCOVA) is used to evaluate impacts, and also to control (partially) for selection bias.

Main results regarding microcredit impact:

- At the individual level: positive impacts seem to be limited to increased feelings of preparedness for the future. There was some evidence that microcredit may have had negative impacts on client self-esteem, which may stem from stress relating to the pressure to repay loans.
- At the household level: positive impacts on household income, income diversification among poor households, and ability to cope with shocks.
- At the enterprise level: positive impacts on micro-enterprise revenue, fixed asset accumulation in the primary enterprises, and employment. There is some evidence of positive impacts on transaction relationships, since microcredit seems to help commercial entrepreneurs buy inputs in more advantageous ways. Also, some parents with micro-enterprises seek to "launch" their children into entrepreneurial occupations by helping them to start their own micro-enterprises.

EDGCOMB, E. and GARBER, C. (1998): “Practitioner-led impact assessment: A test in Honduras”. AIMS Project, from USAID. An electronic copy may be downloaded from http://www.microlinks.org/

Microfinance institution covered in the analysis: Organización de Desarrollo Empresarial Femenino (ODEF) (Honduras, 5200 clients).

Main analysis methodology: incoming clients control group comparison, AIMS methodology. Each interviewed person was presented a questionnaire of 56 items, considered as too long by data collectors themselves.

Main results regarding microcredit impact:

- At the individual level: there is qualitative evidence that women acquire greater self-esteem and confidence through program participation.
- At the household level: clients who had participated in the program for at least one year were more likely to report an increase in personal income. Positive effects on savings and food consumption.

- At the enterprise level: client enterprises were found to be larger than non-client ones, positive business results being associated with length of program participation. Profit levels and acquisition of business assets are also higher for clients than non-clients.

ESGC (2003): “Haiti companion report: UNCDF Microfinance Program Impact assessment”. An electronic copy may be downloaded from http://www.uncdf.org

Microfinance institutions covered in the analysis: UNCDP North East Haiti Microfinance support programme, based in cooperatives. Fort Liberte and Terrier Rouge chosen for the sample.

Main analysis methodology: Control group comparison which included drop out clients. It measures the statistical significance. Regression methods are used.

Main results regarding microcredit program:

- At the individual level: Impact on empowerment not significant. Weak impact on women empowerment, although not corroborated by the regression.
- At the household level: Positive impact on the clients’ buying of a plot of land. No significant impact for the rest of the variables measured.
- At the enterprise level: Negative impact on access to markets and use of usury lenders. No significant impact for the rest of the variables measured.
- The author suggests that the economic downturn in Haiti may have exerted an influence on the results.

ESGC (2003): “Kenya companion report: UNDP Microfinance Programme impact assessment”. UNDP. An electronic copy may be downloaded from http://www.uncdf.org

Microfinance institution covered in the analysis: MicroStart, MicroSave and EBS (Kenya).

Main analysis methodology: qualitative impact indicators embedded in a qualitative market research program. No statistical measure.

Main results regarding microcredit impact:

- At the household level: apparently, household income increased, but it cannot be attributed to microfinance alone. Clients declare that loans and savings help to cope with cash flow shocks, meet day-to-day needs, or invest in the future.

ESGC (2004): “Malawi companion report; UNDP Microfinance programme impact assessment”. UNDP. An electronic copy may be downloaded from http://www.uncdf.org

Microfinance institution covered in the analysis: PRIDE (Malawi, 18000 clients).

Main analysis methodology: mid-range impact assessment based on control group comparison, following principles of impact surveys set by the SEEP/AIMS impact assessment project. The ultimate aim of mid-range methodologies is said to be establishing plausible association between impact and programme participation, rather than proving causality between them. Statistical tests and regression analysis were applied to test this plausible association.

Main results regarding microcredit impact:

- At the individual level: little evidence to support the hypothesis of higher levels of empowerment.
- At the household level: there seems to be evidence of higher household income, household consumption and school attendance, but no evidence of higher savings or food security.
- At the enterprise level: no statistically significant evidence that enterprise profits or asset acquisition differ between the treatment group and the control group. An small increase in full-time employment can be attributed to the program.

ESGC (2003): “Nigeria companion report: UNDP Microfinance Programme impact assessment”. UNDP. An electronic copy may be downloaded from www.uncdf.org

Microfinance institution covered in the analysis: LAPO (Nigeria).

Main analysis methodology: “mid-range” impact assessment, based on principles of impact surveys set by the SEEP/AIMS impact assessment project. Treatment group is formed by two-year clients, which is compared with a control group formed by incoming clients. A descriptive analysis is accompanied by means and regression analyses.

Main results regarding microcredit impact:

- At the individual level: no evidence of differences in empowerment.
- At the household level: higher household income, reportedly due to increased enterprise returns, as well as higher level of household improvements. However, there is no evidence of changes in savings, school attendance or food security.
- At the enterprise level: higher enterprise profits, but not higher levels of job creation.

GUBERT, F. and ROUBAUD, F. (2005): "Analyser l'impact d'un projet de microfinance: L'exemple d'ADeFi à Madagascar", *Agence Française du Développement*, Paris. An electronic copy may be downloaded from http://www.adf.fr

Microfinance institutions covered in the analysis: AdeFi

Main analysis methodology: Double difference: Control group and longitudinal comparison. Statistical significance measured. Probit and regression methods used.

Main results regarding microcredit program:

- At the household level: Positive impact on household welfare, expenditure on food and housing improvements.
- At the enterprise level: Positive impact on turnover, sales, cash flow, production, production's quality, production's diversification.
- Microfinance seems to have a clear impact on microfinance, but from a dynamic perspective, the results are nuanced. The effects are clear during growth phases, but during contractions the effects are less certain.

IKM (2004): "Evaluation de l'impact des microfinance au Maroc". An electronic copy may be downloaded from http://www.planetfinance.org.ma

Microfinance institutions covered in the analysis: AIMC, Al Amana, AL Karama, AMOS, AMSSF, ATIL, FBP, FCA, FONDEP, INMAA and ZAKOURA

Main analysis methodology: Control group comparison which included drop out clients. Regressions and probit methods are used to measure the impact. The study included a market research.

Main results regarding microcredit impact:

- At an individual level: Positive impact on the client's contribution to the household budget. And positive impact on their diet quality, health, education level, on their empowerment, and on their children's respect.
- At the household level: Positive impact on household expenses, savings increase and a slight impact on assets detention.
- At the enterprise level: Positive impact on profits, investments and market access. Data shows a positive trend in employment but not statistically significant.

IKM (2006): "Impact and market research report: UNRWA", Planet finance. Study provided by UNRWA.

Microfinance institutions covered in the analysis: UNRWA, Palestinian Territories.

Main analysis methodology: Control group comparison which included drop out clients. Regressions and probit methods are used to measure the impact. The study included a market research.

Main results regarding microcredit impact:

- At the individual level: Clients' perception of impact is generally positive.
- At the household level: There's not a significant impact on the clients' contribution to the budget, in the monthly expenses or in assets detention. Concerning debts and savings the probit analysis shows the probability is greater for a new or a former clients to experience a positive change in this regard.

- At the enterprise level: Positive impact on profits and investments. The level of employment has not changed. However, the probability of a former client to hire an employee is lower than for an active client.

IKM (2007): "National Impact and market study of microfinance in Jordan". Planet Finance. An electronic copy may be downloaded from http://www.planetfinance.org/

Microfinance institutions covered in the analysis: MFW, TAMWEELCOM, MEMCC, NMB, DEF, AMC, and UNRWA

Main analysis methodology: Control group comparison which included drop out clients. Regressions and probit methods are used to measure the impact. The study included a market research.

Main results regarding microcredit impact:

- At the individual level: positive impact on the clients' perception.
- At the household level: Positive impact on the client's contribution to the household budget. Contrary to the respondents' perception, microfinance does not seem to have an impact on housing conditions, health or on their children's education level.
- At the enterprise level: Positive impact on profits, investment, and number of employees. Contrary to the respondents' perception, microfinance does not seem to have an impact on assets' detention.

IKM (2007): "Market research report on client satisfaction and new product development: ASALA", Planet finance. Study provided by the Palestinian Business Women's Association, ASALA.

Microfinance institutions covered in the analysis: Palestinian Business Women's Association ASALA (Palestinian Territories).

Main analysis methodology: Market research that included a client survey, with no control group. Regarding impact, only the perception of clients was measured.

