UMM Workshop Report

by the e-MFP Action Group University Meets Microfinance

Microfinance in Crisis?
Impact and Financial Transparency

8th University Meets Microfinance Workshop
Frankfurt School of Finance & Management
July 19th-20th, 2012

ABOUT UNIVERSITY MEETS MICROFINANCE

University Meets Microfinance (UMM) is a programme which fosters the cooperation between university students in Europe and microfinance practitioners to contribute to microfinance innovation and education for development. UMM has been initiated in 2009 by PlaNet Finance and Freie Universität Berlin with the support of the European Union from 2009 - 2011. Since 2012, UMM is co-financed by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ).

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.

www.universitymeetsmicrofinance.eu

ABOUT EUROPEAN MICROFINANCE PLATFORM

The European Microfinance Platform [e-MFP] was founded formally in 2006. e-MFP is a growing network of over 140 organisations and individuals active in the area of microfinance. Its principal objective is to promote cooperation amongst European microfinance bodies working in developing countries, by facilitating communication and the exchange of information. e-MFP members include banks, financial institutions, government agencies, NGO's, consultancy firms, researchers and universities. e-MFP's vision is to become the microfinance focal point in Europe linking with the South through its members.

www.e-mfp.eu

The 8th University Meets Microfinance workshop on "Microfinance in Crisis? Impact and Financial Transparency" took place at Frankfurt School of Finance & Management on July 19th to 20th 2012. This Workshop was organized in close cooperation with the Frankfurt School of Finance & Management.

Thanks to the participation of:
Adalbert Winkler, Frankfurt School of Finance & Management; James Copestake, University of Bath; Chuck Waterfield, Microfinance Transparency; Karen Losse, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH; Bernd Balkenhol, Université de Genève; Sylvia Wisniwski, Finance in Motion; Susanne Dorasil, German Ministry for Economic Cooperation and Development (BMZ); Eva Terberger, University of Mannheim; Christian Etzensperger, responsAbility; Matthias Adler, Kreditanstalt für Wiederaufbau (KfW); Aurélie Feld, PlaNet Finance; Sophie Wiesner, ADA; Charlotte Wagner, Frankfurt School of Finance & Management; Dörte Weidig, Internationale Projekt Consult (IPC); Rainer Fitz, International Advisory Services; Juana Ramirez, European Microfinance Platform (e-MFP); Natacha Seker, African Microfinance Transparency Forum (AMT); Johannes Flosbach, Roland Berger Strategy Consultants GmbH.

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Foreword from e-MFP

The European Microfinance Platform (e-MFP) is pleased to present the latest workshop report in the "University Meets Microfinance (UMM) Action Group Series". This issue focuses on the output of the UMM Workshop "Microfinance in Crisis? Impact and Financial Transparency", which was held in July 2012 at the Frankfurt School of Finance and Management.

The workshop was a big success and gathered 103 participants from 27 different universities, as well as from 23 other organisations (e.g. GIZ, KfW and BMZ). The presence of numerous high-level speakers also shows that the organisers have found the right formula for the workshop which is highly appreciated by students, microfinance practitioners and academics who meet, exchange, learn and profit from each other at this unique event.

Our organisation, e-MFP, is a growing network of over 140 organisations and individuals active in the area of microfinance, and its members include banks, financial institutions, government agencies, NGOs, consultancy firms, researchers and universities. Our principal objective is to promote co-operation amongst European microfinance bodies working in developing countries, by facilitating communication and the exchange of information.

The e-MFP's Action Groups promote joint initiatives and cooperation between European actors on specific topics. The main objective is to improve and multiply coordinated activities between microfinance actors which in turn contribute to the development of the whole microfinance sector.

Since its inception, the European Microfinance Platform has prioritised the role of research as an essential component for the development of good and sustainable microfinance practices. The UMM Action Group was established to enhance exchange and cooperation between microfinance practitioners and talented students from universities across Europe.

UMM workshops provide students with the opportunity to present the outcome of their research, discuss their ideas with academics and practitioners and contribute to current debates. Practitioners get exposure to cutting-edge research and meet talented, future young professionals, academics and other microfinance experts.

We thank all the experts involved in this project for their valuable contributions to the publication and invite you to explore the latest findings to stimulate further reflection and encourage additional research in microfinance.

Best wishes,

Christoph Pausch
e-MFP Executive Secretary

Foreword from BMZ

The UMM Workshop in Frankfurt has brought together experts from theory and practice of microfinance, as well as students from all over the world. Once again, it has been an excellent forum for global dialogue on microfinance. This is why the Federal Ministry for Economic Cooperation and Development (BMZ) is proud to support this unique initiative.

German development cooperation is a leading player in financial systems development. On behalf of the BMZ, KfW Entwicklungsbank (the KfW development bank) is one of the world's largest microfinance investors and the GIZ is one of the most important implementing agencies in microfinance worldwide. Furthermore, the BMZ cooperates with the Savings Banks Foundation for International Cooperation, German Cooperative and Raiffeisen Confederation and several NGOs in the field of microfinance. As a consequence, Germany is able to operate almost 150 microfinance programs in more than 60 countries.

Given this large and diverse portfolio in microfinance, the BMZ has a vital interest in evaluating the effects of its projects and programs, since it is useful to understand what measures really work. In the future, the newly established evaluation institute will give a boost to more strategic evaluations of the German development cooperation, including microfinance and its impacts. To this end, we and the evaluation institute will start and continue to cooperate with universities and researchers. Therefore, we honour the high degree of commitment by the academic world and would like to encourage especially young people to intensify their involvement in microfinance research and impact evaluation.

In this context, UMM is an excellent initiative to foster such involvement and to get things off the ground. For us, the UMM workshop has been a great opportunity to meet current and possible future cooperation partners, to exchange information about the newest findings of microfinance research, to get an insight into the current debate on evaluation designs and to find out about the interests of students in this field. Moreover, we welcome the opportunity to explain our approaches to microfinance, which are based on decades of practical experience, and which give an insight into state-of-the-art program implementation.

Furthermore, the UMM workshop has given us the opportunity to meet other practitioners from the microfinance world, such as investment managers, consultants and interest groups. Even though we are in close contact with these players in our daily work, it is very important to have an opportunity such as this workshop for open discussion on context, especially so if the topics are well selected, as in the case of this year's UMM workshop: transparency in microfinance as well as impact evaluation are highly relevant topics for the BMZ.

This UMM workshop has shown that we still have a long way to go to reach more people more effectively with our microfinance programs. For example, responsible finance is still not the common business practice in many microfinance markets. Furthermore, impact evaluation still faces various challenges: many findings from impact evaluations

cannot be generalised. What works in one project, in one country and in one timeframe might not work in another. Moreover, many evaluations, especially when they are highly quantitative, describe what has been achieved, but they do not explain why.

The better we can answer these questions and find new solutions, the better we will reach our intended development goals. This will only work if we combine our efforts and experience, be it in theory or practice. UMM has played a crucial role in this process, and we are confident that it will continue to be a catalyst for the further evolution of microfinance.

