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Improving the Impact of Microfinance on Poverty

Action Research Programme

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How can impact assessment take into account wider social and economic impacts?

Ford Foundation Sponsored Development Finance Impact Assessment Planning Workshop

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How can impact assessment take into account wider social and economic impacts?

Introduction

There is increasing emphasis on the significance of the wider impacts of microfinance – those beyond the immediate financial and social benefits for the individual. Yet, the wider impacts of microfinance are notoriously difficult to identify or assess. Often, MFOs' confident claims to be having a wider impact and to be able to assess these impacts are based on weak, circumstantial evidence. This paper considers ways in which building evidence of wider impacts may be approached, which reflects processes of microfinance more faithfully, including the intended and unintended consequences of microfinance operations.

Wider impacts may occur in the following ways:

- **through the labour market:** poor people taken on by expanding micro-finance borrowers may as a consequence be taken upward across the poverty line;
- **through the capital market:** the intervention of a micro-finance institution may make existing lending institutions in the market, such as private moneylenders, lower their interest rates to compete, with beneficial effects on borrowers from institutions other than the one being studied;
- **through the markets for goods consumed by poor people:** if micro-finance induces an increase in supply, and hence a cheapening in the price, of goods consumed by poor people, households other than those of borrowers will benefit;
- **through production linkages:** an expansion of livelihoods (agricultural or otherwise) induced by micro-finance will support the formation of rural industries and services, and help to bring about income changes among non-borrower households;
- on clients' participation in social and political processes, on social relations within households and neighbourhoods.

This paper considers wider impacts in terms of **level** of impact, and **type** of impact.

Level of Impact

In a simple way the notion of wider impact can be taken as those impacts beyond the individual client or member. The AIMS (Assessing the Impact of Microenterprise Services) project uses a framework which addresses household and enterprise level impacts and these are significant and important arenas in which to explore impact. While understanding of impacts at those levels are of immediate importance in helping organisations evolve and adapt to the needs of their clients, it is important to be aware of the other social levels at which clients operate. This takes us to a wider consideration of the overall developmental impact of micro-finance interventions. For example, we would have difficulty in saying that micro-finance interventions were developmentally positive if, within a locality, the supported activities of members were driving other poor non-clients out of business and deeper into poverty.

In this paper we will define 'wider' as beyond the individual, household and enterprise levels. Wider impacts range from the effects of an intervention on a local economy or community, to the grander impact of micro-finance interventions on the national economic performance. Questions have been raised as to whether gender impact should be considered under the category of immediate or wider impacts of microfinance. For the purposes of this paper, in defining 'wider' impacts we deliberately exclude the gender analysis required for the study of intra-household impacts. This, we would argue, belongs in the realms of more immediate client impact. But, as we will note below, even within wider impacts there are strong gender themes to be explored.

To begin with, however, let us propose three levels at which we might want to explore wider impacts:

- local
- regional
- national

As the paper later indicates, the level at which we want to focus on wider impacts will have implications for the methodology and tools which can be brought to bear on the question. With regard to types of impact, although these may be primarily economic, social dimensions must also be given serious consideration. In addition, this paper deals with impacts at institutional and policy levels.

Economic

These are types of impact that are mediated primarily through the effects of the intervention on markets. The markets for labour, capital, goods and services are all potential routes through which wider impacts may be generated. When we relate type of impact to the question of level of impact we can then consider impacts at local market levels, for example, increasing levels of employment in a small town or inflationary effects of increased liquidity in a local market, through to national market issues, such as the competition effects on the overall financial market.

Social

One of the key original rationales for micro-finance interventions was to facilitate credit access for social groups that hitherto had been excluded. This social exclusion goal has initially focused on the poor and then on poor women specifically. In terms of wider social impacts, there are important questions to answer with respect to the extent to which exclusion has been reduced and the significance of this. It is important to be specific about who is included in statements and findings, given that the poor are not a homogenous group, but are susceptible to different processes and forms of exclusion. Aside from questions about the exclusion of different groups of poor people, this will particularly feature a gendered analysis of the impacts of interventions and will involve analysis of the ways in which patterns and methods of micro-finance delivery may be affecting broader gender relations within wider communities – for example, has women's involvement in micro-finance projects resulted in the wider acceptance of women's participation in local public fora, such as markets or public meetings?