Main results regarding microcredit impact:

- At the household level: Positive impact on the client's autonomy and on the household income. Income on savings would not be significant.
- At the enterprise level: Positive impact on business revenues and business expansion. Impact on employment not significant.

JONHSON, S. and COPESTAKE, J. (2002): "FINCA-Malawi impact assessment research". Centre for Development Studies, University of Bath.

Microfinance institution covered in the analysis: FINCA (Malawi, 7900 clients).

Main analysis methodology: comparison with control group.

Main results regarding microcredit impact:

- At the household level: no significant difference in the income levels of borrowers and departing clients in the first round survey, but a difference had emerged a year later between the income levels of those who remained in the programme and those who had left. This result might be biased by endogeneity. The qualitative research revealed that some clients had to reduce meals in order to have money for repayment.
- At the enterprise level: higher proportion of borrowers had increased paid employment in their enterprise.

KHANDKER, S. (2005): "Microfinance and Poverty: Evidence Using Panel. Data from Bangladesh". The World Bank Economic Review, published September 8, 2005. An electronic copy may be downloaded from http://wber.oxfordjournals.org/

Microfinance institution covered in the analysis: BRAC, Grameen Bank, and Bangladesh Rural Development Board (Bangladesh).

Main analysis methodology: the study uses panel data on the BIDS–World Bank 1991/92 and 1998/99 surveys, covering around 1,700 households drawn from 87 villages in 29 thanas, the project areas of BRAC, Grameen Bank, and the Bangladesh Rural Development. Panel data avoids endogeneity, and allows for differential impacts of borrowing over time.

Main results regarding microcredit impact:

- At the household level: statistics tests show that the effects of credit pooled from various sources must be estimated separately for men and women. Male borrowing has no significant effect, while female borrowing has a significant positive effect on per capita consumption outcomes. Moderate poverty in the sample villages declined overall by 17 percentage points between 1991/92 and 1998/99, and extreme poverty by 13 percentage points. More than half of the annual decline in moderate poverty among program participants can be attributed to microfinance programs alone. Male borrowing has no significant effect on per capita consumption outcomes, while female borrowing has a significant positive effect. A positive spill-over effect is also identified, suggesting that microfinance programs have influenced the welfare not only of poor participants but also of non-participants.

MAHJOUB, A. (2005): "Etude d'impact du programme de microcrédit". ENDA inter arabe. An electronic copy may be downloaded from http://www.endarabe.org.tn

Microfinance institutions covered in the analysis: ENDA Inter-arabe, Tunisia

Main analysis methodology: Control group comparison and longitudinal analysis through yes/no questions. Statistical significance is not presented.

Main results (of limited validity due to methodological defects) regarding microcredit impact:

- At an individual level: Increase in income and in savings
- At the household level: Increase of income and in housing improvements.
- At the enterprise level: Increase in net revenue, either declared or calculated
- At the community level: Increase in the number of employee posts.
-

MALINGA, M. (2004):" Impact Report", Uganda Microfinance Union. An electronic copy may be downloaded from http://www.responsability.ch/

Microfinance institutions covered in the analysis: Uganda Microfinance Union

Main analysis methodology: Longitudinal analysis. No control group, no stratified matching and statistical significance is not measured.

Main results (of limited validity due to methodological defects) regarding microcredit impact:

- At the individual level: Positive impact on empowerment
- At the household level: Positive impact on expenditure on food. Not significant impact on housing improvement.
- At the enterprise level: Positive impact on profits and asset accumulation

MKNELLY, B. and LIPPOLD, K. (1998), "Practitioner-led impact assessment: A test in Mali", AIMS Project from USAID. An electronic copy may be downloaded from http://www.microlinks.org/

Microfinance institution covered in the analysis: Kafo Jiginew, *Credit with Education* program (Mali, 46000 clients).

Main analysis methodology: compares one-year clients, two-year clients (in order to test the assumption that impact increases with longer program exposure) and incoming clients (to avoid self-selection bias). The study follows AIMS methodology, with quantitative as well as qualitative tools.

Main results regarding microcredit impact:

- At the individual level: microfinance might increase empowerment.
- At the household level: higher household income, higher savings and higher level of household improvements are identified. However, there is no evidence of changes in the expenditure on food, health, children education or welfare.
- At the enterprise level: expansion of existing activities is reported.

MKNELLY, B. and DUNFORD, C. (1999): “Impacto de Crédito con Educación en las madres y en la nutrición de sus Niños Pequeños: Programa CRECER de Crédito con Educación en Bolivia”. Freedom from Hunger. An electronic copy may be downloaded from http://www.ruralfinance.org/

Microfinance institutions covered in the analysis: Programa CRECER de Crédito con Educación en Bolivia.

Main analysis methodology: Control group and longitudinal comparison. In-depth interviews, informal dialogue groups and meetings observance. Anthropometric measurements (height and weight). Statistical significance and variance are measured.

Main results regarding microcredit program:

- At the individual level: Positive impact on health habits and children’s breeding. No significant impact on mother or children’s nutrition.
- At the household level: Positive impact on income level from non agricultural activities, on savings, on expenditure on health and clothing, on the ability to cope with shocks and on the nutritional diet quality. No significant impact on housing improvement or in expenditure on children’s education.
- At the enterprise level: No significant impact on assets.

MOSLEY, P. (1999): “Microfinance and Poverty: Bolivia case study”, World Bank. Report commissioned for the World Development Report 2000/2001.

Microfinance Institutions covered: the study classifies Bolivian Microfinance into four groups, and then selects one institution from each group, namely BANCOSOL (commercial operating in urban areas), PRODEM (commercial operating in rural areas), PROMUJER (commercial operating in urban areas), and SARTAWI (non-commercial operating in rural areas).

Main analysis methodology: control group methodology. The control group is poorly defined, since overall educational level is lower.

Main results regarding microcredit impact:

- At individual level: smaller loans reduced poverty by lifting borrowers across the poverty line, while larger loans reduced it by expanding labour demand amongst poor people.
- At the household level: there is evidence that all institutions made a considerable contribution to the reduction of poverty and increase assets level.

MOURJI, F. (2000): “Étude de l’impact du programme de Zakoura Micro-credit”. An electronic copy may be downloaded from http://www.zakourafoundation.org

Microfinance institutions covered in the analysis: Foundation ZAKOURA, Morocco.

Main analysis methodology: Control group comparison with incoming clients. Focus groups, qualitative individual interviews. Statistical significant measured.

Main results regarding microcredit program:

- At the individual level: Positive impact on the client’s autonomy.
- At the household level: Positive impact on income, on the expenditure on children’s education and on diet quality.
- At the enterprise level: Positive impact on net revenue, on sales, on activity diversification and on enterprise development. No significant impact on the level of professionalism.

MUENCH, S. (2000): “Impact survey report of the Mercy Corps International microcredit program Bosnia and Herzegovina”. Microfinance Centre, Warsaw Poland.

An electronic copy may be downloaded from http://www.microlinks.org

Microfinance institutions covered in the analysis: Mercy Corps Microfinance program

Main analysis methodology: Control group comparison. It measures the statistical significance and the standard deviation. Yes/no questions to measure the client’s past situation.

Main results (of uncertain validity due to sample design bias and country context bias) regarding microcredit impact:

- The household wellbeing impact has not been reached at this time. Results were not significant, maybe due to the small sample size, and to the situation of the country (post-conflict), as well as to the access all people have to aid programs. Despite this, old clients experience a positive trend that over time may become a significant impact.
- Business impact seems greater than household wellbeing. Although not all the results are significant and the data are not uniformly positive.

MURIEL, V. (2000): "Microcrédito y pobreza: un ejercicio empírico sobre el impacto del Banco Grameen", Boletín Económico de ICE 2659, 10-16 Julio.

Microfinance institutions covered in the analysis: Grameen Bank

Main analysis methodology: control group comparison. Endogeneity bias is avoided by application of Heckman's procedure.

Main results regarding microcredit impact:

- At the household level: access to microfinance does not change school attendance in the short run, but it has a significant effect in the long run, higher for boys than for girls.

REKENEIRE, A. (2004): "Impact du Microcrédit sur la population de Taounate", FONDEP. An electronic copy may be downloaded from http://www.fondep.com

Microfinance institutions covered in the analysis: Fondep, Morocco.

Main analysis methodology: No control group and no longitudinal analysis.

