



Workshop Report

“Measuring the Impact and Social Performance of Microfinance”

Microfinance Dialogues 2010
University Meets Microfinance @ Leibniz Universität Hannover
June 17th & 18th, 2010

UNIVERSITY MEETS MICROFINANCE

University Meets Microfinance (UMM) is a programme which fosters cooperation between university students in Europe and microfinance practitioners. UMM was launched by PlaNet Finance and the Freie Universität Berlin and is co-funded by the European Commission within the framework of its Education for Development Programme until 2011.

The main activities are:

- To offer microfinance seminars to European universities
- To offer scholarships and mentorship to university students for research in microfinance
- To grant awards for outstanding final theses on microfinance-related topics
- To share findings with academics, students and microfinance practitioners at bi-annual workshops.

More information can be found at
www.universitymeetsmicrofinance.eu

The third „University Meets Microfinance“ workshop on “Measuring the Impact and Social Performance of Microfinance” took place at Leibniz Universität Hannover on the 17th and 18th of June 2010. This workshop was organized in close cooperation with:



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Preface

This summer the participants of the third “Microfinance Dialogues Workshop“ of “University Meets Microfinance” (UMM) and the participants of the “Annual International Conference” of the “Research Committee on Development Economics” (Ausschuss für Entwicklungsländer, AEL) of the “German Economic Association” (Verein für Socialpolitik, VfS) met at the Leibniz Universität Hannover.

Founded in 1957 the AEL dedicates itself to research as well as to critical discussion of research results and relevant questions in the area of development theory and policy. Accordingly, the Research Committee aims for its members to engage in theoretical and political questions regarding both, their research and teaching activities. The members meet on a regular basis at the Annual Conferences. Since 2005 these meetings have been held with a closed session (member meetings) and an open part with international contributions (see <http://www2.vwl.wiso.uni-goettingen.de/ael/>). This year’s joint meeting of the UMM workshop and the AEL conference enriched both meetings additionally.

This year about 200 participants gathered at both conferences; a figure which outnumbers the attendance of each single conference of the last year, which indicates that the joint meeting was received with particular interest. Indeed, both conferences complemented each other well: matching issues and topics while offering different perspectives at the same time, i.e. from academics’ and from practitioners’ point of view. While the AEL addresses various issues of development economics the UMM Workshops focus on microfinance. Numerous recent publications and a Nobel Prize in 2006 prove the topicality and relevance of microfinance. Thus, issues of development finance and microfinance in particular played a large role at the AEL conference: the conference was opened by a keynote speech by Thorsten Beck (University of Tilburg) on “The Role of Finance in Economic Development“ and one session was purely devoted to “financial development”.

Both meetings aim to further the scientific exchange. It is the main scope of the UMM workshops to fuel the exchange between professionals in academia and practice as well as with students. The participants of the AEL conferences usually come from an academic field. In addition to the promotion of young researchers, particular attention is paid to the exchange with practitioners of development economics institutions. Overall, the joint meeting of the AEL 2010 and the UMM workshop was a great success. We achieved an outstanding scientific exchange and reached an increasing number of participants.

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1. The Social Performance of Microfinance - Why Does it Matter?

The provision of (small scale) finance in developing countries has been on the agenda of local governments and officials of international development cooperation since the end of World War II. In the 1950s

Until late 80s: Microfinance in the scope of development aid

In the 90s: Commercialization of microfinance and the Microfinance Revolution

and 1960s big development banks were set up to primarily finance farming activities. As the “beneficiaries” were supposed to be too poor to pay market interest rates, credits were often highly subsidized and channelled through so-called revolving credit funds or credit cooperatives. Furthermore, commercial banks were often obliged to direct a specific part of their funds into agriculture activities. Unfortunately, poor farmers were rarely reached, be it because of the administrative complexity, inadequate products or even corruptive practices. In consequence, the capital base of these development banks rapidly eroded due to low interest rates and poor loan recovery. The latter was also due to lacking ownership interests as development banks, in their function of government agencies, were primarily worried about the outflow of funds rather than the recovery as a commercial bank would be. In the 1970s, 1980s and increasingly in the 1990s, new ways of delivering microfinance services mainly through self-sustainable microfinance institutions were identified. The focus laid on providing adapted financial services in a market-oriented way. When Robinson called out “The Microfinance Revolution”, enthusiasm among microfinance practitioners and academics had grown, confident that microfinance services could be offered both in a social, thus poverty alleviating, and financially sustainable or even profitable way. However, the euphoria of having found the ultimate weapon against poverty was considerably disturbed by the “Compartamos debate”. Compartamos is a Mexican microfinance bank supported primarily with public funds while charging an interest rate of 100% p.a.. The criticisms about profit-maximisation, high interest rates and little transparency towards its clients has been summarized in the often cited phrase of Muhammad Yunus: „We created microcredit to fight the loan sharks; we didn't create microcredit to encourage new loan sharks.”, which was published in April 2010 in the New York Times. Recent impact studies question specific assumptions of causal impact chains such as the increase

in income for female microfinance clients and their progress in decision making as a precondition for their economic, social and political empowerment. The media attention on this topic has even motivated some of the most important networks for microfinance (Acción, FINCA, Grameen Foundation, Opportunity International, Unitus and Womens' World Banking) to protest in an open letter against these studies: “As microfinance practitioners, we have witnessed the positive impact of microfinance firsthand. The media's interpretations of several recent studies on the impact of microfinance, however, have questioned whether microfinance has made a calculable improvement in the lives of the borrowers, or has had any effect on poverty alleviation on a systemic basis [...] Such studies face two fundamental challenges: their ability to capture and analyze all the benefits of microfinance, and the duration of the study itself”. Furthermore, there is an ongoing discussion about the “mission drift” of MFIs, thus, the tendency to extend larger average loan sizes (and/or disregard other social goals) in the process of scaling-up leaving behind the “poorest of the poor”. The tradeoff between meeting social goals and maximizing financial performance has created tension in the field. These debates will probably continue to be fierce until there is more consent on how to adequately measure social performance. Still, in this context there are social performance initiatives bringing together various stakeholders (practitioners, donors, investors etc.); such as the Social Performance Task Force, an open network with more than 350 members, with the objective to enhance knowledge exchange and to create a common social performance frame work. These initiatives try to find answers on how to solve problems like usury, lack of transparency as well as client's (over)indebtedness as it might be crucial in the future to find common social standards and clearly communicate what is meant by social performance measurement and management and how to assess the impact of microfinance in practice. The UMM 2010 Microfinance Dialogues fostered the debate between academics and practitioners in this field. The purpose of the present report is to document this exchange.

2010: „We created microcredit to fight the loan sharks; we didn't create microcredit to encourage new loan sharks.”
(Yunus, 2010)

2. Impact and Social Performance Assessment in Microfinance – An Overview

As microfinance has grown in scope and scale, critical voices are increasingly on the rise. On the one hand, skeptics question the impact of access to financial services on income, wealth and well-being; others project that with the increasing emphasis on financial performance, Microfinance Institutions (MFIs) might drift from their original social mission. Researchers and practitioners meet the criticism by developing new impact evaluation methodologies and implementing management approaches which focus on maintaining a balance between financial and social performance.

Impact Assessments tend to achieve a clear vision of the effects rather than the processes of MFIs.

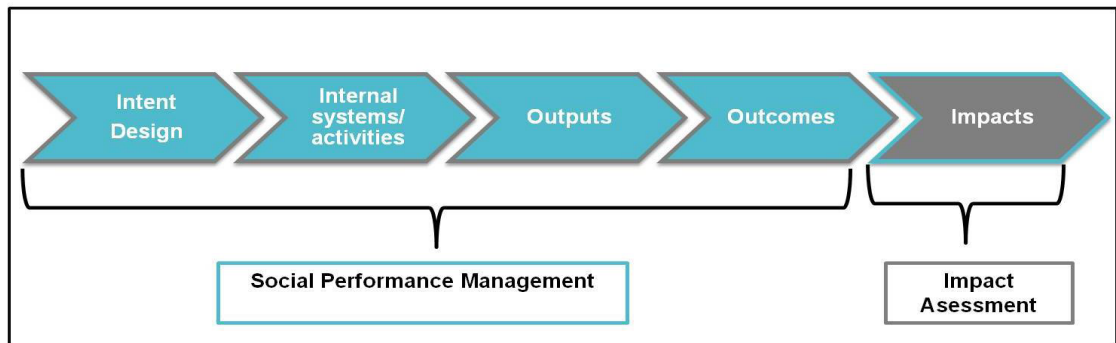
Researchers try to analyze if microfinance can actually live up to its proponents' expectations: does it really contribute to poverty alleviation, women empowerment and economic development etc.? In short, does the access to financial services lead to a lasting