Susanne Dorasil
BMZ

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1. Microfinance in Crisis? Impact and Financial Transparency

Some Introductory Remarks on the UMM Workshop and the Publication

University Meets Microfinance Team

In the last couple of years several challenging developments could be observed in the microfinance sector. Since the 1990s the number and scope of microfinance institutions (MFIs) increased dramatically. In some countries this led to a steep rise in competition and subsequently to a relaxation of lending policies and the reliance on a young and inexperienced workforce. This development might have been enhanced by the high liquidity provided by public and private investors, which might have set incentives for an expansion of microfinance portfolios, without ensuring a parallel development of adequate institutional capacities. The tendencies of over-indebtedness of clients that can be observed in several microfinance markets today can partly be derived from these developments.

The presence of these challenges demonstrates that the impact of microfinance on the clients is not exclusively positive. In some cases the provision of microfinance services does not lead to the positive impact on the lives of microfinance clients that stakeholders had hoped for.

In order to identify deficits in microfinance practices and create appropriate action plans, impact assessment, its methodology and its interpretation are of great importance – not only for the MFIs, but also for investors, donors, clients and all other stakeholders. That is why one of the two main key topics of the 8th UMM workshop addressed the topic of impact assessment in microfinance, its relevance for the development of the microfinance sector as well as different methods and approaches of measures and interpretation.

Impact studies are time and cost-intensive. On the MFI level and for its communication with investors and donors this tool as a result might often not be appropriate. The alternative tool used is the management and measurement of the MFI's social performance. Social performance in contrast to social impact focuses on the intent, implementation and regularly measurable results of the social mission of the MFI. Respective tools are designed in a way that management and stakeholders have access to timely and easily assessable information about their clients and can take corresponding decisions. While social performance management is a highly relevant way of self-regulation in the context of responsible finance, the actual measurement of the impact of microfinance remains a crucial matter.

There are several approaches to measure microfinance impact, both quantitative and qualitative ones respectively. Studies can have experimental, quasi-experimental and non-experimental features. Within these categories there is a wide range of among others statistical analyses, in-depth studies and broader social science research. All these approaches however, involve their specific strengths and weaknesses. Additionally there is a risk of bias present in almost all research designs, which might lead to results that are not representative. One approach often regarded as the gold standard of microfinance impact assessment is Randomized Control Trials (RCTs). In RCTs, households are randomly grouped into treatment and control group, prior to offering microfinance services to the former. While the results of randomized controlled trials are extremely relevant for understanding the positive or negative impact microfinance can have on the client, they also struggle with a challenge: RCTs give average values but do not consider the heterogeneity inherent in the sector

and its target group, nor the respective circumstances.

The 8th UMM workshop revealed: There is no one right way of impact assessment that guarantees reliable and unquestionable results. Instead, experts recommend using a mixture of quantitative and qualitative designs, in order to deepen insight into the topic. Each impact study should be seen as another little but valuable piece to the puzzle, and increases the knowledge about the changes microfinance brings to the lives of its clients and their households.

While impact assessment looks closely at the relationship between MFI and client and its possible effects, the second key topic of the workshop also takes into account the MFI's relationship with its donors and investors as well as internal structures within the microfinance institution: Transparency.

Transparency is increasingly relevant for donors and investors decisions as well as for regulators and supervisors. At the MFI level for example, client and financial data should be collected and presented accurately. An MFI should count on a well performing, reliable and secured Management Information System (MIS) in order to support a transparent data management and enable informed management decisions. Also internal and external audits as well as ratings play a crucial role.

A progressively more important topic is the transparency between MFIs and their clients. It is thanks to initiatives like Microfinance Transparency that the understanding of the costs involved, a standardisation of the expression of these costs and hence the possibility to compare different offers for the clients is on the agenda of many network organisations and regulators nowadays.

This workshop report summarises the outcome of the 8th UMM workshop, which took place on July 19th and 20th at the Frankfurt School of Finance & Management.

In his article The Heterogeneity of Microfinance Impact and its Assessment, James Copestake argues that the impact of microfinance should not be assessed using averages or a one-size-fits-all approach in regard to the methodology used. Instead, he suggests to use different methodological designs and to take into account the differences within the target group when examining the specific needs and if and how these are fulfilled.

Chuck Waterfield in Transparency in Microfinance: The Client Perspective underlines that the measurement of social performance on the MFI level, which mainly is addressed to donors and investors, is not enough. Instead he stresses the importance of pricing transparency towards the clients. The article argues that pricing transparency can be a relevant step towards separating responsible MFIs from the ones aiming at optimizing financial profit.

Bernd Balkenhol in Impact Assessments in Microfinance: Theory and Practice offers an insight into a concrete impact assessment project “Microfinance for Decent Work” initiated by the ILO. Balkenhol's description of methodological and practical challenges gives a valuable impression of how complex the assessment of microfinance impact can be in practice.

In Impact and Transparency: The investor's perspective, Eva Terberger argues that transparency can in some cases also have negative implications and its publication should be handled with care. The article argues that interventions aiming at social or economic development at times are not suited for a rigorous assessment of the impact and that impact assessment designs for microfinance have relevant short comings.

Johannes Flosbach in Improving Financial Literacy: A Case Study from Kenya gives

a valuable insight into the planning and implementation phases of a financial literacy campaign in Kenya. The topic of financial literacy is relevant, as only a financial literate and capable client can use transparent information to its full extend. Financial literacy programs hence are complimentary to efforts in increasing transparency.

The Role of Governments in Promoting Transparency is dealt with in the contribution of Karen Losse and Matthias Minke. Their article argues that the promotion of responsible financial inclusion by governments should focus on two areas: financial capability and consumer protection regulation.

Sophie Wiesner in Do Microfinance Clients Grow? Microfinance vs. SME Finance presents the results of two studies focusing on the questions whether the clients' income activities grew after access to microloans, or additional employment possibilities were created. She finds no conflict between microfinance and SME finance and concludes that both matter in their relevant contexts.

In her contribution Investing in Microfinance – Benchmarking Microfinance Investment Funds Julia Meyer presents a performance index for the microfinance investment market and compares it to the performance of social responsible investment in general as well as with commercial equity and debt indexes.

Olga Biosca focusses on non-financial services in microfinance in her article Fighting Poverty in Mexico through Microfinance Non-Financial Services. The article presents a study conducted in Chiapas and concludes that participants of non-financial programs where less likely to be under the poverty line.

Martin Schellhorn's contribution Can introducing social performance management help a microfinance institution to better achieve the social mission? underlines the importance of the measurement and management of social performance for MFIs in achieving sustainable development.

* * *

2. The Heterogeneity of Microfinance Impact and its Assessment

James Copestake, University of Bath

Executive Summary

This paper briefly reviews what we know and don't know about the impact of microfinance, and how best to fill the gap. I argue that any attempt at generalization is dangerous, and the key role for impact assessment is not only to determine what happens typically, but to do justice to this heterogeneity by illuminating what microfinance products and combinations work for whom, where, why and how. There are at least three broad approaches to addressing these questions: formal Impact Assessment (IA) studies, more informal interpretation of performance management data, and broader social science research. By contrasting Randomized Control Trials (RCTs) with a Qualitative Individual Impact Protocol (the QUIP) I argue there is no single "gold standard" method of formal IA that outperforms all others against all relevant criteria. This leads me to argue for investment in a mix of approaches and methods to suit particular combinations of microfinance products and contexts. While all forms of IA must by definition confront the problem of attribution (linking outcomes to specified 'treatments' or 'mechanisms') it is hubris to suggest that the term IA should be used only to refer to those approaches that rely upon statistical inference to do so.