Main results (of limited validity due to methodological defects) regarding microcredit impact:

- Clients' satisfaction with the program is very high.
- Client's perception of the impact is generally high, although varies depending on the client's economic situation, the less poor being the ones that perceive a greater impact.
- Microcredit is mainly used for working capital, investments, consumption and emergencies (the later being used particularly by the poorest layers).

ROULLET, L. (2005): "Microfinance in Palestine 2005: Overview of impact and potential; Recommendations to the main actors of the sector". Israel/Palestine Centre for Research and Information, IPCRI. An electronic copy may be downloaded from http://www.ipcri.org

Microfinance institutions covered in the analysis: 8 institutions of the Palestinian Network for Small and Micro Finance (23.000 clients).

Main analysis methodology: interviews in cities and villages, to microfinance institutions clients, staff, non-clients and researchers. Statistical significance is not measured.

Main results regarding microcredit impact:

- The impact is perceived as positive by the board of directors, the managers and loan officers. Beyond the direct "micro-impact" on the families and the communities, they insist on an impact on credit culture. This is considered as a good chance for a change of mentality for their country.

SULTANA, M. and NIGAM, A. (1999): "Impact assessment study of the Family Development Fund, Egypt". UNICEF. An electronic copy may be downloaded from http://www.nissi.org

Microfinance institution covered in the analysis: Family Development Fund (FDF, initiated by UNICEF in 1993).

Main analysis methodology: quantitative analysis on a household survey questionnaire collecting information on the socio-economic profile of the borrowers, children's education, utilisation of child labour, use of health services, awareness on nutrition, access to safe water, awareness on sanitation and AIDS, utilisation of loans, improved income and asset building, and women's empowerment. Focus group interviews were also used.

Main results regarding microcredit impact:

- At the individual level: microfinance participation might increase empowerment of women.
- At the household level: the percentage of borrowers whose children did not go to school dropped from 23% to 16% suggesting that access to credit, and the income generated from the self-employment, along with the creation of social awareness through the centre meetings may have been a factor in improving school enrolment. Nutrition seems to be better for the treatment group than for the non-borrowers, which is likely due to both an improvement in the income of the family, the fact that the income is being generated by the women who have some degree of control over its use and their preference for spending it on food, and the health and nutrition training imparted at the centre meetings. Health training also seems to be useful.

TSILIKOUNAS, C. (2000): “Impact Survey; ICMC and Project Enterprise, Bosnia and Herzegovina”. International Catholic Migration Commission. An electronic copy may be downloaded from http://www.microlinks.org

Microfinance institution covered in the analysis: International Catholic Migration Commission (Bosnia and Herzegovina, 1050 clients).

Main analysis methodology: based on AIMS impact assessment methodology.

Main results regarding microcredit impact:

- At the household level: a larger percentage of clients saw their household income increase significantly in the last 12 months, but also more clients than non-clients saw their income decrease. A composite variable is created to measure evolution in spending pattern, which shows significantly higher results for clients of the program as compared to non-clients.
- At the enterprise level: no statistically significant difference was found between clients and non-clients in terms of business sales and business profit, net assets or employment.

WAMPFLER, B. (2006): “Étude d’impact du réseau CECAM à Madagascar: Principaux résultats de la première année d’études”, European Union. An electronic copy may be downloaded from http://www.microfinancegateway.org

Microfinance institutions covered in the analysis: Reseau des Caisse d’épargne et de crédit agricole CECAM.

Main analysis methodology: Control group comparison. The results of the with-without study will be the baseline for a later monitoring in a longitudinal comparison. Case study for 88 households. Interviews of 12 agricultural cooperative organizations and the institution’s staff. Statistical significance is not presented.

Main results regarding microcredit impact:

- Institution’s development: Number of institutions, number of partners, credit portfolio, savings, equity, number of products and services.

3 Reports that pass the exclusion criteria

- AL AMANA (2004): “Evaluation de la contribution de l’offre de micro-crédit d’Al Amana au développement des conditions des micro- entrepreneurs".
- BARNES, C. (2001): “Microfinance projects clients and impact: An assessment of Zambuko Trust, Zimbabwe”. AIMS Project, from USAID.
- CHEN, M. and SNODGRASS, R. (2001): “Managing resources, activities and risks in urban India: The Impact of SEWA Bank”. AIMS Project, from USAID.
- DUNN, E. and GORDON ARBUKLE, J. (2001): “The impacts of microcredit: A case study from Peru”. AIMS Project, from USAID.

- EDGCOMB, E. and GARBER, C. (1998): "Practitioner-led impact assessment: A test in Honduras". AIMS Project, from USAID.
- ESGC (2004): "Malawi companion report; UNDP Microfinance programme impact assessment". UNDP.
- ESGC (2003): "Haiti companion report: UNDP Microfinance Programme impact assessment". UNDP.
- ESGC (2003): "Nigeria companion report: UNDP Microfinance Programme impact assessment". UNDP.
- GUBERT, F. and ROUBAUD, F. (2005): "Analyser l'impact d'un projet de microfinance: L'exemple d'ADeFi à Madagascar", *Agence Française du Développement*, Paris.
- IKM (2004): "Evaluation de l'impact des microfinance au Maroc", Planet Finance.
- IKM (2007): "National Impact and market study of microfinance in Jordan". Planet Finance.
- IKM (2006): "Impact and market research report: UNRWA", Planet Finance.
- JONHSON, S. and COPESTAKE, J. (2002): "FINCA-Malawi impact assessment research". Centre for Development Studies, University of Bath.
- KHANDKER, S. (2005): "Microfinance and Poverty: Evidence Using Panel. Data from Bangladesh", The World Bank Economic Review, September.
- MKNELLY, B. and DUNFORD, C. (1999): "Impacto de Crédito con Educación en las madres y en la nutrición de sus Niños Pequeños: Programa CRECER de Crédito con Educación en Bolivia". Freedom from Hunger.
- MKNELLY, B. and LIPPOLD, K. (1998), "Practitioner-led impact assessment: A test in Mali", AIMS Project from USAID.
- MOSLEY, P. (1999): "Microfinance and Poverty: Bolivia case study", World Bank. Report commissioned for the World Development Report 2000/2001.
- MOURJI, F. (2000): "Étude de l'impact du programme de Zakoura Micro-crédit".
- MURIEL, V. (2000): "Microcrédito y pobreza: un ejercicio empírico sobre el impacto del Banco Grameen". *Boletín Económico ICE Nº2659,* del 10 al 16 de julio de 2000.
- TSILIKOUNAS, C. (2000): "Impact Survey; ICMC and Project Enterprise, Bosnia and Herzegovina". International Catholic Migration Commission.

Annex II – Quantitative and qualitative methods for impact assessment

Impact assessment can be performed on a quantitative as well as a qualitative basis. The advantages of a quantitative analysis are clear: on the one hand, it produces an objective impact measure, which therefore can be compared over time and across countries. On the other hand, it allows an unbiased aggregation of the results from different studies, in order to produce incremental knowledge on the impacts of microfinance services.

However, quantitative data sources usually imply a loss of information, since most human situations, even those directly related to economic issues, cannot be reduced to variables and figures. Qualitative data, in contrast, allow for richer and deeper descriptions, suitable to let the reader get a good picture of the reality the researcher knows. The nature of qualitative analysis, however, involves a high risk, namely that a false result wrongly evaluated by the researcher is presented as true to the reader, who is in a extremely weak position when facing a qualitative analysis due to the lack of contrast instruments and evaluation tools. This is why in most impact assessment studies the analysis is focused on quantitative data which are treated using quantitative methods, saving qualitative data for case studies and additional information provided to the reader in order to strengthen ideas and results.

Quantitative data are mainly used in order to perform a counterfactual analysis and estimate non-observed effects, those that would have arisen if microfinance had not occurred, and then compare them with the observed effects, associated with microfinance. These non-observed effects can be estimated from past observations of the same individual or group or from contemporary observations of similar individuals or groups. Computer simulations can also be used to estimate counterfactual effects, but no such study related to microfinance has been performed up to date.

Two main issues arise when performing a microfinance counterfactual analysis (or a comparison with counterfactual estimations) using past data. The first one is the determination of the effects that are really due to microfinance, and the isolation of these effects from those that would have arisen anyway, due to normal variable evolution or to other changes that have also taken place. This is an extremely important task, since otherwise all changes in the apparently affected variables will be attributed to microfinance, distorting the results and producing wrong results about microfinance impact. Economic modelling, allowing for the effects of different changes occurring at the same time as microfinance program, can avoid this bias. Impact assessment studies that do not take into account these changes and their expected effects cannot be considered scientifically valid.