microfinance clients improve their lives. Impact assessment studies try to filter the actual influence of a microfinance programme on its target group (e.g. micro entrepreneurs or poor women). They focus mainly on the effect of MF services rather than on the processes behind impact creation. Different stakeholders have an interest in assessing the impact of microfinance with varying motivations. As a considerable amount of public funds is flowing into microfinance, donors might want to know whether these funds are effectively placed or if the money achieves a higher impact elsewhere (e.g. in health facilities or schooling). Likewise social-oriented investors are interested to know if their waving of higher returns for a social contribution is justifiable. MFIs, on the other hand, focus on how they can improve their services to achieve their social objectives. Impact Assessment is a complex process with several factors to be considered: Depending on the objective (e.g. poverty alleviation on a larger scale or the empowerment effects on individuals), units of assessment and appropriate indicators have to be identified. Regarding the target group, individuals, households, microenterprises or even communities can be defined as units of assessment. The choice of indicators depends on the kind of impact the researcher is interested in. Is it a foremost economic impact, the level of income/expenses or assets could serve as suitable proxies. If social changes are of interest, other variables are chosen such as child and mother mortality, literacy rates, school enrolment or women's participation in political decision making. The choice of indicators also depends on the time frame the

researcher would like to analyze: is she/he looking for immediate or rather long-lasting effects? To find appropriate indicators, which stand for the social changes in question and which are on the same time properly measurable, is no easy task nor is the choice of a particular methodology. Quantitative methodologies such as an analysis of a pre and post situation by using multivariable regressions, for example, have the disadvantage that a considerable amount of existing data is necessary to realize a sound econometric analysis. Furthermore, to separate the impact of the programme from other environmental factors (the counterfactual) is almost impossible. Optimally, a control group can be found which has the same characteristics like the group under assessment with the only systemic difference being the intervention (e.g. the usage of a microloan). The assumption of homogenous characteristics however is highly problematic. Individuals who choose to borrow and are approved by an MFI might very well be different from those who chose not to borrow or are denied a credit (selection bias)

and the characteristics decisive for a loan application are nearly impossible to measure. When focusing only on individuals (e.g. the impact on a micro entrepreneurs' business income), the results might even be misleading as money is a fungible asset and the impact on the household or even the community level might still be positive even though no significant change in the variable in question (e.g. profits of size) can be observed. To measure long-lasting effects is even more challenging. To take a deeper look into mechanisms and multiple impacts, qualitative approaches can be more appropriate, which mostly have their source in social sciences such as human geography or anthropology. However, as data needs to be collected by the researchers themselves, these impact studies can be time consuming and costly besides that they suffer from a limited grade of representativeness. Another critique which could be assigned to both, quantitative and qualitative methods, is the limited participation of MFIs and their clients. The insufficient incorporation of MFIs in the design and implementation of impact assessments could lead to a narrow perception and processing of the results. Participatory learning and action approaches try to address this issue and incorporate within their analysis how the poor themselves perceive poverty

Various methodologies, both quantitative and qualitative are applied to realize impact assessments.



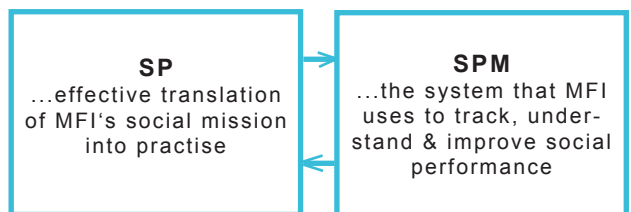
Source: CGAP 2007

and their level of deprivation. Recognizing the problematic issues of impact assessment, researchers experiment with methodologies from other fields, such as the randomized control trials from medical research. Today, scholars from various recognized universities (New York University, Harvard, Yale, MIT) often financed by well-heeled private NGOs (Bill and Melinda Gates Foundation in the case of the Financial Access Initiative; FAI) conduct randomized field experiments in order to achieve “impact through research” (FAI) or to put “research into action” (Poverty Action Lab). This new, quantitative control group approach solves the problem of the selection bias by randomly choosing clients and non-clients, for example a MFI taps a new region it had not tapped before. Despite some remaining practical restrictions (e.g. It is hard to make sure that the not-treated group remains untreated, i.e. controlling for spill-over effects or other MF offerings) another, rather ethical question arises: is the exclusion (at least temporal) of potential clients compatible with an MFI mission? To what extent are researchers permitted to conduct experiments at the expense of the poor? Furthermore, these kinds of impact assessments are time consuming and expensive and thus not feasible for a large number of MFIs while the results of the existing studies cannot be generalized for all MFIs. However, on grounds of the fervent “mission drift” debate, microfinance institutions are keen to effectively improve and communicate the social impact of their operations. Therefore, more practical approaches are needed which address the process of how impact is created; through the operations of an MFI and the system it has implemented to

Randomized Control Trials are the next generation of impact assessments. Still, they are not feasible for most MFIs to be realized in their day to day business.

track and improve its social performance. Social Performance is understood as “the effective translation of an institution’s social mission into practice in line with accepted social values: these include a) sustainably serving increasing numbers of poor and excluded people, b) improving the quality and appropriateness of financial services,

c) improving the economic and social conditions of clients and c) ensuring social responsibility to clients, employees and the community” as defined by the Social Performance Task Force (SPTF) – an open network with more than 350 members active in microfinance with the objective of setting guidelines and exchanging knowledge on social performance related issues. Social Performance Management then refers to the systems an MFI applies in order to track, understand and improve the social performance. While Social Performance Management describes a broader management approach, various tools and frame works were developed (most of them are publicly available) to be implemented by MFIs to facilitate the process of improving their social performance. Initiators come from different kind of backgrounds such as governmental agencies (e.g. USAID), research centers (e.g. the ImpAct Consortium and CGAP), foundations (e.g. the Grameen Foundation and Ford Foundation), MFI-Networks (e.g. Acción, Finca and the Microfinance Center) and



Source: SPM in MF Imp-Act Guidelines, IDS, 2005

specialized rating agencies (e.g. M-Cril and Planet Rating). The tools focus on different stages of the social performance management process: assessing whether an institutions has a clearly defined social mission translated into concrete and measurable social objectives (Intent and Design); analyzing if appropriate systems are in place within an MFI to control for and to achieve these objectives (Internal systems/activities); and evaluating whether the institutions’ products and services are actually satisfying the needs of the intended target group (Outputs). Client assessment tools analyze the actual condition of clients (e.g. their level of poverty) helping the MFI to understand who the clients and what their needs are. The results are surprising and MFIs realize that the groups of client in some cases actually served are

not nearly coinciding with the intended target group. Furthermore, these tools when institutionalized can help to track changes in clients conditions (Outcomes). The best known poverty assessment tool is the

Social Performance Assessments are part of a broader management strategy. They look “behind the scene” and assess why an MFI is more likely to have a positive impact.

Progress out of Poverty Index (PPI) which has been developed in 2005 commissioned by the Grameen Foundation in cooperation with CGAP and the Ford Foundation. It attempts to estimate the likelihood that clients fall below the poverty line. It is based on a PPI Score Card specific to particular country characteristics derived from income and expenditure household surveys. Out of 400 - 1.000 possible indicators which are ranked according to how strongly they predict poverty levels, a simple and inexpensive-to-collect Score Card of 10 indicators is developed. It can help to identify whether the MFI reached its intended target group, and, repeatedly applying it, serves to track changes in poverty over time. Today, PPI Score Cards are available for around 30 countries with more to follow. The clients assessment tools are the most commonly known SPM related tools. But SPM is about much more: it is about the institutional process of an MFI - in particular: does the MFI has the means to achieve its social objectives. One of the first institutions that actively did research on SPM was CERISE – a network of three NGOs and two research institutes, providing technical assistance to MFIs. They developed so called Social Performance Indicators (SPI), a self assessment tool which consists of a questionnaire of 75 questions divided into two parts. The first part (Context and Social Strategy of MFIs) is a qualitative assessment of the history, values and mission of an MFI as well as

Social Performance Assessments tools available have different levels of evaluation.

the general social strategy. The second part consists of a standardized and quantifiable questionnaire where the answers are assigned to a specific score. They are divided into four different dimensions: a) Outreach to the poor and the excluded, b) Adaption of services and products to target clients c) Improving clients' social and political capital and d) Social Responsibility of the institution. A graphic representation of the results in the form of diamond and radar graphs highlights the strengths and weaknesses of the MFI's social performance evaluating if the MFI has the means to achieve its social objectives. Since the questionnaire is

standardized, the results can then be compared to social performance assessments of other MFIs. While the CERISE tool and the PPI serve foremost to strengthen internal processes, other focus primarily to foster the transparency on social performance of MFIs to the public such as the Social Performance Report initiative started by MIX Market. Among microfinance practitioners, the MIX Market is a valued platform which gathers general information as well as financial performance indicators of more than 1.800 MFIs worldwide. In 2009, MIX Market started to collect information on social performance indicators: based on the SPI of CERISE: a questionnaire was developed by the SPTF and MIX Market which, once completed, MFIs can upload to the MIX Market platform making it available to the public. According to MIX Market , 212 MFIs reported their social performance indicators in the first year. However, as it is the case with