The Impact of Microfinance: Some Stylised Facts

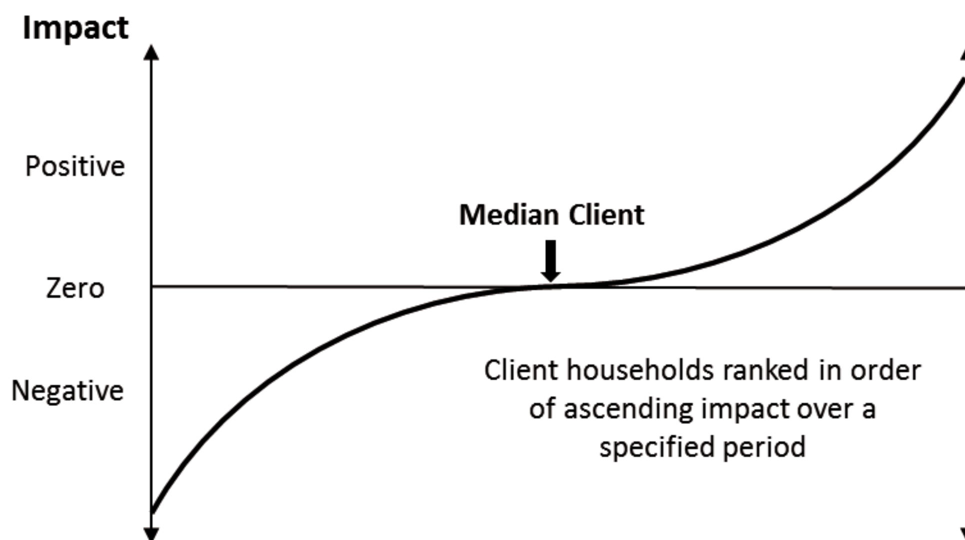
This paper is concerned with financial services (mostly loans but also deposit taking, insurance and payment mechanisms) to relatively poor people, and motivated - at least in part - by a development purpose, thereby warranting some investigation into whether or not this purpose is being achieved – i.e. having a positive impact. I start with some stylised facts about the impact of microfinance (MF) across the globe. First, MF on its own is rarely sufficient to deliver sustained improvements in the wellbeing of its clients and their families and to enable them to escape poverty. Second, it does frequently have a positive impact on intermediate indicators, such as business activity, profitability and asset ownership. Third, positive impact on a range of other indicators may also be important, including acquisition of knowledge and skills, better habits and greater resilience. Fourth, microfinance has been harmful to a significant minority of its clients – particularly borrowers who have become over indebted. Evidence in support of these generalisations can be found in recent systematic reviews of impact assessment studies, three of which are summarised in Copestake and Williams (2011): Odell (2010), Stewart et al. (2010) and Duvendack et al. (2011). In addition, Bauchet et al. (2011) provides a useful survey of the evidence obtained using RCTs, and Roodman (2012) provides a broader review of the scope for "responsible generalisation" usefully updated by his blog.

Gaps in Our Knowledge: The Heterogeneity Problem

It is not my purpose here to provide a more nuanced elaboration on this evidence. Rather I want to explore further the methodological challenge that we face in gaining a richer understanding of variation in impact, particularly for users of the same product from

the same provider. Assuming for the moment that we have a robust way of measuring individual impact on an agreed scale, the diagram plots individual impact scores across a particular population of MF clients in ascending order of their impact score (Figure 1). What shape do we expect this curve to be? The one drawn on the diagram is not based on real data, but I have drawn it in a way that suggests wide variation in impact, major winners and losers at the extremes, and the majority experiencing a more marginal change. This is the distribution that I expect we would often find, and there is at least some evidence of microcredit having such a "polarising impact" (e.g. Copestake, 2002). If so, then it is clear that an estimate of the mean impact across the client population hides more than it reveals. This is because if most impacts are relatively small, then the mean score is going to be powerfully affected by the scores of those at the extremes, which are also likely to be the most difficult to estimate accurately.

Figure 1. Diagram



This problem can partially be addressed through sensitivity analysis – e.g. investigating how the mean result varies when outliers are removed. But the more important point is that if impact variation is systematic across the population then even a more accurate estimate of the mean impact is of limited interest. What we want to know is whether impact heterogeneity is strongly correlated with particular variables, including socio-economic characteristics (SEC) of clients and differences (possibly correlated with SEC) in the services they receive, including what is variously described in the evaluation literature as exposure variation and treatment infidelity. Any IA that helps us to understanding better the extent of such variation, its distribution and its causes, is extremely useful. For example, if negative impact of microloans is more likely for households with a single income earner, because they lack multiple sources of income to help meet repayment instalments, then it is hard to sustain the argument that a general positive impact of microcredit is an aid income smoothing.

Varieties of Impact Assessment

For the moment, I take the term impact assessment or evaluation to refer to research that casts light on the extent to which achievement of stated goals (outcomes) can be attributed to different causes, including planned interventions. In this case we are concerned with

particular microfinance services, but these are also referred to in the wider evaluation literature as treatments or mechanisms. We will return to the issue of what constitutes sufficient 'light' later.

It is useful to start with a distinction between three very broad approaches to impact assessment (cf. White and Philips, 2012:5). While our main concern here is with the first of these, completely ignoring the other two would be misleading given that they are also hugely influential, not least as a means to cross-check findings generated by FIA.

- Formal Impact Assessment (FIA) refers to studies conducted by external researchers (and often also externally financed) with the specific goal of gathering data about impact. A further distinction can be made between different methods of FIA according to whether they primarily identify the impact of interventions through (a) statistical inference, (b) direct observation of causal processes, and (c) collection and analysis of self-reported attribution on the part of service users. These are described more below.

- Informal Impact Assessment (IIA) is methodologically looser and takes the form of mostly internal interpretation of management data, including information from direct observation, information systems, sharing of staff experiences, client complaints, focus groups and satisfaction surveys. Processes for interpreting such data may be systematised within social performance management (SPM) systems, but SPM only qualifies as IA if it explicitly tackles the problem of attribution in some way. The boundary between FIA and IIA is controversial, and we will return to it briefly at the end.

- Broader Social Science Research (BSS) refers to more open-ended studies of individuals, households and wider communities of people who happen to use microfinance, but such research is not necessarily intended specifically to collect impact evidence, nor is it often even concerned exclusively with microfinance. Research of this kind ranges from large surveys to detailed ethnographies, and generally seeks to deepen our understanding of wider social systems and regimes of which MF are a part. It may be motivated by the hope of being relevant to policy, but is not led by it. An example is research based on collecting financial diaries (e.g. Collins et al., 2009), though others might regard it as a form of FIA. I will not pursue the issue of the interface between BSS and FIA further, having done so elsewhere, taking MF in India as a case study (Copestake, forthcoming).

FIA Based on Statistically Inferred Attribution

This approach entails quantification of selected variables for a sufficient number of cases to permit statistical analysis of correlations between them. Data collection designs include Randomized Control Trials (RCTs), pipeline studies, panel/repeat surveys with treatment and control groups, natural experiments, studies that rely on treatment exposure variation rather than a control, and those intended to test intermediate steps of a particular theory of change. Statistical analysis includes use of instrumental variables, propensity score matching, different forms of multiple regression, difference-in-difference comparisons, simulation, multivariate analysis and simple tabulation.