The second important issue in microfinance counterfactual analysis using past data is the determination of the statistical significance of the estimated changes. Simple comparison of the observed variables, before and after a microfinance program is applied, is an ambiguous indicator with no scientific value. Instead of simple comparison, parametric and non-parametric test statistics can be used to reject the hypothesis that the observed before and after variables come from the same distribution and, therefore, that a certain microfinance program has produced no effect. Panel data and time series analyses allowing for exogenous shocks are more appropriate tools, since they can be used not only to identify effects, but also to measure them.

Microfinance counterfactual analysis may also be performed by comparing the results for the individuals in the group with effective access to microfinance, which is called treatment group, against contemporary observations of a similar set of individuals with no access to microfinance, which is called control group. Treatment and control groups must be as similar as possible; ideally, their only difference should be access to microfinance, but of course real differences are usually much wider. Again, there are two main issues at stake. The first one is the determination of the effects really due to microfinance, and the isolation of these effects from those due to other non-observed variables. This is a complex task, since one of these non-observed variables is self-selection to take part in a microfinance program, or to be excluded from it. This means that the economic success of a person with access to microfinance might be an endogenous variable, namely if the only people that access microfinance facilities are precisely those with personal abilities and attitudes to succeed. In these circumstances, success would be linked to microfinance, but it would be wrong to conclude that it is a result of it.

If the effects in the treatment group really due to microfinance cannot be fully isolated, and this includes taking into account the self-selection problem, all differences in the group with access to microfinance will be attributed to microfinance, and the results about its impact will be biased. Economic modelling, improved sample selection, and econometric techniques to detach self-selection bias are some of the available solutions to avoid this sort of problems. Once again, impact assessment studies that do not take into account the need to control for non-observed differences cannot be considered scientifically valid.

In order to avoid the bias generated by self-selection problem and non-observed differences between the treatment and the control group, many studies use as a control group some of the new incoming members, those that have been accepted in the program but with no access to microfinance yet. This group is then compared against the treatment group, formed by people with effective access to microfinance. This procedure has the advantage of producing a suitable natural control group, with no selection bias and with obviously similar characteristics to the treatment group, since both groups are formed by people that have already been selected to take part of the program. Furthermore, it is not an expensive procedure, since the groups can be easily identified.

The second important issue regarding microfinance counterfactual analysis with a control group is, again, the determination of the significance of the estimated differences. Simple comparison of the observed variables means, with and without the application of a microfinance program, has no value as a scientific indicator. Parametric and non-parametric test statistics can be used rather than simple mean comparison to evaluate significance. Test statistics may reject the hypothesis that the observed with and without variables come from the same distribution and, therefore, that a given microfinance program has produced no effect. Linear regression and, of course, panel data are more appropriate tools, since they can be used to measure impacts.

The data required to perform microfinance impact assessment studies can be obtained from the available information, already gathered by microfinance institutions among their clients, and also from *ad hoc* surveys designed to collect impact information. The first method has the obvious advantage of a lower cost, but introduces the possibility of severe methodological problems, since the sampling is not random, no information is collected from non-clients, and, as data collectors have an interest in a certain sort of answers in order to better justify their microfinance work, some bias can be expected in the results. The implementation of surveys to collect impact information is a much more powerful tool suitable to avoid these methodological difficulties, but also at a higher cost.

Annex III – Impact assessment studies

This annex outlines the scope of 34 microfinance impact assessment studies reviewed by the report, 10 of which cover Mediterranean countries, and discusses the methodologies employed in these studies. These methodological choices are closely related to the underlying objectives of the impact assessments, and have implications for the cost and duration of the studies as well as the conclusions that can eventually be drawn from them.

1 Definitions

The term microfinance includes credit, savings, insurance products and money-transfer services. For the Mediterranean region, regulations have until recently ruled out savings[1] for most MFIs and micro-insurance is not generally available. Therefore microfinance, for the most part means micro-credit. Furthermore, since the report is about assessment of the impact of MFIs, traditional forms of micro-credit, such as money-lenders, pawn shops, and informal loans are excluded from the definition. However, the remainder is itself a diverse group including, consumer credit, activity-based credit, various types of NGO credit, as well as Grameen-credit. This diversity itself contributes to the diversity of impact assessment methods and outcomes.

MFIs are a broadly defined group of microfinance providers including both social businesses (NGOs, associations, and cooperatives) which do not aim to make a profit, and profit-maximising enterprises[2]. This distinction has a bearing on the need for impact assessment by the MFI, and the design and implementation of the studies. On the one hand, the application of "best practices", including market oriented ones, might be good for the business and objectives of all kind of MFIs, and, on the other hand, even for-profit MFIs may also have a social mission and certainly their financial activity will have social effects.

Impact assessment is defined in the procedural manuals of several aid agencies[3] as the counterfactual analysis of outputs and outcomes of an intervention. The general methods are applicable to a wide range of operations, programs and policies, though microfinance has received special attention, and assessment methods have been adapted to its specific needs. When applied to microfinance, impact assessment is performed to reveal how financial services affect the life of the people who have access to these services, as well as their families and business. For this task, assessment studies necessarily focus on variables related to income and welfare, using statistical validation to reduce the risk that the researcher imposes his or her own views. Furthermore, it is important to avoid confusion with analysis of the MFI, and market research, though in some instances these other types of analysis have elements in common with impact analysis.

2 Scope of the literature

This section presents the sample of 34 impact assessment reports selected for review, in order to get a global picture on the current situation of microfinance impact assessment. The following issues concerning the reports are described: geographical focus, sponsor, activity under evaluation, microfinance product under assessment, measured variables, employed methods,

1 Yemen is an exception in the Middle East North Africa region where voluntary savings is a long-standing component of microfinance service provision.

2 Yunus 2007

3 For example, ADB Impact Evaluation Methodological and Operational Issues.

methodological models and objectives. It must be highlighted that the results are certainly conditioned by the sample of studies actually identified and selected. However, an effort has been made to cover a representative sample of the different kind of reports published up to date regarding employed methods, regional focus and sponsor.

Geographical focus

The sample consists of impact assessment reports conducted all over the world. However, most of the reports, 16 out of 34, focus on African countries. A special effort has been made in order to obtain reports on the FEMIP partner countries. Concerning the Mediterranean region, 10 reports were identified and analyzed, namely 4 reports from Morocco, 3 reports from Palestinian territories, 1 report from Jordan, 1 report from Tunisia, and 1 report from Egypt.

Sponsor

Impact assessment reports are mainly prompted and financed by multilateral organizations. Within our sample, 17 of the reports were funded by multilateral donors, USAID being the most active, with its AIMS program aimed at measuring microfinance impact, the World Bank and the UNCDF. Other multilateral or bilateral organizations that finance impact assessment reports are ADF, the European Union, IDB and Unicef.

Apart from multilateral donors, other important actors are the MFIs themselves, which in some cases conduct and finance their own studies, particularly in the Mediterranean region. Specifically 6 studies were conducted by MFIs, 5 of them belonging to the Mediterranean basin. Some reports have been sponsored by NGOs, Governments and Universities.

Activity under evaluation

Some of the reports analyze the impact of donors and DNGO's programs, particularly the reports which have been financed by multilateral donors. These programs tend to be time limited and with specific objectives set out in advance; and they are not always focused on developing sustainable financial services for SMEs, appropriate to their needs and characteristics, but are aimed at achieving different goals related to different sectors such as women empowerment or child nutrition.

However, NGOs and MFIs ongoing activities are also the focus of some of the reports, particularly of those conducted by the MFIs themselves, as well as reports prompted by multilateral organizations.

Given the fact that most impact assessment reports in the Mediterranean countries have been developed by MFIs, the focus is evidently placed on MFIs' ongoing activities.

Microfinance products under analysis

Although the concept of microfinance consists of a diverse range of products and services, most of the analyzed reports focused exclusively on the impact of credit.

In this regard, it is important to emphasize that in nearly one third of the analyzed reports, programs and MFIs do offer other services such as savings or training. However, when designing the treatment group, the sample is only made of people who have been granted a loan, not considering the use of other services as a control variable. These additional services certainly exert an influence on the clients, but measured impact cannot be attributed to them. This issue might be producing a bias in the results, of unknown size. The only report which specifically addresses savings as well as credit is Chen, M. and Snodgrass, R. (2001), India SEWA Bank.