Social Performance Assessment Tools	
Tool's Category	Examples
Institutional Process	SPI (CERISE) SPA (USAID) QAT (MFC)
Client's Condition and Poverty Status	PPI (Gameen) FCAT (FINCA) FAT (CGAP)
Social Performance Reporting	Self-Reporting: MIX SP Indicator Reports External Assessment: Social Ratings (Planet Rating, Microrate, M-Cril, Microfinanza Rating)

financial indicators, the MIX reports rely on self-reported data. In order to get an externally and objective assessment about practices along the social performance management line, specialized rating agencies developed so-called social ratings. They provide ratings to MFIs on their social performance and their social performance management system and are a useful indicator for social investors in the decision process of where to invest in and the monitoring of their investments. Social rating might also give additional incentives to MFIs to improve their SPM system. Still, research on social performance and the ideal social performance management system is still in fledging stages. To institutionalize the social performance within an MFI, incentive schemes need to be aligned to social objectives. But based on which indicators can these schemes be developed not leading to distortions in other areas? In general to find the right indicators for social performance is a hard task: they need to be universal, relevant for all clients and comparable across MFIs and countries; measurable; balancing the issue of time sensitivity; and easy and inexpensive to collect. This requires a standardization of indicators. However it is questionable such a

standardization is desirable. And if not with standardized indicators, should there be at least standardized norms on social performance MFIs have to comply with? What is the role of governmental organizations in this process: should they assume the role of a monitoring agency? There are still many questions which need to be discussed and elaborated on. Some first leads were given by the workshop.

Further Reading:

- CGAP (2007): Beyond Good Intentions: Measuring the Social Performance of Microfinance Institutions, FocusNote.

- IFAD (2006): Assessing and managing the social performance in Microfinance, available at: <http://www.ifad.org/ruralfinance/pub/performance.pdf>

- Imp-Act/MFC (2005): Social Performance Management in Microfinance. Guidelines, available at: http://www.microfinancegateway.org/gm/document-1.9.25756/26654_file_10.pdf

SPM on the Web:

- <http://www.sptf.info/page/social-performance>
- <http://progressoutofpoverty.org/>
- <http://www.themix.org/standards/sp-reports>
- <http://www.cerise-microfinance.org/homeuk.htm>

3. Recent Development in the Impact and Mechanisms of Microfinance – Keynote Speech by William Parienté

Professor **William Parienté**, researcher at the J-Pal (Jamil Abdul Latif Jameel Poverty Action Lab) and professor at Louvain Catholic University, is conducting research on one of the fundamental questions in microfinance: the impact of microfinance on development. The J-Pal, founded in 2003 by the Massachusetts Institute of Technology (MIT), introduced so called “randomized evaluations” to assess the impact of poverty reduction programmes. The methodology originally comes from the discipline of medicine where clinical trials are used to evaluate for example the effectiveness of certain drugs. The methodology has become especially relevant for the field of microfinance, since studies on the effectiveness of microfinance based on sound scientific methodologies are still lacking. Parienté argues that the high number of clients using microfinance

Rigorous empirical evidence is needed to evaluate the impact of microfinance.

loans and the high repayment rates are not sufficient to prove its positive contribution to development. He points out that the enthusiasm around the contribution of microfinance towards achieving the Millennium Development Goals (MDGs) is not based on rigorous assessments of the actual impact. Indeed, there has been only anecdotal evidence so far. However, especially public funders need to know whether microfinance has a positive impact on development or if microfinance programmes might even have negative effects on clients. In his keynote speech Parienté underlined, that despite the rapid development of the sector many questions on the mechanisms of micro

finance remain unanswered. Therefore, Pariente analyzed, beyond the question of impact, the certain specifics of the Grameen methodology, which are said to contribute mainly to the success of microfinance (repayment schedules, joint liability and interest rates). Parienté started with an overview on existing methodologies of impact assessment and their shortcomings. Obviously, it is not possible to evaluate simultaneously what happens in the absence of a microfinance programme and what happens if the microfinance programme is conducted. The outcomes of both scenarios cannot be observed at the same time. Hence, it is necessary to compare the group of persons taking up microloans (“Treatment Group”) with a group of persons not participating in a microfinance programme (“Comparison or Control Group”). Therewith, certain characteristics of these groups (income, education etc.) could be compared to assess a potential impact of microfinance (Fig. 3). However, this methodology is not without its problems: The most relevant one is the so called “selection bias” (Fig. 4). It arises through the fact that clients who choose to be part of a microcredit programme are potentially more motivated or are better entrepreneurs than persons voluntarily not participating in the programme. This bias could be reduced through econometric methods (control for covariate differences) or the “randomized evaluations” practiced by the J-Pal. In “randomized evaluations”, the members of the treatment and the control group are randomly assigned so that differences between those groups, after the microfinance programme has

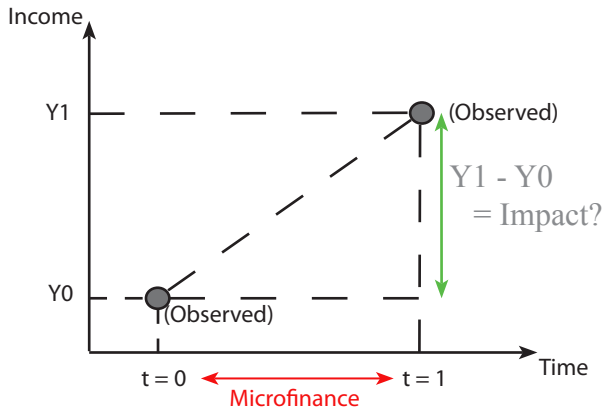


Fig. 1

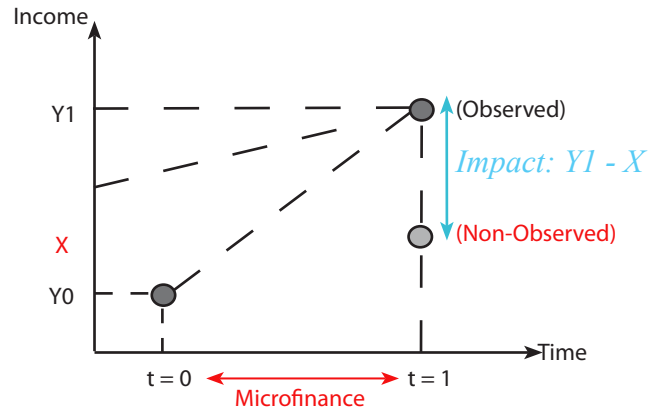


Fig. 2

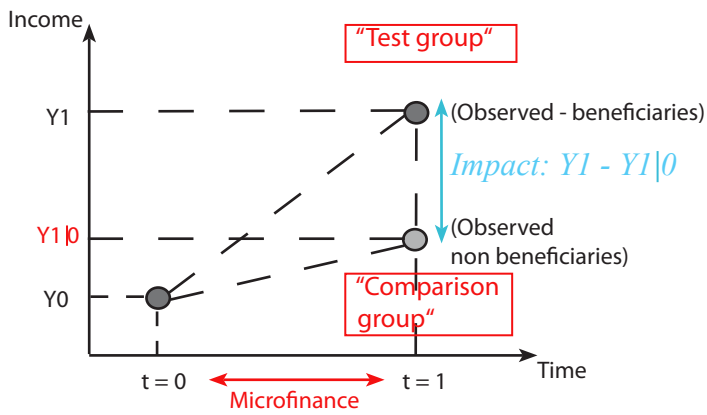


Fig. 3

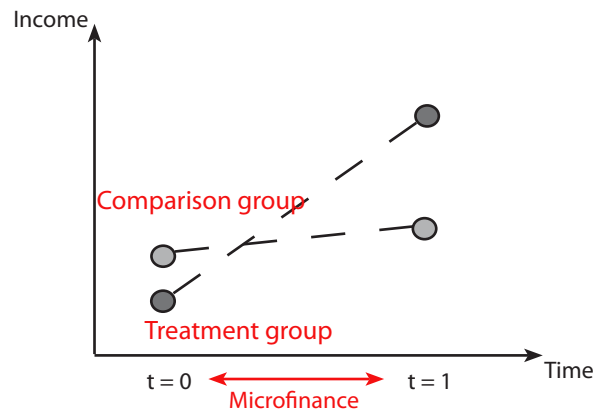


Fig. 4

Source: William Parienté (2010)

been introduced, can be attributed exclusively to the programme. A pre-condition to apply this methodology is a sample which is large enough so that the distribution of the characteristics in both groups can be treated as identical (law of large numbers).

First randomized evaluations show no impact of microfinance on consumption nor indirect effects.