It is beyond the scope of this paper to explore all these designs, but having been lauded

by some as the 'gold standard' of IA it is worth saying a little more about the RCT design (see Duflo et al., 2007 for a much fuller account). This proceeds by monitoring changes in selected outcome indicators for a 'treatment' (T) and a 'control' (C) group. Randomly assigning cases between T and C prior to treatment increases the probability that observations on C are a true counter-factual of what would have happened to T without access to the treatment. Statistically significant differences (other than treatment exposure) that remain can be controlled for so long as they are observable. Such analysis yields estimates of the average treatment effect on those assigned for treatment for selected indicators over a particular period, and it is often possible to narrow this down to those actually treated. With larger sample sizes there is also scope for estimating average treatment effects on sub-samples of those treated (e.g. by gender or income quartile) or to investigate the effect of several alternative treatments at once. However, the power of a dataset to do so is limited by the size of the sample - particularly the control group. If there are many different possible microfinance 'treatments' and a lot of heterogeneity of clients (in respect of expected response to them) then this is a major constraint on what can be learnt about impact heterogeneity.

FIA Based on Direct Observation of Causal Processes

This approach also encompasses a range of methods, generally draws on data from multiple sources and can be used to analyse one as well as many observations. More specific approaches and methods include Realist Evaluations, General Elimination Methods, Process Tracing, Contribution Analysis and Multiple Comparison Analysis (White and Phillips, 2012). These all generally entail a systemic process of validating or refuting causal hypotheses or theories of change, by confronting them with relevant data. Data can be obtained by direct observation, secondary sources or (more generally) a combination of both: a causal theory being more valid the larger and more diverse is the evidence found to be consistent with it - and inconsistent with alternative theories. This approach is also widely used in a more casual way by independent evaluation consultants, often by acting as external auditors of microfinance organisations' internal and informal impact assessment processes and findings.

FIA Based on Self-Reported Attribution

A common sense and important way of finding out whether someone has benefited or not from a particular intervention is to ask them. This assumes, of course, that respondents are able to answer the question and willing to do so truthfully. Hence framing of questions, identifying and mitigating bias (attributable to questioner as well as respondent) are the central methodological concerns. These issues are addressed both through assiduous attention to detail in data collection and analysis, and triangulation of data in ways that expose what bias remains. If these issues can be addressed then this approach has a major advantage when it comes to dealing with heterogeneity, since it opens up the possibility of observing individual impact scores all the way along the impact line, as illustrated by Figure 1. The scope for generalising from the sample of observations to the whole population is often limited by small sample sizes arising from the need for tight checks and balances on data quality for each. Approaches of this kind include Most Significant Change studies, the Success Case Method, Outcome Mapping, Methods for Impact Assessment of Programs and Projects, and Beneficiary Assessment (White and Phillips, 2012). This broad approach has been used rather less to research microfinance, and where is has been used it has often been primarily for formative purposes and to inform clients, rather than to meet demands for external accountability. However, given

its potential strength in addressing the heterogeneity issue it is worth briefly elaborating on a specific example – the Qualitative Impact Assessment Protocol or QUIP (see Imp-Act, 2004; Copestake et al., 2005; Athmer et al., 2006). The first step with this method is to monitor changes in selected outcome indicators among clients over time in order to identify possible trends, which can be used to formulate hypotheses about impact. Such monitoring may be an integral part of an organisations' own performance monitoring and management system. The next step is to randomly select a sub-sample for in-depth interviews, and to elicit their own narrative accounts and explanations of changes in their lives and livelihoods during the sample period. Great care is needed at this stage to do this in a way that avoids prompting and other biases. For this reasons systematic analysis of interview transcripts to identify evidence of self-reported impact is best carried out by a separate analyst and subject to independent audit. The qualitative data can then be converted into scores to permit statistical analysis including cross-tabulation against monitoring data collected independently of the in-depth interview. The process can be repeated to gain more insights into diversity of treatment exposure and outcomes by socio-economic group, until additional observations cease to reveal useful extra information.

Comparing Alternative Approaches

There is often a case for employing more than one of these methods of formal impact assessment: case studies relying on direct observation may help to inform the scope of a larger study to quantify impact through statistical inference and/or to assist in interpretation of observed correlations, for example. Using more than one method also permits cross-checking of evidence. However, costs often prevent such a 'belt and braces' approach, and we are left having to select one or other method by weighing up their theoretical strengths and weaknesses. To illustrate consider the two specific methods discussed above: RCTs and the QUIP. First, the greatest potential advantage of an RCT is the robust and transparent way it confronts the selection bias problem. This can overcome at a stroke much of the difficulty encountered using quasi-experimental methods, although the practical difficulties entailed in insulating members of the control group from 'contamination' by the treatment are not to be underestimated, and that no study of microfinance can be double blind. In comparison the internal validity of the QUIP depends critically upon scrupulously minimising response biases. Moving on to other considerations, the capacity of RCTs to throw light on impact heterogeneity (by client and treatment type) is generally highly constrained by sample size. Another relative weakness of RCTs is that it requires prior identification of key treatments or mechanisms, whereas the QUIP can throw up evidence of the impact of unforeseen differences in treatment, and unforeseen consequences also. Overall, while an RCT may yield strong and precise evidence to validate or refute key impact hypotheses (e.g. that scarcity of capital constrains investment for typical borrowers), the QUIP can provide empirical evidence relating to a potentially broader range of causal links and theories of change. It also avoids the practical and ethical difficulties associated with including a control sample. My purpose in making this comparison is not to argue in favour of always adopting an RCT or the QUIP compared to other methods; rather it is to substantiate the point that no one method is universally superior to all others against all relevant criteria: i.e. that "no single design or method can lay monopoly claim to the production of evidence…" (Stern, 2012:5). One objection to this argument is that internal validity somehow trumps all other criteria. It is clearly preferable to have some data that is reliable than lots of data that is unreliable, but this argument is premised on being able to categorise evidence as either reliable or not, whereas when dealing with interventions in complex systems no evidence can be classified as safe without being cross-checked against data from other sources.

And when dealing with heterogeneous and evolving systems, the degree of reliability of evidence must compete with relevance, timeliness, cost-effectiveness, sufficiency and accessibility. In short, we often find ourselves having to deal not with gold standards, but 'good enough' standards, where the 'best' is the enemy of the 'good'. Making the right judgment is not just a technical and scientific matter, but also depends upon the audience, familiarity with the area being assessed and degrees of trust between key stakeholders. This discussion could be further developed by making links to philosophical differences underpinning the different approaches to impact assessment described above, and the implications of complexity, uncertainty and information asymmetry for both social science and public policy. A more practical implication is simply that methodological pluralism matters (see also Stern et al. 2012). With respect to microfinance, it is useful to distinguish between pioneering, mainstreaming and consolidation phases of microfinance in different places, where the best mix of formal IA (as well as its relationship to IIA and SSR) will vary between phases. For example, the case for FIA (and RCTs in particular) may be strongest during the transition from pioneering to mainstreaming, when there is sufficient evidence to invest heavily in investigating one tightly specified product or mechanism. In contrast, in periods of crisis and consolidation, there is perhaps a stronger case for investing more heavily in methods that generate broader evidence, even at the expense of some precision.