Measured variables

Most reports follow the structure proposed by the AIMS project, which divides impact into three categories, as follows:

Individual level: This is the least studied level, and the number of variables is the smallest. Most of the variables focus on empowerment, particularly empowerment of women.

Household level: The variables studied at this level are more diverse. The most frequent variables are income level, housing improvements and expenditure on food.

Enterprise level: This is the most commonly studied level. The variables most frequently found in reports are revenue, assets and employment.

This structure is also followed by most reports from the Mediterranean region.

Applied methods

Almost all the reports base their conclusions on quantitative methods, which are sometimes complemented with other qualitative instruments, such as in-depth interviews, focus groups or case studies. Three of the analyzed reports rely exclusively on qualitative methods.

Regarding the quantitative methods, the vast majority of the reports use a control group method, where the impact in the "treatment" group with access to microfinance is compared to a control group. This is the case for 25 reports. In order to select the control group, a solution which has been widely implemented is taking incoming clients who are yet to receive a loan or who have not completed their first loan cycle.

On the other hand, one third of the studies use a longitudinal method, comparing the situation before having access to microfinance with the one afterwards.

Regarding the Mediterranean region under study, the method commonly used is a control group comparison. Only one of the reports uses a longitudinal method, and one is based exclusively on qualitative methods.

Methodological models

The IKM and AIMS methodological models are commonly used by the microfinance industry, because of their widely-accepted validity. These models are regarded by many microfinance practitioners as a proof of a quality standard.

In the sample, approximately half of the reports are either conducted by the AIMS project, by an AIMS project collaborator or by any other practitioner claiming to be using AIMS methodology. This gives an idea of the current common acceptance of the AIMS methodology and approach.

In the Mediterranean region, three reports refer to the AIMS methodological model, and three to IKM. These methodologies are “mid-range” in terms of their cost and complexity.

Objectives

The purposes set out in the different Impact Assessments reports generally vary depending on the institution that conducts it (either an MFI or a donor, for instance), and therefore on its interests, role and mission within the microfinance industry. Among the objectives most frequently found, we can underline the following spheres:

Main objective set out by all kinds of microfinance practitioners:

- To obtain context specific knowledge: A significant proportion of the studies seek to measure the impact of a given MFI or donor funded program, without questioning how it might be useful to know this impact.

Main objectives set out by donors:

- Development of broad knowledge on microfinance: Some of the studies carried out by donors and particularly by multilateral organizations, have the objective of gaining a better broad understanding of the role of the financial services in issues like helping the poor or improving empowerment of women.

- Use of impact assessment as an accomplishment measurement tool: Some of the studies related to donor funded programs were aimed at examining the extent to which the program accomplished its objectives and reached the expected results.

- To obtain input for further program improvement: Some of the studies related to donor funded programs claim to use the impact assessment study to improve the program design and approach in order to improve its impact.

- Specific AIMS objectives: To develop impact assessment tools to be easily used by all kind of microfinance actors, and at the same time to gain a better understanding of the processes by which micro-enterprise programs strengthen businesses and improve the welfare of micro-entrepreneurs and their households.

- Specific UNCDF PIA objectives: The UNCDF Program Impact Assessment reports additionally conduct an institutional analysis and assess whether the intervention and program objectives were relevant, significant and in line with the countries strategic priorities as stated in the broader UN framework. Another objective is to assess the extent to which a pilot operation exerts a wider influence and leverage on policy and provides a tested model for replication.

Main objectives set out by MFIs:

- To increase knowledge about the market and to obtain feedback for product improvement: Some of the studies, particularly those conducted by MFIs, additionally look for results related to market research, such as detailed socio-economic characteristics and information about the activities of clients and non clients, MFI outreach or the reasons for client drop outs, with the aim of better responding to the clients' needs. This objective is wide-spread among the reports conducted by MFIs in the Mediterranean countries.

Other objectives mentioned by MFIs are the valuation of a strategy in order to know whether it achieved the expected results, the creation of criteria to measure the performance of credit agents, and the use of an impact assessment report as a baseline to create a regular impact monitoring system.

Annex IV. – Survey on the economic and social impact of microfinance

The 53 MFIs that are members of Sanabel-Microfinance network of the Arab countries, listed below, were sent a questionnaire on microfinance impact assessment. The English version of this questionnaire can be found below; the MFIs were also sent an Arabic version and, when appropriate, a French version.

The questionnaire was answered within the deadline by 26 institutions, and one of them was removed from the sample as invalid. The results from the remaining 25 questionnaires, 47,2% of the total population, are presented in this section. Some of these results are related to the interest of MFIs in carrying out impact assessment studies, while others refer to the information the institutions keep on record about their clients. The sample of institutions is very small to reach statistically valid conclusions, but the aim of this survey is to offer a snapshot of the situation rather than achieve conclusive results based on the answers provided by the surveyed institutions.

1 Questionnaire

The European Investment Bank (EIB), in partnership with SANABEL the Microfinance Network of Arab Countries, has commissioned NODUS Consultores to develop a report that summarizes the findings of different studies on the impact of microfinance programmes. The report will be presented for discussion at the FEMIP Conference on 5 May in association with the Fifth Annual Conference of Sanabel. As a part of this task, NODUS Consultores has designed a short questionnaire to collect some important information from Microfinance Institutions.

The main objective of this questionnaire is to contribute to the knowledge about the impact of microfinance programs, in order to improve the effectiveness of the work of Microfinance Institutions. Responses will be treated in confidence, and the published report will summarise the overall situation without attributing particular comments to individual institutions.

We would appreciate if you could spend a few minutes answering the questions below, and then send them back to Laura Munoz by email (lmunoz@nodusconsultores.com) or by fax (+34 913 150 677). She can also be contacted by phone (+34 913 237 459) for any doubt or problem that may arise.

Our time schedule is very tight, so we would also value your prompt response. Please note that we will not be able to take into account your answers if they do not reach us by February 6th.

Thank you very much in advance.

Please fill in the spaces below regarding your microfinance institution and yourself.

Institution: ....

Person answering this questionnaire:

Name...

Position ....

e-mail ....

Fax number ....

Telephone number ....

QUESTIONNAIRE

A. ABOUT YOUR INSTITUTION

1. Has your institution conducted any study on the impact of microfinance in your clients' lives?

[ ] **YES – Then, please answer questions 1.1 to 1.5 below:**

1.1 What are the main reasons that motivated this survey?:

A donor asked your institution to do it .... [ ]

The Government asked your institution to do it .... [ ]

It could have a positive incidence in your institution business .... [ ]

Other reasons (please specify:).. [ ]

1.2 Has the survey been useful for your institution? In what way?

Improve the institution business [ ]

Improve the institutional image and attract donors' funding .... [ ]

Other (please specify:) [ ]

Not useful [ ]

1.3 How did you finance it?

If you have obtained funds from different sources, please specify their shares:

Source:

Your institution own resources.. (%)

Government .... (%)

Donors .... (%)

Other sources (please specify:).. (%)

TOTAL 100%

1.4 Is your institution planning further impact assessment?

Yes (please specify:) .... [ ]

No .... [ ]

1.5 Would your institution be willing to share the results of the surveys you have carried out?

Yes .... [ ]

No .... [ ]

PLEASE SKIP TO QUESTION 2

[ ] **NO – Then, please answer questions 1.6 to 1.8 below:**

1.6 What are the main reasons why your institution has not conducted any impact assessment study?

Your institution does not consider it useful .... [ ]

Your institution does not have enough financial resources .... [ ]

Other reasons (please specify:).. [ ]

1.7 Which of the following would you consider the main advantages of conducting an impact assessment study?

Improve the institution business .... [ ]

Improve the institutional image and attract donors' funding .... [ ]

Other (please specify:) [ ]

Not useful [ ]

1.8 Would your institution be interested in conducting an impact assessment study or in participating in one by providing the data you keep record of?