Hence, it can be assumed that the characteristics (unobservable and observable) of both groups do not differ significantly before the start of the microfinance programme. Parienté illustrated the idea of randomized control trials by presenting the methodology and results of the first randomized evaluation which was conducted in South India in cooperation with the microfinance institution (MFI) “Spandana”. The MFI, applying the typical “Grameen” model, was about to start a microfinance programme in an area of Hyderabad City which was not covered by any microfinance provider at that time. A control group and a treatment group were created by randomly dividing 100 slums into two groups. Only one group of slums was “treated” with microloans by the MFI, while the other remained unserved. After 15-18 months, the characteristics of both groups were compared to track the effect. One practical problem was that other microfinance providers had entered both areas after the start of the experiment. However, the outcomes of the study were still viable, as the supply of microcredit in the treatment group was higher than in the control group. The results were published in the article “The Miracle of Microfinance?” and caused wide discussion in the microfinance sector: The researchers found that there was on average no effect of access to microcredit on consumption and no effect in the areas of health, education or women’s decision making. However, the expenditures for durable goods in the treatment group had gone up and the number of new businesses had increased by one third. Within the setting, clients without a business had consumed on average more, as they probably had used the loan to pay back other debts; whereas business owners invested more in durable goods, extending their businesses. This is consistent with the general assumptions that clients starting a new business consume less in order to invest in durable goods, which are required in the start-up phase. Parienté also exemplified how randomized control trials (RCTs) can give insights into the effectiveness of certain methodologies used in microfinance: Experiments in West Bengal, India, showed that weekly repayment schedules do not lead to better repayment rates than monthly repayments. This finding contradicts the prevalent no

tion that weekly repayment schedules are one of the key success factors of the Grameen model. Clients had increasingly expressed that this schedule and the regular meetings were not adapted to their needs and took up valuable time they would have needed for their businesses. Parienté concluded that randomized control trials (RCTs) made it possible, for the first time, to evaluate the effects of microfinance, clearly linking cause and effect while filtering out statistical noise. The study in South India shows that microfinance has at least short-term effects on business creation and investments in durable goods. But it does not seem to influence consumption and no indirect effects can be observed. However, it remains questionable if the results of the studies conducted in the specific context of neighborhoods in Hyderabad or regions in the Philippines can be generalized and if conclusions on the effect of microfinance can be applied to a broader context.

In addition, the time frame of the experiments so far has been rather short and might mask any long-run impact. The conduction of RCTs in other countries and contexts are essential as they can contribute to further the understanding

Results of randomized control trials are difficult to generalize.

of the impact and mechanisms of microfinance. However, from the audience concerns were raised whether it is ethical to conduct “clinical trials” as the RCTs with people in need. Especially the fact that the control group is consciously excluded from the microfinance programme created room for discussion. Also, a practitioner pointed out that a time frame of 18 months seemed a very short period to track indirect and direct effects of microfinance. Parienté argued that with a longer time frame it would be harder to control for additional factors outcome (such as other MFIs entering the scene). Robin Gravesteijn, Oikocredit, addressed the question whether RCTs could be a relevant methodology for social investors such as Oikocredit. He believes that for Oikocredit partners, it would be simply too costly to implement such complex impact assessments. The results are of course interesting for a social investor, but as they apply to a specific context, it would be hard to generalize them. Oikocredit therefore developed jointly with the Grameen foundation instruments such as the Progress out of Poverty Index (PPI) which can be integrated in the ongoing loan monitoring process of an MFI. Oikocredit seeks to support MFIs to integrate social performance management in their daily operations, rather than to conduct single impact assessments. From the perspective of Planet Rating, Edouard Sers added that the results of the im-

Impact assessments are indeed very relevant, as they give important information on whether microfinance can be a viable tool to fight poverty at all. Moreover, the results are important for the whole sector to further develop and improve microfinance products. Sers also pondered if the results of impact assessment could contribute to further develop even more meaningful indicators for “social ratings”. In the course of the discussion, Prof. Nitsch, a professor from a German university questioned the need to prove the positive impact of participating in a microfinance programme. He argued that access to finance as such constitutes a crucial part of the overall development of a country, a fact which would not be addressed in costly and complex impact studies. He believes that the focus should be on designing the access to finance in a socially responsible way and to help MFIs to meet the demand of their clients. Studies, such as client satisfaction analyses, might not be perfectly statistically designed but they give MFIs concrete information on how to adapt their products and services. After a fervent discussion, consensus seemed to be reached that though impact assessment in general and RCTs in particular were not without their flaws (such as, the short time frame of the experiments,

the contingent applicability of the results to other contexts and the fact that practicability and concrete benefit for MFIs are limited), it was crucial to recognize that for the first time, a methodology could describe in a statistically sound way the link between microfinance and its impact. And as demonstrated by the keynote speech, this fuels the debate on microfinance clarifying what is reachable and furthering the development of adequate microfinance schemes.

Further reading:

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4. Photo Gallery



5. Impact Assessment and Social Performance Evaluation – From the Perspective of Young Researchers

More and more students from various disciplines are interested in studying and analyzing microfinance-related issues both from a theoretic and empirical perspective. At the workshop, seven PhD and Master students took advantage of the opportunity to present their research to a broader audience and to discuss their main research ideas, its potentials and limitations with other researchers and practitioners. The research proposals presented varied greatly both in content and in methodologies.

With regard to **Impact Assessment**, the audience was presented quite a spectrum of innovative ideas to get around the problem of endogeneity, namely non random programme placement (supply-side endogeneity) and self-selection of programme participants (demand-side endogeneity). For instance, both, **Nargiza Maksudova**, PhD student from CERGE-EI, Charles University in Prague and **Olga Biosca**, PhD student from the University of Sheffield, assess the impact of Microfinance in Uzbekistan and Mexico respectively. Diversity of impact assessment objectives reflects the diversity of methodologies employed. For instance Maksudova aims to evaluate the impact of micro-credits on business and welfare improvement in the case of Uzbekistan based on a retrospective survey. Cross-sectional data on 1,600 participants of bank and non-bank microfinance programs and 2,800 random eligible non-participants is collected jointly with the UNDP project. Retrospective questions capture the pre- and in-treatment experiences of the respondents on changes in discrete, memorable fundamental events in their history (change in business turnover, dwelling improvements, purchase of major consumer durables etc.). Based on the collected data a dynamic panel will be constructed allowing inference on how changes in fundamental events are associated with microfinance participation. Impact is then identified by difference-in-difference matching algorithm thus constructing counterfactual in a non-experimental way and addressing selection issues. In addition the retrospective panel will provide deeper insights to the intra-household impact dynamics of microcredits. Olga Biosca chose a very different methodology: she aims to assess the impact of two non-financial service programmes on poverty alleviation in Chiapas, the poorest state in Mexico. One was a Business Development Services Programme while the other

consisted of Preventive Health Services. Her sample consisted of 434 microfinance clients of which round 70% (300) had access to the programme. Of these 300, again 195 actually participated in the programme. Of the other 30% with no access to the programme, around 2/3 would have been eligible to participate and stated they had an interest in the programme. Therewith, Biosca could construct a control group. Thus, by this sampling method, she could eliminate issues of endogeneity. Using a difference-in-differences approach, she both analyzed the determinants for participation and the impact of the treatment focusing on poverty, health and business indicators. Biosca's results were ambiguous: she could find some impact on poverty and asset indicators, and also a significant impact on perceived health status but none on business measurements. Additionally, one could observe that though the effects varied between the two programmes, the difference was not significant. Another approach on Impact Assessment was presented by **Kristina Czura** from the University of Frankfurt, who evaluated for a study conducted together with the GTZ the impact of participation in microfinance programmes in Sri Lanka. They surveyed clients, who participated for more than 3 years in the programme and incoming clients, and used the latter as the control group. Czura agreed to comments raised from the audience that this methodology was not without any caveat. It assumes inherent similarities between old and new clients. Especially two biases should be kept in mind: First, incoming clients also include clients who will drop-out before having participated in the programme for three years. Assuming that dropping-out is related to certain kind of characteristics and already dropped-out clients are not considered there would be a persistent bias comparing new and old clients. Another bias occurs considering that clients who have not decided to participate in the programme (or had not been eligible) for the last years might be considerably different to clients who have chosen (or were eligible) to participate already several years ago. Additional problems may arise when programme characteristics of the microfinance institution change over time. However, this can be mostly controlled for. The presentations and discussions around the Impact Assessment research studies of Maksudova, Biosca and Czura proved the delicateness of the subject with the finding of a valid control group probably being the major challenge.