Conclusion

To sum up, I first argued that the best evidence we have on the impact of MF suggests it is not as powerful an instrument of development as many dared to believe, but neither is it unimportant. Second, I suggested that given the vast heterogeneity of MF products, clientele, contexts and outcomes a priority for IA is to strengthen our understanding of such variety. Third, I pointed out that a wide range of approaches and methods of IA are available to tackle the attribution problem, with no one method dominating the others against all criteria. This suggests scope for a lot more research! I argue that the research agenda should also be heterogeneous, and that this in turn justifies adopting a definition of what constitutes impact assessment that encompasses formal, informal and broader social science contributions. In particular, we should acknowledge the existence of a range of approaches to addressing the attribution problem. I believe it would be hubris to suggest that the term IA should be used only to refer to those approaches (like RCTs) that rely upon statistical inference do so.

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3. Transparency in Microfinance: The Client Perspective

Chuck Waterfield, Microfinance Transparency

Executive Summary

This article describes the history of transparency in microfinance and makes a major distinction between "Stage 1: Transparency" and "Stage 2: Transparency". While the first phase has seen many initiatives, their aim was rather to increase transparency for more credibility for donor funding and better comparison to other MFIs. The second phase can be identified after Yunus was awarded the Nobel Prize in 2006, followed by a large wave of critique of the microfinance "industry". During this second wave, numerous large scale initiatives have been launched going beyond the former social performance measurement approaches. Waterfield argues, that the area in which transparency is without a doubt most important for the customers is pricing. Despite the initial motivation to alleviate poverty, numerous microfinance providers aim at high and short-term profits. While transparency is not a panacea for the problems the microfinance sector is facing, it is a promising means for us to distinguish between responsible practice and profit-maximizing behavior.

The microfinance industry has long maintained that its practice of transparency has set an example for other development initiatives to follow. While agreeing with that, I suggest that the history is best divided into "Stage 1 transparency" and "Stage 2 transparency" initiatives. Stage 1 spanned the dozen years from 1995 to 2007, with Stage 2 starting in early 2008 and continuing to the present. I will also describe that while achieving a useful degree of client-level transparency has been a difficult challenge in most circumstances, a number of efforts initiated in Stage 2 hold promise.

Stage 1: Transparency – 1995-2007

In the mid-1990's, the microfinance industry made concerted efforts to develop industry-wide quantitative indicators to track our work, with the intentions to then collect and publish that information openly. In the initial years, we see the following:

- The SEEP Ratios were published in 1995, the product of the membership of the SEEP Network. The 16 key ratios selected established for the first time definitions of key indicators for MFIs to use for reporting. Network agencies and some funders quickly adopted the standards.
- MicroRate became the first specialized microfinance rating agency, established in 1997. Planet Rating followed closely in 1999, and others followed soon after. A growing number of MFIs contracted their services to produce independent reports on their financial performance in order to attract funding.
- The Microbanking Bulletin started publication in 1997 and evolved into the MIX (Microfinance Information Exchange) in 2002. Each year, an increasing number of MFIs would submit their financial data to the MIX for publishing in MIX publications and later the MIX website.

These initiatives were all clearly intended to increase transparency, but in nearly all cases the information was targeted at two key stakeholder groups:

- MFIs, so they could see how they compared to others and assess where they should improve
- Investors and donors, so they could better select institutions to fund

The primary motivation for MFIs to participate and be transparent with sensitive information was generally to increase their access to funding. The stated intention of most of the efforts was also to attract commercial funding in order to diversify the industry away from the limited traditional donor sources.

Two additional key stakeholder groups – regulators and clients – were not given strong consideration in Stage 1. The popular consensus on regulators was "They won't understand microfinance, and they'll pass bad laws, like price caps." Rather than dialogue and educate them about the differences between microfinance and conventional finance, the preference was to skirt the issues. And for clients, popular folklore was that "Clients are wise, they really know how to manage their money and they are savvy when buying loans."

Both of these arguments were out of convenience and had serious repercussions. Our avoidance of transparency with these two important stakeholder groups changed significantly, as we will see, due to the events of 2007.

Stage 2: Transparency – 2008 - To Present

Microfinance went from obscurity to fame in October 2006, when the Nobel Peace Prize was jointly awarded to Grameen Bank and its founder, Dr. Muhammad Yunus. A brief six months later, in April 2007, the industry hit the headlines again, when the Mexican MFI, Banco Compartamos, issued an IPO, selling 30 % of existing stock to outside investors. The shareholders' initial investment of US$6 million in 2000 became worth over US$2 billion as a result of the stock price on the opening day.

The 300-to-1 return on investment generated a tremendous amount of discussion and debate within the industry. Compartamos had generated ROA of over 20 % for seven consecutive years, and ROE of over 50 % for the same period. The price of the loans in 2007 was 129 % when measured by the US "APR" formula, and over 250% when using the European Union "EIR" formula. Questions and concerns about charging these prices to a client base of 98% women, and generating profits of these levels, and then cashing out those profits to put into the pockets of the investors generated heated debate.

Emerging quickly from these discussions came a new set of transparency initiatives that went well beyond the previous set of financial performance measures. Among these were:

- *Social Performance Task Force* – while already in existence before the IPO, this initiative to quantify social performance indicators received increased attention from the broader industry
- *MicroFinance Transparency* – focused on transparent pricing, MFTransparency collects information directly from MFIs on all their microcredit products and publishes that data for access by stakeholders of all levels
- *SMART Campaign* – encourages MFIs to adhere to a set of consumer protection principles
- *Alliance for Financial Inclusion* – focused on dialoguing with regulators about sound legislation for microfinance
- *Seal of Excellence* – focused on evaluating and certifying MFIs on the grounds of their fair treatment of clients at the bottom of the economic pyramid

- *Principles for Responsible Investing* – focused on having social investors adhere to a code of ethics, investing only in MFIs committed to responsible practice

In the space of a couple of years, transparency became much broader in coverage, with efforts underway to reach all four levels identified in the following stakeholder diagram. Of the four groups, we still find the most difficult to reach is the client. Individual MFIs can choose to practice transparency at the customer level, but without national standards, it is difficult to be transparent in a way that clients can understand and use as a means to compare different MFIs.

Standard rules and formulas are essential as is the education of clients to know how to use them.

Stakeholders in Transparency

GROUP	PURPOSE OF TRANSPARENCY
Regulators	To ensure that the market is operating properly, ensure safety and soundness
Investors	To enable investors to select institutions consistent with their goals and values
MFIs	To demonstrate their responsible and ethical business practise
Clients	To make informed decisions about what products to buy, from which seller

Transparent Pricing

Arguably, the single area where national standards on transparency can be the most beneficial for clients is the issue of pricing. Microfinance prices are bewilderingly complex, as we will see below. How did an industry committed to helping the poor get to this situation? What are the negative aspects of non-transparency? And how do we work our way out?

Access to credit is important, but price is still important when you have barely enough money to live on. Clients always ask us the price of the loan, as they do with any product they buy. We respond with an often complex array of price components:

- There is nearly always an “interest rate” charged, but the time period of the figure varies, as does the manner in which the interest charge is calculated and paid
- There are often one or more fees assigned
- There are commonly additional “services” the client must also purchase, such as insurance
- Quite common in microfinance, much more so than in commercial finance, is the inclusion of “required savings” or security deposit.

Which Loan Would You Pick ?