Yes .... [ ]

No .... [ ]

Only if externally funded .... [ ]

2. Which system does your institution use to store the information on clients?

Office forms and files .... [ ]

Computer applications (Access, Excel, OpenOffice, other software…) .... [ ]

Your institution does not keep record of clients' data .... [ ]

3. How many employees does your institution have? .... ( )

B. ABOUT YOUR CLIENTS

4. Please check the appropriate boxes below if your institution collects the following information in relation to the clients' personal characteristics:

Level of personal income .... [ ]

Level of education .... [ ]

Health status .... [ ]

Age .... [ ]

Gender .... [ ]

Number of children .... [ ]

5. Please check the appropriate boxes below if your institution collects the following information in relation to the clients' household income:

Level of household income .... [ ]

Origin of household income .... [ ]

Number of people in the family with an economic activity .... [ ]

Historical data record of the above mentioned .... [ ]

6. Please check the appropriate boxes below if your institution collects the following information in relation to the clients' <u>living conditions</u>:

Level of health expenditure... [ ]

Level of expenditure on children's education .... [ ]

Level of food expenditure .... [ ]

Level of expenditure on home improvements.. [ ]

Historical data record of the above mentioned .... [ ]

7. Please check the appropriate boxes below if your institution collects the following information in relation to the clients' <u>microenterprises</u>:

Number of employees.. [ ]
Turnover... [ ]
Profits... [ ]
Assets .... [ ]
Sector / type of activity (trade, services, handicrafts, …) .... [ ]
Historical data record of the above mentioned .... [ ]

8. Please check the appropriate boxes below if your institution collects the following information in relation to the <u>institution business</u> for each client:
Number of credits... [ ]
Credits amount... [ ]
Savings amount .... [ ]
Repayment performance .... [ ]
Historical data record of the above mentioned .... [ ]

<u>C. COMMENTS</u>

9. Please use the space below to state any comments you or your institution consider of interest for this study:

2 Interest of MFIs in carrying out impact assessment studies

This part is based on the answers from MFIs to the questionnaire regarding their interest in carrying out impact assessment studies (questions 1.1 to 1.8 in the questionnaires). The first question MFIs were asked was whether they had already conducted any impact assessment. In this regard, 13 of the institutions stated having conducted a study of this kind, whereas 12 of them haven't undertaken any.

<u>MFIs which have conducted an impact assessment</u>

Among the MFIs that answered affirmatively, the reason argued to prompt the development of this kind of studies was, in the first place, that it could have a positive incidence in their business. This argument was given by 12 out of the 13 MFIs. Despite this positive answer, almost no institution made clear in the questionnaire how the results achieved by impact assessment studies could improve their business; the only comment in this regard, given by one MFI, was to provide information to other stakeholders.

It is also noteworthy that 4 of the answers pointed out the influence of a donor or the government, which would have asked them to conduct the impact assessment study. The underlying idea is that in some cases donors and governments may be inducing MFIs to devote resources, either human or economic, to a study that they may not be interested in.

When asked if the impact assessment was actually useful for the institution, 12 of the 13 MFIs answered affirmatively. Specifically, 10 of the 13 institutions stated that the impact assessment they had conducted had helped them improve their business, which in nearly all the cases coincides with the MFIs that had previously stated that was the reason they had done it. Again, almost no institution made clear in the questionnaire how the results achieved by impact assessment studies were useful to them, but three MFIs stated that they were useful to design and modify loan products and expand market, to improve the global image of the sector, and to study the adequacy of loan amounts and the morabaha ratio.

Bringing about the findings presented in section 3 ("impact assessment results"), it could be interesting to recall that many of the impact assessment studies conducted by MFIs, most of them from the Mediterranean region, had set out objectives, methodologies and contents that were actually related to market research rather than impact assessment itself, despite the fact that the latter name was frequently used. This might be understood as an explanation of the usefulness MFIs find in what they call "impact assessment".

On the other hand, 7 of these 10 MFIs that answered impact assessment had helped them to improve their business, also declared that the impact assessment was a way to attract donors' funding. This fact is particularly relevant in a region where financial services to micro-enterprises are mainly supplied by NGOs, which are forbidden by Law to collect deposits from the public, and are largely dependent on donors' loans and donations, since the access to commercial loans is in many cases restricted to operations with, again, a donor's guarantee. This restriction on the collection of deposits draws a scenario of MFIs that, although in some cases are achieving financial sustainability, are still dependent on donors' resources to finance their growth. This would reinforce the idea that in some cases impact assessments are induced from outside the MFIs; and that the interest of MFIs may be in attracting funds.

Another reason for a MFI to conduct an impact assessment is to support the decision-making process at the national level, in order to influence issues such as regulatory reform.

When the MFIs were asked how they had financed the impact assessment studies, the answers are split between 5 MFIs that have financed the study with their own resources, and other 5 which used funds from donors. This means that only 25% of the whole sample of MFIs decided to allocate their own resources to financing impact assessment studies.

The fact of not being allocating their own financial resources could imply a possible lower commitment or a lower interest in the results. The contrary might be true for the MFIs that are devoting their own resources, which might be considered as a sign of a greater engagement, since it is their money which is at stake.

It is noteworthy that 3 out of the 5 MFIs that financed an impact assessment study report that it was useful to attract donors' funding, and one also states that the study was made at the donor's request.

When asked if the institution was planning further impact assessment, all of the MFIs gave a positive answer. This would lead us to the conclusion that, whatever use MFIs may be finding to carry out impact assessment studies, they consider it worthy to continue this trend. The question would still be whether the interest shown is motivated by an inherent conviction on the usefulness of the results, or by a need for donations or loans.

In that sense, it would be very interesting to analyze the content of the impact assessments conducted by these MFIs and how, if that was to be the case, the result of these studies could help a microfinance institution improve its business, compared to the cost of such activity and the actual resources a MFI could devote. That is, the actual cost benefit of impact assessment for a MFI.

<u>MFIs which have not conducted an impact assessment</u>

Among the MFIs that answered negatively, the reason argued by 11 of the 12 institutions concerned was the lack of financial resources to conduct such a study. This suggests that the high cost of this kind of studies is a major obstacle and the fact that MFIs do not always consider that the potential benefit outweighs the expenditure. One of the MFIs declared it didn't consider impact assessments useful.

Under the heading "other reasons", 5 MFIs added comments such as their lack of expertise, the unjustifiable cost of the study, or that they didn't considered impact assessments as a priority. Some stated that the MFI preferred to focus in the institution's growth, in its financial viability or in other more pressing matters. This may be due to the fact that impact assessment is not considered by all MFIs to have an important influence on their ongoing activities.

When asked what the advantage would be of conducting an impact assessment, the majority affirmed that it is to improve the business. Following a similar pattern as for the MFIs which had conducted an impact assessment, 7 of them also declared it would be useful for attracting donor's funding.

Under the heading "other advantages", 4 MFIs added some comments such as better defining the target clientele and better designing products, both of which coincide with the idea that MFIs develop impact assessment studies as market research, with objectives different from those of actually measuring impact or verifying that the social mission of the institution is being fulfilled.

The perception of the potential benefits from impact assessment seems to follow the same trend as for the MFIs which have already conducted one. Therefore, the conclusions would be in the same direction.

When MFIs were asked if they would be interested in conducting an impact assessment in the future, 4 of them answered positively, and 8 pointed out that they would only be interested in conducting an impact assessment if it was externally funded. This reinforces the idea that the cost is a major obstacle in this regard.

3 Information the MFIs keep about their clients

The objective of this section is to know which information could be easily provided by FEMIP Partner countries MFIs to perform impact assessment studies. This goal could be particularly interesting, given that many MFIs claim that the high cost of these studies represent an obstacle for many of them.

In this sense, we must start from the premise that a methodologically valid impact assessment needs of accurate information on clients, which some MFIs may be ready to contribute with. However, this information is not at all sufficient to develop an acceptable impact assessment.

For an impact assessment to be valid, first of all, information from non clients to be able to make a control group comparison needs to be collected. A longitudinal analysis would not be enough if there is not a control group since impact cannot be attributable exclusively to microfinance. In fact, impact from microfinance must be correctly isolated from other influencing factors.

Another aspect which is absolutely essential would be the designing of an appropriate sample, in a way that ensures that the control and the treatment group are comparable and matching.

Also, as we will see in this section, the information MFIs generally store is not comprehensive of all the data sought in an impact assessment, particularly in relation to data on the household welfare, which ultimately represents the impact from microfinance translated into the improvement of the households' living conditions.

Finally, whenever the impact assessment may be used as a tool to obtain donor's funding, it is important to realize the potential bias in the results of a study exclusively conducted by the MFI.