While for studies on Impact Assessment a vast amount of literature exists with various methodologies already being tested, methodologies on **Social Performance Measurements** are still in fledging stages. The social performance of an MFI is difficult to assess just with one tool or methodology, since it is related to so many different facets of an organization's structure and design. The students assessing social performance thus focused on different stages of the social performance management process. One of the most recognized indicators of social performance of an MFI is the poverty outreach: how poor are the clients actually reached? There are several ways of measuring poverty: such as using already standardized scorecards or developing a poverty assessment tool tailored to the MFI's specific setting. Assessing the outreach of a Microcredit Program in Ecuador, **Tonja van Gorp**, Master student from the University of Wageningen, decided to build her analysis on the existing CGAP Poverty Assessment Tool (PAT). Based on a standardized questionnaire, which can be adapted to the specific settings of the MFI, and applying Principal Component Analysis (PCA), a poverty index is developed assessing the poverty level of clients relative to non-clients. For the research, around 500 clients were surveyed. For non-clients, van Gorp relied on data from available household surveys. She finds a strikingly low-level of poverty outreach, particularly in rural areas. However, as noted by the audience and confirmed by van Gorp, this methodology has several flaws: first of all, the household surveys were already several years old and therefore not perfectly comparable to the more recently collected data on clients. Furthermore, the methodology does not address the above mentioned endogeneity issues of programme placement and self-selection. Summing up, van Gorp said that although the PAT methodologies had some attractive features such as the relatively open definition of poverty she believes an absolute poverty measurement (such as the PPI) is much more useful for policy purposes. Also, **Florence Milan**, PhD student from the University of Hohenheim analyzed poverty outreach, focusing on an MFI in Cambodia: the AMK, an MFI widely recognized for their innovative Social Performance Management approach. Making use of the extensive database available at the MFI level, Milan could test both poverty outreach and poverty dynamics. Outcomes of surveys of clients and non-clients were compared to surveys of the same groups conducted two

years earlier. For the relative poverty assessment, Milan also applied PCA and she discussed the issues associated with applying the PCA to panel data: for example, should the same weights be applied for the two waves of surveys or should the weights be calculated for each wave individually? Similar issues came up when deciding for the methodology of the analysis of poverty dynamics. **Alexandra Steiner**, PhD student from the University of Bergamo went one step further, assessing if targeting the poor comes only at the costs of financial sustainability. She assesses the case of the First Microfinance Foundation in Egypt where her aim is to implement a Social Performance Management System balancing social and financial objectives. Since she has not started yet with her research she focused on the general SPM methodology. **Mathilde Maitrot**, PhD student from University of Manchester had a broader approach: her aim was to identify organizational structures and systems which enhance the social performance of MFI's. Her approach differed very much from the methodologies discussed so far in the sense that she uses a bottom-up approach. Maitrot believes that "policy-makers, businessmen and economists who dominate the field of research, approach the microfinance model from a market-led perspective to development and tend to overlook, or misconceptualize contextual factors and household circumstances". Therefore, when conducting interviews and focus group discussions, she applies a more holistic approach: The Livelihood Approach which focuses on households' livelihoods assets (material and social resources) and activities required for means of living. Framing an asset pentagon comprising financial, human, natural, physical and social assets in the context of vulnerability (shocks, trends and seasonality) and policies, institutions and processes, the Livelihood Approach helps to identify "key pressure points" where microfinance could positively affect and support people's livelihoods. The main challenge thereby is "to generate bottom-up information from various stakeholders to inform top-down MFIs' systems". Maitrot will soon start her empirical research in Bangladesh.

With the very different focuses of the students' researches, the audience got a better idea of the breadth of Impact and Social Performance evaluation. The fervent discussions in the breaks in between the sessions indicated that the presentations inspired to new thoughts and ideas for further research.

6. Is There a Trade-off between Financial and Social Performance?

Within the microfinance community, the commercialization of microfinance has been widely embraced during the 1990s after first doubts about offering services to poor populations on a cost-covering base. Commercialization and the integration of microfinance into the mainstream financial system have been recognized as key factors for broad and long-lasting outreach: If financially sustainable, micro-

Commercialization of microfinance has opened the doors to broad outreach and – potentially – towards mission drift.

finance institutions (MFIs) can provide financial services in the long run. Considering the limited funds for development, many MFIs have identified the commercial approach as the way to reach out to the

many poor people. However, as some MFIs have moved from providing microfinance services in a financially sustainable manner towards a profit-maximizing approach, it is to question if the growing commercialization of microfinance is leading to an over-accentuation of profitability at the expense of poverty reduction and other development goals. One of the main topics which has been discussed regarding the possible negative consequences of commercialization for the poor is “mission drift”, which refers to the fact of MFIs abandoning their original target group and moving towards higher client segments. Higher profits from higher income clients is thereby conceptualized as incentive for mission drift. But can this link also be observed in reality? And, are there specific types of MFIs and settings which show less mission drift? The study by **Willem (Pim) Cornelis Engels** provides empirical insights on the subject of mission drift. He analyzes the expected trade-off between social and financial performance in his master thesis “Mission Drift in Microfinance. The influence of institutional and country risk indicators on the trade-off between the financial and social performance of microfinance institutions” which has been awarded the first prize of the UMM Awards 2009 for outstanding research on microfinance topics. The study has been presented and discussed during the work-

A trade-off between the financial and social performance can be found in empirical research.

shop. Understanding mission drift of MFIs as a central moment of the expected trade-off between financial and social performance, Engels analyzed cross-country data from the Mix Market as of 2007 with the aim of identifying possible factors, especially institutional and country risk indicators, influencing the social and financial performance of MFIs and hence the trade-off between

them. The financial performance is assessed by a set of internationally recognized financial indicators, the social performance by the average loan size and the percentage of women borrowers. His findings suggest for example, that regulation, network membership and the institution’s size do not affect the financial performance of MFIs. Country risk rating was found to be negatively correlated with the financial performance of MFIs. As for social performance, it was negatively affected by regulation, institutional size and country risk. As a next step, the research explores the influence of institutional and country risk indicators on the trade-off between the financial and social performance of MFIs, concluding that trade-off exist. Different types of trade-offs are identified, varying among other factors for different types of MFIs (maturity, size, network membership, etc.). These very interesting insights can however

be discussed critically. Beyond the discussion of the findings by Engels, several issues were raised by the conference participants. Firstly, mission drift is conceptualized as a process of MFIs moving away from their client base. With an analysis of data of one point in time, it is however not possible to assess tendencies in the development of heterogeneous institutions. This is especially true as different types of MFIs focus on different client segments. Hence, MFIs with a good financial performance and a low social performance according to the used indicators might just deliberately focus on a different client segment, without any changes regarding the types of clients served. Another critical point of the presented study is the use of the average loan size as indicator for social performance. This indicator is widely used in empirical studies, due to the lack of other data. However, the mentioned indicator only refers to one type of financial service out of a comprehensive range of financial services which are nowadays considered as relevant for the poor. Furthermore, the loan size itself does not necessarily point to a specific type of client since the term of the loan is not considered and since the average loan size is not perforce representative for the general clients profil. For instance, if many very small loans are provided and a few very large ones, the average loan size increases without representing the poverty status of the majority of clients. And finally, a small loan must not necessarily be held by a poor customer,

Social performance involves more than mission drift: offering adapted microfinance services.

Measuring mission drift needs a time-dimension and a clear identification strategy of the customers served.

considering different types of usage and of financing necessities: Loans might be small consumption loans for a medical bill, short-term working capital or larger long-term investment loans for microenterprise use. Accordingly, both, a time dimension and a clear strategy on how client groups are served at different points, are fundamental to measure mission drift. Another challenge is separating the effect that the loan size correlates most probably with cost efficiency. Delving a little further into the definition of social performance as average loan size and percentage of women borrowers, both, the focus on one type of financial services and the analysis of limited criteria of these financial services can be viewed critically. Financial diary research - approach chosen in the highly valued book "Portfolio of the Poor: How the World's Poor Live on \$2 a Day" - is being more and more recognized for pointing to the various financial needs of the poor and the specific ways finance is managed in these households. Thereby, the import-

A wider notion of mission drift refers to losing the focus on the client.

ance of the combination of different financial management tools and their adequacy for the poor has been shown. Accordingly, and as mentioned by Engels, social performance in the sense of pro-poor microfinance depends on much more than the loan size, like the access to and the conditions of different types of microfinance services. Regarding the used indicators, the assessment could be enhanced by using other indicators besides average loan size and percentage of women borrowers, such as the term, the

installment, the access conditions and the cost of a loan. These indicators can provide further insights into the adequacy of the financial service to the target group of an MFI. Still, most empirical studies face the challenge to identify indicators due to limited data availability. Considering that there are still little sound studies which address the issue of the trade-off between social and financial performance, the empirical insights combined with an extensive discussion on several indicators, Engels' study is a significant contribution to the discussion in both, academia and practice.