	ZERO INTEREST LOAN	INTEREST AND FEES	INTEREST AND SAVINGS	INTEREST ONLY
Loan Amount	R1,000	R1,000	R1,000	R1,000
Loan Term	10 weeks	10 weeks	10 weeks	10 weeks
Interest Rate	0%	15% „flat“	12% „flat“	40% decl
Upfront Fee	5%	2%	1%	0%
Security Deposit	0%	0%	20%	0%

This array of cost components masks the true total cost of the loan, as some examples will show.

Which Loan Would You Pick ?

	ZERO INTEREST LOAN	INTEREST AND FEES	INTEREST AND SAVINGS	INTEREST ONLY
Loan Amount	R1,000	R1,000	R1,000	R1,000
Loan Term	10 weeks	10 weeks	10 weeks	10 weeks
Interest Rate	0%	15% “flat”	12% “flat”	40% decl
Upfront Fee	5%	2%	1%	0%
Security Deposit	0%	0%	20%	0%
TCC	R50	R50	R33	R42
APR	49%	47%	49%	40%
Transparency Index	0	32	25	100

First, let’s consider an easy example, where we look at exactly the same loan amount and loan term in four different price policies. Note the interest rates, fee, and “savings”[1], it doesn’t look at all clear, does it?
So maybe, as do clients, you decide to ask what the total amount your pay back is – what we call the Total Cost of Credit (TCC). You will find options 1 and 2 both cost R50, Option 3 costs R33, and Option 4 costs R42. So what do you choose now? Option 3? Or is something suspicious going on with that security deposit?

When using the Annual Percentage Rate (APR) as a means to calculate the true price, you get some surprising answers. The first three options have nearly identical APRs, and Option 4, which seemed at first to be the highest price, is actually the lowest price. Even we, who have education and experience in finance, find it challenging to determine the true prices of loans. Why do we think our clients can do any better?

This is an example of comparable loans. Now, consider the challenges of comparing a loan of R2,000 for 16 weeks offered by one MFI with a loan of $3,000 for 42 weeks from another MFI. Total Cost of Credit is even less useful in this situation. The APR, however, is still a valid comparable measure. The figure seems intimidating because it is a percentage, but in reality it is nothing more than the cost to borrow one unit of currency for one full year. An APR of 40 % means that if you borrow and keep $1.00 for one year, you pay $0.40 in cost. Thus, for comparing loans of different amounts and different loan terms, you have a convenient measure of the cost of the loan.

How did microfinance end up with such complicated and confusing pricing? We have progressively fallen into the trap we call the “downward spiral”. MFIs in a market may start out with everyone charging reasonably transparent prices. A few of the MFIs with the highest prices decide to make their prices less transparent, first switching from declining balance interest to flat interest, then adding fees, and then adding security deposits. Once a few start, more join them, and in the end it is hard for any MFI to explain why their “high” transparent price is really lower than everyone else’s “low” opaque prices.

1 Note that in these examples, “savings” is really a security deposit and marketed as such. The money is unavailable to the client during the loan and is returned to the client only once the loan is completely repaid.

MICROFINANCE INSTITUTION	PROFIT
Compartamos Banco	208M
Financiera Independencia	45M
CAME	6M
Apoyo Economico	6M
FINCA - MEX	6M
Invirtiendo	4M
Conserva	2M
Te Creemos	2M
Mas Kapital	2M
Solucion Asea	2M
FinComun	2M
SolFi	2M
Forjadores de Negocios	1M
TOTAL	**287M**

MFTransparency calculates the true cost of microloans going to over 60 million clients in more than 20 countries around the world. We calculate a Transparency Index that compares the nominal interest rate quoted to the client with the true APR (as shown in the example chart above), and it is very common that less than half the true cost of the loan is communicated to the client. When prices are far from clear, the market does not work properly. Consumers are inclined to over-consume, market competition is hindered, and there is a strong temptation to use hidden prices to generate high profits. As a result, the poor are harmed, the public image of the industry is tarnished, and governments are urged to intervene. This is vastly different from the original intentions of the microfinance movement.

Prices and Profits

Lack of pricing transparency gives ample opportunity to generate significantly high profits, and high profits made by using the poor raise questions about the motive and practice of microfinance. The table above shows the profit of the 13 MFIs in Mexico who generated more than US$1 million in 2010. The total of these 13 is US$287 million in profit, and the amount of income paid by these clients far exceeds this figure.

The popular argument is that these institutions are profitable because they are well run and efficient.

That may be true to some degree for some of them, but the majority of these institutions have portfolio yields of nearly 100% or more. The high profits come from charging very high prices to the poor. What is not discussed nearly enough is that profit doesn't just come from good management and large scale. Microfinance operates in a zero-sum situation, meaning profit doesn't just materialize from thin air. Every penny of that $287 million in profit came directly from the pockets of the clients, most of whom are poor women.

We advocate that we are an industry created to alleviate poverty and give the poor access to responsible financial services and liberate them from the moneylenders. Some of us do indeed work conscientiously toward those goals and strive for a balanced double-bottom line, seeking a way to set prices at a level that generates moderate profits for the institution and increases the economic impact to the clients. But some MFIs operate as profit-maximizing businesses, and when that takes place in a market where prices are far from transparent, the institution reaps short-term gains, but the reputation of the industry suffers long-term losses. Sadly, this is the current perception of microfinance in more and more areas of the world. Transparency isn't a sure solution to the problems we are facing, but it is a promising means for us to distinguish between responsible practice and profit-maximizing behavior. We should all support efforts to increase transparency in the industry, and we should make additional effort in the area of practicing more transparency to our clients.

4. Impact Assessments in Microfinance: Theory and Practice

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Executive Summary

"Microfinance for Decent Work" (MF4DW)[1] is a field experiment carried out by the ILO in partnership with 16 microfinance institutions (MFIs) to track the impact of innovations on the work situation of some 20,000 clients[2]. It was initially envisaged to design the work as Randomized Control Trials (RCTs). In the course of the baseline surveys in 2009 several issues in connection with sampling emerged, showing deviations from randomization. The paper shows the practical challenges of using RCT in a multi-MFI synchronized field experiment with multiple interventions and outcomes, and how to deal with them.

The participating MFIs had responded to a call for proposals in 2008 to design innovations that would improve work-related conditions of their clients. Randomly selected clients should have access to these innovations, whilst a randomly selected control group would not. These innovations could range from a new product to the modification in delivery, targeting or marketing. This range was narrowed by the expectation that the MFIs continue offering the innovation beyond the end of the field experiment, when MFIs would need to continue on own funds, if the innovation made business sense to the MFI.

This complexity of goals had consequences for the design of the field work as randomized control trials and led subsequently to the use of analytical tools like difference-in-difference.

Preliminary findings suggest a modest impact of financial education on multiple debt problems, of new savings products on precautionary savings, of BDS on the adoption of new products like micro-insurance and of awareness-raising on business registration, the adoption of safer work place arrangements and the incidence of child labour.

Clarification of Terms

Impact assessments in microfinance can be based on field experiments or not. Traditionally most assessments in microfinance have used non- or quasi-experimental methods. The latter examine changes in treatment and control groups. However, they do not account for factors other than the intervention itself that make clients in the treatment group respond to the intervention differently than the control group ("omitted variable bias") or that may be due to unobservable characteristics in individuals themselves, like entrepreneurial disposition or motivation that cause treatment group members to respond differently to an intervention ("selection bias"). If clients are randomly assigned to treatment and control groups, one can be fairly confident that the observed difference in outcomes is due to the intervention. Impact assessments based on randomized field experiments are a relatively recent phenomenon in microfinance [3].