A further way to approach wider social impacts may be with reference to the growing literature exploring the relationship between micro-finance and social capital. The current enthusiasm for the concept has come about through Robert Putnam's adoption of it in a publication in the early 1990s, titled 'Making Democracy Work.' This was study of the processes of democracy in modern Italy. Using highly aggregated data, it statistically demonstrates that the success of democracy in Northern Italy, as opposed to its relative failure in the South, can be explained by the density of social capital. Social capital is defined as the networks of association and organisation at community level.

The relationship between social capital and micro-finance is being posited in two ways:

- micro-finance is a means of generating social capital
- social capital is an important factor in making micro-finance interventions effective

In the first of these micro-finance bears a further claim of wider significance, which is that it can have positive effects on structures and processes of local, regional and ultimately national governance. The second statement of the relationship highlights the need for effective governance, but implies a positive cycle of: improving governance - improving micro-finance operations - improving governance. At the broadest level we can explore the thesis which relates micro-finance interventions to social capital building and then to the wider positive effects on governance and economic performance (see for example Putnam 1990).

Institutional

Aside from the economic effects mediated through markets, micro-finance interventions may be regarded as having affected the wider economic and social environment. They may be seen to be stimulating or inducing innovation in social and economic organisation. The processes involved in this are distinct from and cannot be reduced to market effects. Examples can range from the stimulation of informal, local copycat activity (see for example Susan Johnson's work on Kenya 1998); to, at the national level, prompting the state to encourage formal banking agencies to replicate the methodologies of micro-finance (see McGregor 1994).

Policy

The policy type of wider impact is distinguished from the institutional level although it is closely related to it. It consists of the ways in which micro-finance interventions have intentionally or unintentionally contributed to or produced changes in the policy regimes in which clients and members are located. Unintentional policy changes may be brought about simply by the ways in which the operation of micro-finance organisations highlight policy or legislative loopholes or inadequacies – for example, the increasing significance of micro-finance organisations may prompt the drafting of a new regulatory framework. Intentional effects may arise out of deliberate, secondary lobbying activity from micro-finance organisations, where they press governments to amend legislation to address a problem that they or their members are facing, for example, on deposit holding.

Design Issues in Assessing Wider Impacts

The immediate problem with assessing wider impacts is it shifts our focus away from more **direct causation** effects to **distant causation** effects. The chain of causal relationships connecting the intervention to the impact becomes more complex and tenuous the wider the scope of the analysis. This can lead to questions over the value of assessing wider impacts, especially in terms of cost-effectiveness and reliability.

Each of the types of wider impact above will have corresponding theoretical and methodological approaches to associate with them. They will each have a core disciplinary base (markets -economics; social - sociology/social anthropology; policy - policy analysis; institutional - public administration/political science), but in each case that discipline will need to be accompanied by perspectives from the other disciplines (see Johnson 1998 on 'real markets'). The level at which the type of impact is to be explored will also set constraints on the type of methodology to be used – for example, national level impact assessment may require quantitative data collection and the use of regression analysis, while local impacts may be better assessed through network analysis and may entail the generation of qualitative data. In all types of wider assessment, however, baseline or benchmark data in some form or other is likely to be of value. (For an illustrative example of an effort to develop a view of wider impact with some benchmark data see McGregor *et al* 2000.)

The extent to which wider impact assessments can be joint ventures should also be considered. In some cases where there are a number of organisations working it is most practical to assess wider impacts for the sector as a whole. In other situations, where an organisation is the sole intervention, single organisation wider impact studies may be more feasible.

Finally, the question of time-scale needs to be given consideration. The time-scale for wider impacts to materialise corresponds to a combination of level and type. Broadly speaking lower level impacts can be expected to materialise sooner, while national level impacts usually take longer to have an effect. Equally, some of the economic impacts might be expected to take effect more quickly than social impacts. The broad guideline here is that it will not be worth undertaking a wider impact assessment before it is theoretically plausible for those wider impacts to have emerged. For these reasons the time-scale for undertaking a wider impact assessment is usually longer than for more immediate levels of impact.

Levels of Impact of Micro-finance Interventions

NATIONAL

Economic *Social* *Institutional* *Policy*

REGIONAL

Economic *Social* *Institutional* *Policy*

LOCAL

Economic *Social* *Institutional* *Policy*

ENTERPRISE

⇧ ⇩

HOUSEHOLD

⇧ ⇩

INDIVIDUALS

(men, women and children)

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