Further Reading:

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7. Impact Assessment and Social Performance Evaluation Applied - From the Perspective of Practitioners

Impact Assessment and Social Performance Evaluation of the operations of Microfinance Institutions are defined by many microfinance academics and practitioners as essential for the further development of the industry. Researchers provide the expertise needed for the theoretical foundations and sound empirical methodologies while the input of practitioners is crucially needed as they have the day-to-day exposure to MFIs and understand their potentials and limitations. One of the objectives of the workshop was to foster the exchange between researchers and practitioners. While the researchers participating, such as the professor William Parienté from MIT poverty lab or the PhD candidate Kristina Czura from the University of Frankfurt, have presented a more academic view on the issue focusing on statistical methodologies, the experts from the field discussed which me-

change a microfinance customer is experiencing. **Vanessa Quintero** and **Santiago Espinal** from the **PlaNet Finance Network** presented their experience with impact assessment from a practitioner point of view. They presented a project they had worked on in Colombia. Espinal knows from his experience that MFIs often believe that, when clients come back, they must have had some benefits from the service they had been provided, however they rarely consider the general welfare of the clients or lack the time and resources for doing so. Yet, for understanding if the quality of life of the clients has improved and poverty has been reduced, social impact assessments are crucial. However, impact methodologies as applied by researchers are too expensive and time consuming. Therefore, when MFIs do impact assessment they need to rely on already existing data, e.g. from

Box 4.1: Social Performance Indicators (SPI)

The SPI tool has been developed by CERISE since 2002, a microfinance knowledge exchange network. Analyzing internal systems and organizational processes, the tool determines whether an MFI has the means in place to attain its social objectives. The standardized questionnaire has two parts: In the first part the MFI describes the context it is operating in and its choice of social strategy according to four dimensions: 1) Outreach to the poor and the excluded; 2) Adaption of services and products to target clients; 3) Improving clients' social and economic benefits; 4) Social Responsibility of the institution. The second part consists of a questionnaire covering different criteria of each of the four dimensions, thereby assessing if the MFI is actually operating according to its social strategy. The SPI is designed in a way that MFIs wanting to conduct a self assessment can use the tool on its own. It allows the MFI to monitor efforts to improve social performance and encourages internal debate. The tool is publicly available. MFIs using the tool are asked to report their results to CERISE, which uses the information for further research on Social Performance and to improve the tool. Today, over 250 MFIs have administered the SPI. For more information on the SPI please refer to:

<http://www.cerise-microfinance.org/impact-and-social-performance->

The recently designed Social Performance Standards (SPS) from the MIX-Market platform developed by the Social Performance Taskforce in close cooperation with CERISE are based on the SPI. Over 300 MFIs so far have uploaded their SPS Report.

See: <http://www.mixmarket.org/social-performance-data>

Methodologies are practically feasible for MFIs. They hereby focused on applied Impact Assessment methodologies and applied Social Performance frameworks and tools. When assessing the **Impact** of a microfinance programme, one needs to analyze if the participation in the programme has led to any changes of the situation of the clients and/or their environment. Though the definition seems straightforward, there is a great deal of debate concerning the right methodology to prove the causal link between the participation in a programme and the socioeconomic

tracking tools, or on inexpensive-to-conduct market studies which mostly do not satisfy the requirements of a proper impact analysis. That was also the case for the assessment Espinal conducted for a microfinance programme which had the objective to enhance entrepreneurship of vulnerable and internal displaced women in the Aguablanca District (the Coomostaza Project). Espinal and his team had been hired to measure the improvement of the entrepreneurial skill and the programme's impact on income generation, for which they conducted two

surveys including 450 women: a base line survey and a follow-up survey after 10 months. Since the final results have not been analyzed yet. Espinal focused on describing the methodology they had used for the assessment. But their methodology was not without ambiguity: more than once objections were raised from the audience stating that this was not a real impact but rather a change assessment since a proper impact assessment would be to trace back the potential improvement of the clients' situation to the participation which requires controlling for other factors leading to improvement. Espinal sustained the objection but made clear that they just had not had the resources to implement more rigorous measurement tools, an issue very common in the MFI landscape. He affirmed that a longer timeframe in between the two surveys might have led to more fruitful results; however, even just for the year in between the surveys, Espinal and his team already had to cope with high mobility of the programme partici-

monetary and human resources available. It seems that there is still a large gap between what researchers demand for statistically solid and rigorous assessments, and what most practitioners can provide being constrained by time, human and monetary resources. At the end of the day, the consensus seemed to be reached that researchers should be more realistic with their demands while practitioners should be more careful with calling their assessments impact evaluations when it is often rather a "change assessment".

An even broader and more difficult field to grasp is **Social Performance Management** and its evaluation, a fairly new approach in the microfinance industry. Social Performance considers all stages of the process of impact creation: 1. Is the mission of an MFI translated into clear social objectives? 2. Are the activities and systems designed to achieve those objectives? 3. Is the intended target group actually

Box 4.2: Social Ratings

Rating Agencies exist in the Microfinance Industry for over ten years now.

They typically assess the financial performance of an MFI and give a grade accordingly. The grade is comparable across other MFIs, thereby providing transparency to investors and other stakeholders. Just recently, some Rating Agencies have also included Social Performance within their assessment. So-called Social Ratings analyze to which extent an MFI can achieve its social mission by evaluating client conditions and institutional processes. It can be either standard, relying on the information available at the MFI and country level; or with a client survey, using also information collected through a specific client survey. The output is a social performance rating report and a grade – which can be benchmarked against other MFIs and can be used by the MFI to distinguish itself against the competition. The ratings are mostly done together with financial performance ratings but can also be conducted separately.

Rating agencies conducting Social Ratings include: Planet Rating, M.CRIL, Microfinanza Rating and MicroRate.

For more information on Social Rating please see: <http://www.microfinancegateway.org/p/site/m/template.rc/1.11.48260/1.26.9233/>

pants. Other challenges they had to overcome were poor human resources for conducting the surveys and a general distrust in quantitative data from parts of the MFI. Quintero faced similar challenges when conducting surveys for her PhD thesis for which she aims to assess if the participation in the Coomostaza programme contributed to the socioeconomic inclusion of the women.

During the discussion, the participants could realize that some MFIs' main focus on quick and inexpensive methodologies often comes at the expense of statistical valid approaches. However, both Espinal's and Quintero's presentation made clear that practitioners are mostly aware of the limitations of their assessments but that they are restrained by the little

reached by the MFIs activities responding to their particular needs? 4. Does the group reached experience social and economic improvements? The practitioners presenting focused on different stages and approaches to the process. **Florent Bédécarrats** from **CERISE** presented the Social Performance Indicators (SPI) which focus on the first two questions and look at the MFI's stated objectives and the effectiveness of its systems for achieving them. While the SPI (see more information in Box 4.1) is a self assessment tool which "allows MFIs to monitor efforts to improve social performance, and encourages internal debate on social strategy, transparency, credibility vis à vis clients and external partners" (CERISE, 2008), **Edouard Sers** from **Planet Rating** presented an external assessment

methodology: Social Ratings. Based on a thorough analysis of internal processes and available data, the external analysts of rating agencies assign grades providing “an opinion on the capacity of the MFI to achieve its social goal” (Planet Rating, 2007). These grades – comparable across MFIs - can provide transparency to social investors and incentives for MFIs to improve their performance in weak areas. (Box 4.2 provides some more information on Social Ratings)

Poverty Assessment Tools focus on the output and outcome of an MFI’s operations, notably on producing client-level information. Poverty Assessment Tools assess the prevalence of poverty among clients. They measure either absolute poverty, using e.g. the national poverty line as

of the best-known standardized Poverty Scoring Tools, the PPI (Progress out of Poverty Index). Recognizing the need for a practitioner-friendly and easy-and-inexpensive-to-use tool to assess poverty, it was developed by Mark Schreiner of Microfinance Risk Management, L.L.C. and endorsed by CGAP, the Grameen Foundation and the Ford Foundation. It is basically a very short scorecard standardized per country based on the calculated probability that the respondent lives below the national poverty line. Box 4.3 provides more details on the methodology behind the PPI. The PPI can be used both to understand the poverty level of clients and - if institutionalized - to track changes. This standardized tool can be used “off-the-shelf”, the brief questionnaire takes up little time and the analysis is straight-forward.