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1 Http://www.ilo.org/employment/areas/social-finance/WCMS_168033/lang--en/index.htm

2 Funding was provided by the Ministry of Labour of the Federal Government of Germany. Data analysis is being done in cooperation with the University of Mannheim and the University of Geneva.

3 Duvendack et al. pp.6-10

The shortcomings of non-experimental approach prompted a wave of RCTs since about 2006, carried out largely under the auspices of the FAI/IPA/J-PAL consortium at NYU, Harvard and MIT. Their starting point is that "the principal difficulties for studying the effects of microfinance have been the lack of clean quasi-experiments and an absence until recently of randomized trials."

Origin and Objectives

When adopting its policy on "Microfinance for Decent Work" in 2005 the ILO's Governing Body mandated the Office to produce evidence of the impact of microfinance on decent work[4]. In order to demonstrate benefits to clients, the Office invited MFIs to design and introduce innovations to address a specific decent work deficit. The innovation also had to make business sense to the MFI, for sustainability purposes. MF4DW thus had several objectives:

- a knowledge-enhancing goal: what kind of innovation causes what impact?
- a practical goal: which innovations in microfinance are beneficial to the clients and profitable to the MFIs?
- a policy goal: can microfinance advance decent work? Does it merit the support by public policy?

The Participating MFIs

The ILO believed that MFIs themselves know best the work-related problems of their clients and which innovations would make sense to alleviate those problems. The 2008 call for proposals prompted over 60 MFIs to respond, out of which 24 were selected based on the following criteria:

- track record of 5 years of financial operations
- at least 10,000 clients
- a degree of innovativeness
- operational self sufficiency (OSS >100)
- a management information system (MIS)
- affiliation to a national association of MFIs or an international network

16 MFI partners eventually continued throughout the entire field experiment until 2012[5] . By their respective national standards these are medium-sized to large MFIs. The following table gives an overview of the MFIs, the decent work issue selected and the intervention chosen[6]:

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4 The impact of microfinance on employment and vulnerability has been examined before, however, not through field experiments, amongst others by Bolmick/Nelson, Dunn, Hossein/Diaz, Khandker/Samad/Khan, Koopman, Rahman, A., Sebstad, J. Cohen, M., G.Wright

5 Drop-out rates of 30% and more are not exceptional in mature MFIs, see Beatriz Armendariz- Jonathan Morduch, James Copestake, Graham Wright 2001, Gonzalez 1997

6 Http://www.ilo.org/employment/WCMS_168044/lang–en/index.htm

Participating MFIs

MICROFINANCE INSTITUTION	COUNTRY	INNOVATION
		Child Labour
Lift Above Poverty Organization (LAPO)	Nigeria	Awareness campaign against child labour and the introduction of a loan for school associated expenses
National Rural Support Programme (NRSP)	Pakistan	Modification to existing health insurance product to extend coverage to all household members
Nyésigiso	Mali	Client training using adapted ILO WIND, GERME and child labour training materials
		Risk Management & Over-indebtedness
PRIDE Microfinance Limited	Uganda	Introduction of new leasing product (Mortgage Asset Financing Loan)
Negros Women for Tomorrow Foundation (NWTF)	Philippines	Introduction of new entrepreneurship training for clients using ILO training modules “Generate Your Business” (GYB) and “Start Your Business” (SYB)
Negros Women for Tomorrow Foundation (NWTF)	Philippines	Modification of a savings products for emergency purposes (Individual Emergency Fund)
Vision Fund	Cambodia	Financial education for clients (direct training of clients)
Angkor Mikroheranhvatho (Kampuchea) Co. Ltd (AMK)	Cambodia	Financial education for clients (indirect approach through educating loan officers)
Tao Yeu May (TYM)	Viet Nam	Introduction of client training on risk management and micro-insurance
Epydyme Confianza	Peru	Introduction of micro-insurance product “multi riesgo de Confianza” and client training on product and use
Banco Popular	Honduras	Introduction of health insurance product and client training
		Formalisation
Fédération des caisses populaires du Burkina (FCPB)	Burkina Faso	Introduction of sensitisation to benefits of formalisation, combined with training on enterprise management and client incentives to formalise
Evangelical Social Action Forum (ESAF)	India	Awareness-raising on formalisation and introduction of Business Development Services (BDS) to clients
		Working Conditions
Tamweelcom	Jordan	Awareness-raising on working conditions to clients and community, combined with client and staff trainings using adapted ILO WISE methodology (Work Improvement for Small Enterprises)
Bharatiya Samruddhi Finance (BASIX)	India	Introduction of Participatory Safety Education to increase productivity and workplace safety of clients and community
		Job Creation
International Microloan Fund (IMON)	Tajikistan	Introduction of entrepreneurship training for female clients
Bai Tushum & Partners	Kyrgyzstan	Organisational restructuring of microfinance section and SME section offering different sets of products

Organisation of the Field Experiment

A succinct diagnostic tool of over 4700 clients carried out in 2008 confirmed the prevalence of several decent work deficits[7]. The MFIs were then invited to decide for themselves which of the decent work deficits they wanted to tackle (we recommended to choose just one). They also had a free hand in the design of the innovation:

- change in targeting
- change in marketing
- modified product design (notably shift from individual to group loans or vice versa)
- alleviation of collateral requirements
- launch of an entirely new product
- combining a financial with a non-financial service
- changing the delivery systems (disbursement, collection, branching, etc.)
- entering into a new external partnerships (for example with a local NGO).

From 2009 to June 2012 a total of 60 surveys had been implemented (baseline plus a varying number of follow-up surveys, spaced every six to twelve months, between 1 and 4 per MFI). By the end of 2011 overall sample size had come down to 15,000 clients in 16 MFIs out of which 8085 were in treatment groups.

As it turned out, some innovations lent themselves to a RCT design, others did not. Sustainability, i.e. the practical concern for longer-term institutional change in MFI practices took precedence over methodological considerations. This was not really unusual given the implicit institutional bias of the field experiment, namely that it was expected to produce positive evidence of the benefits of microfinance for jobs, children, safety at work, formalisation, empowerment through organisation.

Costs

Leaving aside ILO overheads and looking exclusively at the budget allocated to the MFIs, then a field experiment like MF4DW cost for all 16 MFIs in 24 months (2010 and 2011) close to $ 1,500,000, i.e. on average per MFI and per year $ 50,000. Half of this was for the actual implementation of surveys, the other half for up-stream and down-stream activities: designing and putting in place the innovation, training, staff compensation payments, subcontracts to local researchers or consultants. Assuming on average 700 clients per MFI per survey, then it costs on average about $ 35 per client/household/unit to collect data.

Challenges Encountered

MFIs on the whole saw the benefit of the exercise more in testing innovations per se, less in applying principles of sound research design to facilitate subsequent analysis. As a result several deviations from a pure randomized research design and data organisation emerged:

7 The diagnostic tool also revealed that of the 4748 clients of MFIs 90% were self-employed and had on average two indirect jobs; in 5% of interviewed households there was an incidence of child labor. 11% of interviewees reported dangerous working conditions. 54% saw themselves as completely informal. 8% reported multiple borrowing and 45% were confronting substantial unforeseen expenses related to accidents and illnesses.