Therefore, we must be aware that MFIs can make use of the information they store about their clients, in order to make a useful contribution for the development of impact assessment carried out by donors or any other practitioner, but this information would not be in any case enough on its own to develop a valid impact assessment.

Once the premises are clear, and going back to the issue under discussion, it is important to bear in mind that microfinance institutions need to have information on the clients, their households and enterprises, as part of the MFI's ongoing activities. This information is used by credit agents to decide the grant of new loans and to monitor the repayment process. It can be considered as reliable, since it is the source the MFIs use to determine who becomes a client, and therefore will influence the whole business performance.

Depending on the institutional policies, and moreover on the level of computerization, MFIs may easily handle certain data on their clients without making any extra effort. In order to get an overall idea of their degree of computerization, MFIs were asked which system they use to store the information on clients. Out of the 23 institutions that answered this question, 22 stated they were using computer applications, such as Access, Excel, OpenOffice or other similar software. Out of these 22, 14 MFIs were also keeping information in paper forms and files, while 7 relied exclusively on computer software. Only one institution claimed not making use of computers to store the information.

For all the MFIs which stated to be combining traditional methods with computers, it would be interesting to deepen in this question and get to know to which extent the use of computers is actually spread. In any case, and given the answers received, it seems that it would not be exaggerated to believe most MFIs would not have many problems in handling and providing the information they keep about their clients.

Regarding the kind of information MFIs collect from their clients for business purposes, the answers show that the following variables are commonly stored:

- In relation to the clients' profile, the vast majority of institutions affirmed to be collecting information on personal income level (96%), educational level (88%), age (96%), gender (96%) and number of children (88%).
- In relation to the institution's business, the vast majority of institutions affirmed to be collecting information regarding the credits amounts (92%), number of credits (88%) and repayment performance (84%). It should be noted that 45% of the institutions affirmed to be registering information on savings amounts, but for most of the cases, this cannot be referred to deposits collected within the institution as national regulations do not allow them to take deposits. It should be considered as savings outside the institution.
- In relation to the household, the vast majority of institutions affirmed to be collecting information on household income (96%), origin of the income (88%), and number of people with economic activity (76%).
- In relation to the micro-enterprise, the vast majority of institutions affirmed to be collecting information on the sector of activity (96%) and profits (96%), turnover (88%), assets (80%) and number of employees (76%).
- The group of information the least used is referred to the clients' living conditions, as follows: children's education (52%), food expenditure (44%), health expenditure (32%) and home improvements (28%).

Concerning the variables related to the institution's business, the household and the enterprise, 68% of the institutions also declare to be keeping historical records of the information stored. This percentage decreases to 24% for living conditions related variables.

Many of the variables here presented are used to measure the impact of microfinance in many of the reports analyzed in previous sections. Therefore, regardless the role a MFI could or should play in relation to the development of an impact assessment study, many MFIs could actually make a significant contribution to the measurement of this impact by providing this information, without devoting extra resources, nor human nor economic, and hence without interfering in their ongoing activities.

4 Summary of the survey findings

As a general rule, and with the limitations so as to the validity of the results already mentioned, the MFIs surveyed have shown a clear interest in conducting impact assessment, and approximately half of them have already conducted one. The main obstacle that prevents the other half from conducting one is the financing issue. It can be concluded, therefore, that the cost of these studies, in general, is perceived as too high to be assumed by many of the MFIs, which need to devote their resources, both human and economic, to questions closely related to their viability and growth, which must be their primary focus.

Concerning the reasons given by MFIs, many of them state that impact assessment could help to improve their business. In this regard, a plausible explanation could be the fact that in the previous section, where the existing literature was reviewed, it was observed that many of the studies conducted by MFIs had a rather market research approach, going beyond what is actually defined as an impact assessment.

Another important conclusion is that some doubts arise regarding the underlying actual interest of MFIs in conducting impact assessment, since their answers leave us hints to suspect donors and governments are playing an essential role in inducing impact assessment studies as an implicit or explicit condition to grant donations or loans to the MFIs, which in this context happen to be largely dependent on these financing sources.

Regarding the information MFIs could easily provide from their clients, it would be important to say, first of all, that the level of computerization seems to be sufficient to provide the information they store on clients. However, other obstacles may arise related to the lack of data centralization and the mixed use of computers with traditional methods of information storage.

According to the answers received, surveyed MFIs handle information regarding the client profile, its enterprise, its household and the services accessed, which is generally studied in impact assessment. Clients' living conditions represent the least studied variables, which in turn are one of the main outputs of impact assessments. Therefore, the surveyed MFIs could make some contribution to impact assessment studies by providing the information they store about their clients. It should be noted, however, that this useful contribution cannot be considered enough on its own, since a valid impact assessment necessarily requires a counterfactual comparison, an appropriate sample design, comprehensive client data and no threat on induced bias.

5 Surveyed Sanabel institutions

EGYPT	
1	Regional Association to Develop Enterprise in Sohag
2	Assiut Business Women's Association
3	Industrial District Development Association
4	Young Men Moslem Association
5	Al Tadamun Microfinance Program
6	Alexandria Business Association (ABA)
7	Egyptian Society for Small Enterprise Development (ESED)
8	Assiut Businessmen Association-SME Project
9	Small Projects Development Association of Port Said (SEDAP)
10	Sharkia Business Association for Community Development
11	Coptic Evangalical Organisation for Social Services (CEOSS)
12	LEAD Foundation

13	Dakahlya Businessmen's Association for Community Development (DBACD)
14	Banque Du Caire/ Misr
15	Zeinab Kamel Hassan Foundation
16	North Sinai Businessmen Association
17	Egyptian Association for Comprehensive Development EACD
JORDAN	
18	Ahli Microfinancing Company
19	Microfund for Women
20	Middle East Micro Credit Company
21	Jordan Micro Credit Company (Tamweelcom)
22	National Microfinance Bank (Watani)
23	Development & Employment Fund (Reyada)
LEBANON	
24	CHF International/AMEEN - Lebanon
25	Lebanese Association for Development - Al Majmoua
26	Makhzoumi Foundation
MOROCCO	
27	Association Al Amana
28	Association Microcredit Societe sans Frontieres (AMSSF)
29	Fondation Banque Populaire pour le MicroCredit
30	Fondation Zakoura
31	Fondation pour le developpment Local et le Partenariat (FONDEP)
32	Association El-Karama
33	Institution Marocaine d'Appui a la Micro-Entreprise, INMAA
34	Fondation ARDI
35	Association Atil pour le MicroCredit
36	Association Microfinance Oued Srou (AMOS)
PALESTINE	
37	Palestine for Credit & Development
38	UNRWA- Microfinance & Microenterprise Programme
39	The Arab Centre For Agricultural Development
40	Palestinian Businesswomen's Association (ASALA)
41	Access to Credit Program - CHF/ West Bank & Gaza
42	Palestinian Agricultural Relief Committees (PARC)
43	Rafah Bank
SUDAN	
44	Port Sudan Association for Small Enterprise (PASED)
SYRIA	
45	UNDP Rural Community Development
46	UNDP Support to the Rehabilitation in the Zeyzoun Area Project
TUNISIA	
47	Enda Inter Arabe
YEMEN	
48	National Microfinance Foundation
49	AL Awael Microfinance Company
50	Social Fund for Development - SME Development Unit
51	Aden Microfinance Foundation
IRAQ	
52	Access to Credit Services Initiative "ACSI"
SAUDI ARABIA	
53	Abdul-Latif Jameel Community Services Program

Annex V – Terms of reference

A Review of the Economic and Social Impact of Microfinance – with Analysis of Options for the Mediterranean Region

1 Background

The review is financed under the Facility for Euro Mediterranean Investment and Partnership (FEMIP) Trust Fund and follows up the findings/recommendations of the Ministerial meeting.

The overall objective is to add value by summing up the current state of economic and social impact assessment, with a specific focus on the Mediterranean Partner Countries, while at the same time laying the groundwork for future progress.

The assignment will produce a review of existing studies on the economic and social impact of microfinance with specific objectives as set out below. The intention is primarily one of learning from the existing literature and communicating both within the Bank and with the practitioners and stakeholders in the Mediterranean Partner Countries where FEMIP is active[4]. The review will be presented in Tunisia in May 2008 at the EIB microfinance conference in connection with the 5th annual Sanabel[5] general assembly.