Box 4.3: The Progress Out of Poverty Index

Recognizing the need for a poverty assessment tool which is all: practitioner-friendly, inexpensive to implement and easy to use, Mark Schreiner supported by the Grameen Foundation, CGAP and the Ford Foundation developed a poverty scorecard standardized by country. Each country’s scorecard consists of around ten questions. Different scores are assigned to the different possible responses of each question, adding up to an overall poverty score. This poverty score indicates the likelihood that the respondent’s household has an income below a given poverty line. The indicators and scores are developed based on recent household surveys of the country, using judgment and statistics. Those indicators are selected which are strongly correlated with a given poverty line applying an entropy “uncertainty coefficient”. Additionally judgment is used to assure that they fulfill the following criteria: they should be inexpensive to collect, easy to answer quickly, simple to verify and liable to change over time as poverty status changes. With the help of Logit regression the most appropriate indicators are chosen and scores are assigned. Three different samples from the household survey are used: for selecting the indicators and points; for calibrating associating scores with poverty likelihoods; and for measuring accuracy. Today, score cards are available for 30 countries with more to follow. More information: <http://progressoutofpoverty.org/>

a baseline, or relative poverty based on extensive surveys of clients and non-clients. Poverty Assessment Tools help the MFI to evaluate if they actually reach the clients they intend to reach and to segment the clients. Used frequently, they can be applied as tracking tools, analyzing if clients have risen from poverty. Depending on the setting and on which purpose the tools are implemented for, they differ in detail and format. An MFI might choose to implement an already existing and thus standardized tool. However, if no recent and high-quality national household surveys are on hand or the MFI refrains from using standardized poverty indicators, these indicators need to be developed based on comprehensive surveys of clients and non-clients. The indicators can then be used for the development of a tracking tool. In general, tracking tools should contain a quick-and-easy to conduct questionnaire, with indicators which are not too time-sensitive and an easily calculable score. **Robin Gravesteijn** from **Oikocredit** presented one

Therefore, additional costs are marginal compared to existing poverty assessment tools. However, there are two sides to the coin, the PPI’s advantages also constitute their greatest disadvantages: though the PPI is standardized by country, it might still not be suitable for the particular setting the MFI is operating in. For example, the indicators developed based on national household surveys might not be significant for the MFI’s target group, or they might lose its significance over time. Instead of using a ready-made tool, MFIs could also chose to develop their own tool tailored to the particular setting they are operating in. A suitable example would be the First Microfinance Foundation (FMF) in Egypt which developed together with PlaNet Finance their Poverty Scoring Tool. **Aymeric Fuseau** from **PlaNet Finance Egypt** presented this tool. Measuring the poverty level at the entry stage and tracking the graduation of clients over time, it is used for clients’ segmentation’s purpose and as a tracking tool.

The tool is based on a questionnaire tailored to the Egyptian context including three aspects of poverty: Household Asset Ownership; Working Assets and Income; and Human Capital Variables. The aggregated sum of the assigned scores is the basis for categorizing the clients into one of five segments. The segmentation allows the MFI to develop specific products and services tailored to the needs of the clients within each segment. Used as a tracking tool the MFI can monitor changes of various aspects of the clients' economic situation. Unlike the PPI described above, this tool is adapted to the setting the MFI operates in and, though its focus is on poverty, it incorporates more aspects than just the poverty line. However, since the implementation and institutionalizing process is time and resource consuming only well endowed MFIs can afford to implement it. An additional drawback is that the results do not allow comparisons either to the general population, or across MFIs. In general, it should be kept in mind that for tracking changes of the

clients' social and economic situation additional indicators should be considered than only the poverty level, such as children's education, health or women's' empowerment. Just these two examples indicate the complexity of poverty scoring tools. For an MFI driving at improving its social performance, some kind of poverty scoring tool and/or

tracking tool is important. However, not only should it be made sure that the method is statistically solid and applicable to the MFI's setting, but also, once decided on the method, its limits should always be kept in mind and communicated transparently. Social Performance Management, however, is much more than just applying some tools, such as the SPI and the PPI. It is an overall management approach, and the tools should never be looked at as being detached from the whole process.

Connie G. Hina, Regional Technical Advisor of Pla-Net Finance - Asia talked about her experiences in implementing Social Performance Management processes at MFIs in various countries, after being a member of the SPM Technical Working Group of the Microfinance Center (MFC) in Eastern Europe. She has worked on this subject for several years now, in her capacity as an international consultant and advi-

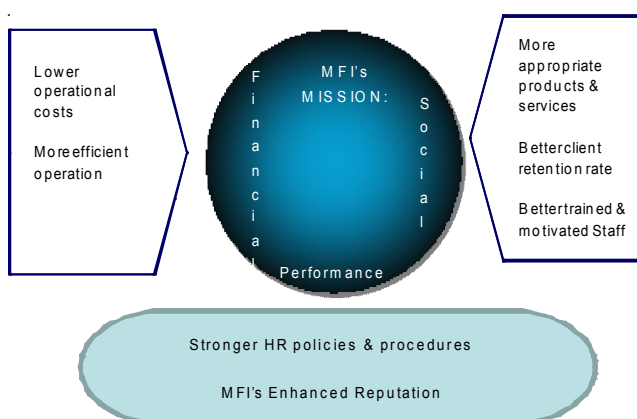
or supporting MFIs among others in Kosovo, Cambodia, Vietnam and the Philippines. She has gained throughout these engagements significant lessons to be convinced of the benefits coming with it and of insights on the challenges one might encounter when implementing SPM as a management approach. She says one of the most crucial challenges is to get the buy-in of all MFI's stakeholders: they need to be committed to make a change. Otherwise, it would never be institutionalized but rather viewed as "just another project". Therefore, she is no fan of "off-the-shelf" tools but rather prefers a process where tools and processes under SPM are developed together with the MFI to ensure that MFI's needs are met. Hina does not believe in social and financial performance as being two opposing forces. If implemented properly, social performance management leads to the achievement of both social and financial objectives: knowing who the clients are and their needs helps the MFI to develop client-oriented services;

more satisfied and motivated employees, improving the MFI's performance and increasing the employees' retention rate, which again has a positive impact on the financial performance of MFIs. Also, a good social performance improves the reputation of the MFI in attracting more potential investors. Hina gave several more examples of the mutually beneficial relationship between social

and financial performance. However, a discussant argued that this relationship still needs to be proven: the costs of implementing and maintaining an SPM process should not be neglected and a clear comparison of costs and monetary benefits would be crucial to further promote this concept to other MFIs. While the cost of doing SPM has always been the concern of those MFIs and groups who are not well-versed of the approach and lack actual experience on SPM implementation, MFIs who have adopted the approach already claim and start to reap the benefits of doing so; what is needed then is documentation of worldwide practices including the costs it entails in mainstreaming the whole SPM process into its operation.

The discussion which followed showed how complex the issue of SPM is and the urgent need for more research on its scope, benefits, costs and limitations.

Figure 4.1 Mutual Relationship of Social and Financial Performance



Source: Hina, 2010

8. Closing Remark

Recommendations for future research in the field of Impact Evaluation & Social Performance Management

We thank the Leibniz Universität Hannover, especially Prof. Dr. Lukas Menkhoff and Oliver Gloede, for co-organizing the third UMM Workshop, as well as all the speakers and the participants for their valuable contributions.

This report summarizes our two-day discussions about the current stage of research and practices in the fields of impact evaluation and social performance management. The report will be helpful for students and young researchers exploring ways to deepen their knowledge and increase their participation in the evolution/development of these fields. The following are a few key recommendations to keep in mind for future research which came out of the workshop discussions:

- An impact evaluation in microfinance is linked to the fundamental question of whether access to financial services for low-income households leads to a lasting improvement in their lives. The complexity of implementing research in this field was widely discussed during the workshop and is also specifically discussed in articles 3 and 5 of the report. Rigorous methodologies like the randomized control trials (RCTs) and the adapted research timeframe (mid/long term) are required for sound impact evaluations. As presented in article 3, research in this area can help answer critical questions about microfinance (at least partially) and it can contribute to change practices by validating or invalidating some common beliefs. However, young researchers planning to tackle the issue of impact should be aware that this implies long-term empirical studies and having access to significant financial resources. They are, as such, often difficult to combine within the time and resource constraints of a master thesis.
- On the other hand, the evaluation of social performance, which considers all stages of the impact-creation process (from the intent of the MFI to the outcome for the clients) might be a more reasonable approach within the framework of a short-term research project. Different tools and methodologies have been developed and can be further tested by empirical research (see examples of research projects in articles 5 and 6). As discussed during the workshop, the implementation of a tool like the PPI is time-consuming for an MFI. A Master or a PhD student undertaking a comprehensive empirical research project can bring direct value to an MFI that would compensate for the time investment required of the MFI.
- From a practitioner's perspective, the main challenge is to institutionalize social performance management i.e. to move from conducting an external study to the regular tracking of social performance and integrating it into the governance, strategy and operations of the MFIs. Further empirical research on the costs and benefits of implementing a social performance system and on its effects on the strategy and the governance of MFIs could thus be a step towards the greater institutionalization of SPM.

As a final word, we hope that you enjoyed the workshop and this report.

We welcome any comments and/or suggestions you may have (email: umm@planetfinance.org / Topic "UMM Workshop Hannover") and look forward to further fruitful exchanges at our next UMM event.

Delphine Bazalgette

Project Director UMM

Annex 1: Workshop Programme



PlaNet Finance

inWent

Internationale Weiterbildung
und Entwicklung gGmbH

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Microfinance Dialogues 2010

University Meets Microfinance @ Leibniz Universität Hannover
June 17th & 18th, 2010

«Measuring the Impact and Social Performance of Microfinance»

www.universitymeetsmicrofinance.eu

Thursday, June 17th: 'Approaching the subject'

Time Room	Programme
2:30 pm – 3:00 pm Niedersachsensaal 1501 (ground floor)	Registration
3:00 pm – 3:45 pm 1501-201	Introduction: Impact-Assessment and Social Performance Management in Theory and in Practice – Introductory Overview Johannes Majewski, GTZ Katja Kirchstein, Freie Universität Berlin Friederike Lenel, University of Freiburg
3:45 pm – 4:45 pm 1501-201	The Trade-off between Financial and Social Performance Pim Engels: Mission drift in Microfinance, the influence of institutional and country risk on the trade-off between the financial and social performance of MFIs Tilburg University Alexandra Steiner: Must there be a trade-off between targeting also the rural poor and sustainability? A case study of FMF-Egypt State University of Bergamo
4:45 pm – 5:15 pm Foyer 1501	Coffee break
5:15 pm – 6:30 pm 1501-201	Impact Assessment Applied Vanessa Quintero, University Paris 3 - Sorbonne Nouvelle Santiago Espinal, PlaNet Finance Colombia Social Performance Management Applied Connie Hina, PlaNet Finance Philippines
6:30 pm Meeting at Foyer	Dinner

Friday, June 18th: 'Deep Dive'

Time
Room

10:30 am – 11:30 am
Niedersachsensaal
1501 (ground floor)

Programme
Registration

11:30 am – 1:00 pm
1501-301

Session I:

Keynote speech

**William Pariente, MIT Poverty Action Lab / Université Catholique de Louvain:
Recent developments in the impact and mechanism of microfinance**

Comments by Robin Gravesteyn (Oikocredit),
Edouard Sers (Planet Rating),
Florent Bédécarrats (CERISE),
Connie Hina (PlaNet Finance Philippines)

1:00 pm – 1:45 pm
Cafeteria

Lunch break

1:45 pm – 3:30 pm

**Session II: Presentation of students' research proposals on impact
assessment and social performance in 2 groups**

Group A, Room 1501-109

Group B, Room 1501-115

- Tonja von Gorp (Master, University of Wageningen): Poverty Outreach of Microfinance in Ecuador
- Kristina Czura (PhD, Universität Frankfurt): Impact evaluation of microfinance in India
- Olga Biosca (PhD, University of Sheffield): Microfinance non-financial services in Mexico: Design and Impact

- Nargiza Maksudova (PhD, CERGE-EI, Charles University): Measuring the impact of Microfinance - Retrospective Survey of Microfinance in Uzbekistan
- Florence Milan (PhD, University of Hohenheim): Social Performance of Rural Microfinance Institutions: Theory and Empirical Measurement
- Mathilde Maitrot (PhD, University of Manchester): The Social Performance of MFIs in Rural Bangladesh

3:30 pm – 4:00 pm

Coffee break

4:00 pm – 5:30 pm

Session III: Discussion with experts

Group A, Room 1501-342

Group B, Room 1501-115

- The Progress out of Poverty Index: Robin Gravesteyn, Oikocredit
- Poverty Scoring Tool: Aymeric Fuseau, PlaNet Finance

- Social Performance Indicators: Florent Bédécarrats, CERISE
- Social Performance Ratings: Edouard Sers, PlaNet Rating

5:30 - 6:00 pm
1501-342

Résumé and Perspectives

William Pariente (MIT Poverty Action Lab / Université Catholique de Louvain)

Annex II: List of Participants

- 1 Asomadu-Kyereme, Robert; Universität Bielefeld
- 2 Augarelis, Eliane; PlaNet Finance
- 3 Bartelt, Chris-Oliver; Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft
- 4 Basanta, Thapa; Universität Münster
- 5 Bazalgette, Delphine; PlaNet Finance Deutschland e.V.
- 6 Bédécarrats, Florent; CERISE
- 7 Bensoussan, Pauline; PlaNet University
- 8 Bhuiyan, Abul Bashar; LESTARI
- 9 Biosca, Olga; University of Sheffield
- 10 Bonaga, Giorgia; University of Bologna
- 11 Bornkessel, Janet; UP Micro Loans
- 12 Boukhelf, Rania
- 13 Criado, Manuelle; RWTH Aachen
- 14 Czura, Kristina; Goethe Universität Frankfurt
- 15 Engels, Pim; Tilburg University
- 16 Epkehans, Ina; PHINEO gemeinnützige AG
- 17 Espinal, Santiago; PlaNet Finance Colombia
- 18 Feizi, Mehdi; Goethe University Frankfurt
- 19 Flosbach, Johannes; Bayreuth International Graduate School
- 20 Freudenreich, Hanna; Universität Bayreuth
- 21 Fuseau, Aymeric; PlaNet Finance Egypt
- 22 Geisenfelder, Mathias; Siyabonga
- 23 Gradeva, Katarina; Goethe University Frankfurt
- 24 Gravesteijn, Robin; Oikocredit
- 25 Hina, Connie; PlaNet Finance Phillipinen
- 26 Hoefling, Lena; Universität Tübingen
- 27 Humberstone, Julie; University of Bath
- 28 Jackson, Cornell; University of Greenwich
- 29 Judis, Katharina; Humboldt Universität Berlin
- 30 Kirchstein, Katja; Freie Universität Berlin
- 31 Kislak, Carmen; Leibniz Universität Hannover, GIF
- 32 Kölle, Michael; Universität Tübingen
- 33 Kropina, Anna; Humboldt Universität Berlin
- 34 Kuhnt, Jana; BiTS Iserlohn
- 35 Le, Thi Ai Van; Universität Hohenheim
- 36 Lehner, Sarah; LMU München
- 37 Leidl, Michaela; University of Regensburg
- 38 Lenel, Friederike; PlaNet Finance Deutschland e.V.
- 39 Lewandowski, Stefan; Universität Oldenburg
- 40 Linders, Sarah; Goethe Universität Frankfurt
- 41 Maitrot, Mathilde; University of Manchester
- 42 Majewski, Johannes; GTZ
- 43 Maksudova, Nargiza; CERGE-EI, Charles University
- 44 Martins, Fernanda; Frankfurt School of Finance and Management
- 45 Matzanke, Miriam; Boston Consulting Group GmbH
- 46 Melches, Carlos; University of Applied Sciences Magdeburg-Stendal
- 47 Meyer, Kristin; Freie Universität Berlin
- 48 Michaelsen, Maren; Ruhr Universität Bochum
- 49 Milan, Florence; Universität Hohenheim
- 50 Momma, Caroline; Leibniz Universität Hannover
- 51 Moyo, Nkululeko Bruce; University of Reading
- 52 Muriel, Victoria; University of Salamanca
- 53 Nitsch, Manfred; Freie Universität Berlin

- 54 Njiru, Elias; Universität Hohenheim
- 55 Ntim, Felix; Ruhr Universität Bochum
- 56 Odoemenam, Franklin; Universität Bielefeld
- 57 Okumu-Omony, Patrick; Frankfurt School of Finance and Management
- 58 Peterka, Judith; Universität Tübingen
- 59 Peuker, Christian; Universität Göttingen
- 60 Priberny, Christopher; University of Regensburg
- 61 Quintero, Vanessa; University Paris 3 - Sorbonne Nouvelle / PlaNet Finance
- 62 Quintussi, Marta; Cologne Graduate School
- 63 Rahman, Shamimur; University of Bologna
- 64 Ramirez, Martin; Universität Bayreuth
- 65 Raum, Jörg; University of Regensburg
- 66 Realpe Carillo, Natalia; Technische Universität Berlin
- 67 Rimkus, Marco; Universität Bochum
- 68 Rivayani, Rivayani; Universität Göttingen
- 69 Robert, Poppe; University of Mannheim
- 70 Rodriguez, Fernando; University of Salamanca
- 71 Rogall, Oliver; Universität Hohenheim
- 72 Rommel, Jens; Humboldt Universität Berlin
- 73 Rüsing, Andrea; Frankfurt School of Finance and Management
- 74 Schicks, Jessica; Université Libre de Bruxelles
- 75 Schumann, Thomas; Universität Freiberg
- 76 Sers, Edouard; Planet Rating
- 77 Steffenröeren, Christian; Frankfurt School of Finance and Management
- 78 Steiner, Alexandra; University of Bergamo
- 79 Ströh de Martinez, Christiane; Freie Universität Berlin
- 80 Seifert, Susann; University of Applied Sciences Zwickau
- 81 Trommlerova, Karina; Universität Göttingen
- 82 Van Gorp, Tonja; Wageningen University
- 83 Van Gorp, Bibian
- 84 Vietmeyer, Judith; PlaNet Finance Deutschland e.V.
- 85 Visconti, Roberto Moro; Università Cattolica of Milan
- 86 von Dziembowski, Constantin
- 87 Wegmann, Johannes; Universität Bayreuth
- 88 Welvers, Kathleen; PlaNet Finance Deutschland e.V.
- 89 William, Pariente; MIT Poverty Action Lab / Université Catholique de Louvain
- 90 Zanchi, Clarisse; PlaNet Finance