Over and above the learning agenda, the review also intends to identify gaps in the existing knowledge base and to set out the key considerations in the design of microfinance impact assessments and monitoring tools. These aspects of the review may lead to a subsequent assignment that would be the object of a further funding proposal.

2 Description of the assignment

Beneficiary

The European Investment Bank

The contact person at the EIB for all issues related to the substance of the study is:
Geoff Frewer, Senior Economist
Mailing address:
EIB, Ops-B/DEAS
European Investment Bank
100, bd Konrad Adenauer, L-2950 Luxembourg-Kirchberg
tel: 00 352 4379 87724
e-mail: g.frewer@eib.org

[4] Algeria, West Bank and Gaza Strip, Egypt, Israel, Jordan, Lebanon, Morocco, Syria, and Tunisia.
[5] Sanabel is the regional network for microfinance institutions in the Arab world providing microfinance institutions with a forum for mutual learning and exchange of information, capacity building services, and advocacy for best practice microfinance.

However, correspondence on contractual and administrative issues relating to the contract should be addressed to:

Mr Stefan Kerpen, Ops-B/DEAS/Technical Assistance Unit.
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tel: 00 352 4379 82924; fax: 00 352 4379 64999
e-mail: kerpen@eib.org

Objectives of the Assignment

The objectives of the assignment are:
- to appraise the existing literature and to understand what valid conclusions can be drawn about the economic and social impact of microfinance with a particular focus on the circumstances and specific issues applying to the Mediterranean Partner Countries
- to set out the implications of the foregoing analysis for the future design and implementation of microfinance impact assessment in the Mediterranean Partner Countries (taking note of available information on the monitoring tools and methods used by microfinance practitioners).
- to identify and appraise gaps in the existing literature with regard to geographical coverage of Mediterranean Partner Countries and to the methodological and analytical limitations of the existing studies
- to summarise the general implications for the design and implementation of microfinance instruments
- to outline options for the way forward with microfinance impact assessment in the Mediterranean Partner Countries

Requested Services (with indicative resources)

The requested services of the assignment are summarised as follows, with indicative estimates of the manpower requirement, which is estimated at 56 expert days in total.

A. Methodological Issues (5 expert days)

The study will address the key methodological issues underlying the design of microfinance impact assessment studies including:

- Objectives of microfinance - Economic growth / poverty reduction / micro vs macro impacts
- Objectives of the impact assessments - Impact on poverty / MDGs / economic growth / gender issues
- Issues of sampling bias, selection and randomisation.
- Fungibility of microfinance lending and attribution of impacts to the microfinance instruments.

B. Review of Impact Assessments (36 expert days)

Review of economic and social impact assessments worldwide, (with a geographical breakdown including the Mediterranean region), summarizing the key conclusions, and commenting on the validity of the results:

- impact on the target population / wider economic impact / MDGs
- beneficial impacts, e.g. economic opportunities etc
- harmful impacts on target population, e.g. indebtedness, depletion of assets, etc
- specific section on Mediterranean Partner Countries
    - the consultants will design a questionnaire (subject to no objection from EIB), distribute to the microfinance institutions operating in the region (EIB to

coordinate distribution list with Sanabel), and summarise and appraise responses.

- assessment and monitoring methods (such as “ready-made poverty-measuring tools”) used by microfinance institutions as part of their on-going operations

C. Lessons (5 expert days)

Overview of the key lessons from the literature, recommendations for Sanabel and or regional microfinance practitioners which may form the basis for subsequent debate at the conference:

- The impact of microfinance in general, with specific reference to the impact in the Mediterranean Partner Countries
- Design considerations and criteria that should be taken into account in the specification of future impact assessments
- Lessons for the design and implementation of microfinance programmes

D. Options for Possible Phase II (10 expert days)

Building on the analysis of the literature and identification of the gaps in the existing research, the study will set out options for:

- Scientific microfinance impact assessment in the Mediterranean Partner Countries, conducted by an independent research group
- Development of standardised assessment and monitoring methods for use by microfinance practitioners in the Mediterranean Partner Countries.

The supporting analysis for the options should highlight key design and implementation considerations, including indicative cost implications where possible.

E. Sub-contract for services to be supplied by Professor Greeley (Institute for Development Studies, university of Sussex).

The contract will include an agreement to pay Professor Greeley a lump sum to cover all of his fees and expenses in connection with: review of preliminary and final drafts of the report, a meeting Greeley-EIB in Sussex, and participation as a discussant at the Tunis workshop.

F. Sub-contract for Arabic language services

The contract will include a provision for Arabic language services in connection with telephone follow-up to the questionnaire detailed in item B above.

Liaison with the network group (including Sanabel, AFD, KfW, CGAP, and other interested institutions) will be coordinated by the EIB.

The review will take into account all relevant information and reports that already exist. Particular account will be taken of recent and on-going activities of other donors in the field, including EU programmes and the International Financial Institutions, as well as the activities of relevant ministries and government administrations, regulators and microfinance professionals and associations.

The final report and presentation will respond to comments by EIB on the draft.

Specific Deliverables

The review will deliver the following:

- Written report of 30-50 pages covering the requested services of the assignment.
- An executive summary (maximum 5 pages).
- Free-standing leaflet highlighting the main issues / implications for a non-technical audience (2 pages).

- Separate volume of annexes as required
- Supporting material for a one-hour presentation
- Preliminary presentation at EIB in Luxembourg
- Final presentation and participation in the workshop and conference in Tunisia

3 Expert profile

The project manager / expert should have:

- a background in economics and a proven track record in the microfinance sector
- knowledge and expertise of microfinance impact assessment, and an established network of contacts with microfinance practitioners
- good report-writing and presentation skills.

In addition:

- professional experience in Mediterranean Partner Countries is considered of utmost importance, and
- specific knowledge of the regional microfinance sector will be considered an advantage
- the expert should at least be fluent in written and spoken English and able to read and understand French.

4 Location, timing and reporting

Reporting language: English or French.

Duration: the study will be undertaken and delivered within the period from January to May 2008.

Timing:

- A detailed outline of work in progress (electronic format) should be submitted to EIB by **15/2/2008**.
- Delivery of draft report and presentation material (electronic format) to EIB, **25/3/2008,** and 3 hard copies shortly thereafter.
- Presentation of draft report at EIB Luxembourg, around **3/4/2008** (to be confirmed)
- Delivery of the final report incorporating EIB comments (electronic format) to EIB **14/4/2008,** and hard copies shortly thereafter.
- At the discretion of the EIB, presentation of the final report in Tunisia at the "EIB Conference on Microfinance Impact Assessment" in connection with the "5th Annual Sanabel General Assembly", **5/5/2008**.
- Wrap-up meeting with EIB (videoconference, date to be determined).

The final study, including all documents produced under the study in annexes, should be prepared in either English or French. The executive summary must be written in both languages. 9 hard copies and one electronic copy on CD-ROM (clearly labelled with the contract title and number) should be submitted to the EIB, to the attention of Mr Stefan Kerpen, Ops-B/DEAS/Technical Assistance Unit.

Visibility Requirements:

The study is financed under the Trust Fund of the Facility for Euro-Mediterranean Investment and Partnership (FEMIP). To ensure the visibility of the Fund, the following text should be included in the reports:

> "The study is financed under the FEMIP Trust Fund. This Fund, which was established in 2004 and has been financed – to date – by 15 EU Member States and the European Commission, is intended to support the development of the private sector via the financing of studies and technical assistance measures and the provision of private equity."

The following disclaimer should also be included:

> “The authors take full responsibility for the contents of this report. The opinions expressed do not necessarily reflect the view of the European Investment Bank”.

Final Report - April 2008

European Investment Bank

EUROMED

Facility for Euro-Mediterranean Investment and Partnership

FEMIP

There is still a debate over the quantification of the benefits of microfinance. A better understanding of social and economic impact has an important role to play in the development of the industry. It is essential in attracting funds and provides valuable market information for microfinance institutions.

Financed by the FEMIP Trust Fund, the study reports an accumulation of evidence of the beneficial impact of microfinance in the Mediterranean and worldwide. In spite of the inherent difficulties of impact analysis, it nevertheless provides some well-based support for what many practitioners regard as the self-evident benefits of microfinance.

The study presents the main options that can be considered for the further development of microfinance in the region. It also highlights the future options for improving consistency of impact assessment as well as filling gaps and addressing the changing needs of the industry.

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