1. The management information system (MIS) of several MFIs did not contain enough client profile data to allow stratification. In some cases the MIS had only profiles on some clients in some regions or districts, but not all.
2. Stratification was not consistently applied, i.e. the structuring of clients according to observable characteristics (age, occupation, gender, etc.) to ensure similarity between Treatment Group and Control Group before assigning clients randomly to either group.
3. The MFIs wanted the innovation to be offered at the branch level. Thus, the randomization level was relatively aggregate. This meant that there were bound to be more differences – observable and unobservable – between treatment and control group, than if the randomization had been done at the centre, or household, or client level.
4. The innovation chosen by the MFI required qualified staff (for example in the area of safety at work and hygiene), which was available only in some branches. This predetermined the location of treatment groups – and the randomization level.
5. The innovation chosen by the MFI meant that prospective new members were identified by personal and business features, and based on these features the corresponding members in the control group were selected (peer matching, but not strictly at random).
6. One MFI rolled out the innovation to its entire clientele (a special one stop window for up-market SME loans) before the end of the field experiment.
7. The innovation chosen by the MFI led in some cases to client self-selection: training was offered in treatment groups that some clients picked up and others did not; in the control group the training was not offered, but members in the control group were also not even asked, whether they would take training if it was offered at some point in the future. They should have had the opportunity to respond to the question. As a result there may be an overestimation of the treatment effect.

How we Dealt With the Design Challenges

Due to the suboptimal randomization in the design we had to decide on suitable methods for the analysis of the data collected that would help deal with biases due to non-comparable treatment and control groups:

- Difference-in-Difference estimates (DiD): DiD are suitable for relatively aggregated treatment and control groups – as in the case of MF4DW with its comparison of branches rather than individual MFI clients. As in some instances the innovation was compulsory for all members of the treatment group (in the case of NWTF in the Philippines it was an obligatory precautionary savings product), self-selection can be fairly confidently ruled out. The drawback of DiD is that it neglects other factors that may also account for the difference in behaviour of treatment and control clients, other than the innovation ("omitted variable bias").
- Propensity score matching: This implies the comparison of "a participant with one or more non-participants who are similar in terms of a set of observed covariates"[8]. This is followed by the calculation of the "average treatment effect", i.e. the mean difference between participants and matched non-participants. Still, this can lead to misleading inferences if treatment is assigned on the basis of a variable that is not observed.
- Instrumental variables: This method seeks to determine the variables (labeled "instruments") that influence the decision to participate, "but at the same time do not have an effect on the outcome equation".[9]

8 Duvendack et al., p.21

9 Duvendack et al., p.22

- Regression discontinuity design: Compares a group just above with those just below a cut off threshold, example Grameen Bank's (GB) eligibility criterion 0.5 acre assets. GB's rule generates a discontinuity that can be used by researchers to detect the effects of treatment. However, GB's rule is not strictly applied on the ground, it does lend in fact sometimes also to those with more than 0.5 acres. Thus there is no genuine discontinuity.
- Pipeline matching (Coleman on Thailand (1999)): A comparison group is constituted of prospective clients who signed a year in advance to participate; the estimate of impact is set against the "naive" estimate if program participants had been compared to non-participants. Clients were identified in villages that were to get access to a specific loan product one year later (Control Group), they were compared to clients in villages that already had access to the loan (Treatment Group), and both are compared to non-clients. A naïve estimate of impact would compare members with non-members, neglect self-selection bias and tend to overstate impact.
- Client monitoring tools, like focus groups, client exit surveys, activity-based costing. After considering the strengths and weaknesses of these methods in the light of the data sets collected, ILO and Mannheim University decided to pursue the analysis with the DiD approach.

Findings [10]

- Financial education seems to contain multiple debt problems, measured by incidences of late payments; assets seem to be sold off less frequently; no evidence of changes in savings behavior.
- Introduction of a new savings product appears to have induced more clients to adopt precautionary savings.
- BDS seems to trigger a more forward-looking attitude towards new products, like micro-insurance.
- Awareness-raising on the pros and cons of formalisation leads clients to register and separate business from personal accounts – no evidence, however, that loan size would increase or that the number of employees changes.
- Awareness-raising on accidents at work appears to induce clients to adopt safer work processes and adjust the work place.
- Awareness-raising on child labour appears to lead to some reduction in the incidence of child labour, the number of hours worked by children and a reduction of child work time in hazardous activities, however, there is no evidence that schooling would increase.

Lessons Learnt

- MFIs are surprisingly flexible, open and forthcoming to innovations. They do seem to be genuine social enterprises (at least those that responded to our call for proposals).
- Multiple research objectives should be avoided: demonstrating an innovation's benefits for clients is challenging enough, producing evidence for a business case of the innovation at the same time is daunting.
- Limiting the number of participating MFIs eases the administrative burden. The high number of MFIs in the MF4DW field experiment is the result of a concern for geographical balance common in international organisations. Academic institutions or practitioners can settle for smaller MFI samples at no loss of significance.
- IT helps to limit the range of interventions that MFI can choose from ("innovations"). This should help enlarging the data base, client pool and reduce selection bias, other things

10 Http://www.ilo.org/employment/areas/social-finance/WCMS_168033/lang--en/index.htm

being equal. The proposed innovation should also be scrutinised with a view to its compatibility with randomization norms.

- From an analysis point of view it would have been also preferable to have to deal with fewer outcomes, and not six of them. The range of decent work issues that we wanted to examine came from an ILO internal point of view (decent work has many dimensions and aspects, dealt with by a host of technical departments in the ILO), but this weakened the validity of the analysis.
- We underestimated the time needed to instil in MFIs and their staff the capacity for data collection. We also underestimated the time needed by MFIs to design innovations and put them in place. Other logistical challenges were encountered: Some MFIs pushing ahead whilst others were more phlegmatic; Time lost because of unforeseen staff turnover, whether it was the contact person in the MFI, or staff responsible for research unit, or loan officers doing the surveys. One should always anticipate exogenous shocks that render data collection impossible, like civil unrest (Kyrgyzstan), floods (Pakistan), riots (Honduras) or a media/government campaign against microfinance (India).
- Randomization that is suboptimal at the design stage, cannot be corrected later. At the time of baseline surveys specialised academic capacities need to be involved. This helps to anticipate the data requirements of subsequent analysis.
- RCTs are costly. Donors can get impatient with the slow advancement in the setting up of the field experiment. Patience is all the more needed if the outcomes take a long time to materialise – as is the case with decent work aspects. Many innovations carried out in the framework of MF4DW are likely to produce tangible benefits even well after the end of the surveys.

Would Impact Assessments by Practitioners Have Fared Better?

MFIs should be concerned about the impact of their operations. They have an interest in producing evidence that they are making a difference to the poor. And there are obvious benefits if an MFI on its own initiative assessed impact: the short loop to better product design, higher responsiveness to changing client needs, familiarity with the internal procedures that minimise the hassle of surveys and blend them into routine transactions. This does not always categorically call for field experiments and RCTs. MFIs that wish to explore whether they really respond to client needs and make them better off, may be perfectly happy with client monitoring, focus groups, exit surveys and other non-experimental methods. It does not take a genuinely experimental design to produce evidence for better operations.

Regardless of the design, MFI-initiated impact assessments will naturally be prone to some form of "institutional bias": an MFI would like to see findings emerge that confirm the validity of its mission and that comfort its donors and investors. "The optimal research portfolio (…) should blend randomized and non-randomized approaches (…) both have different strengths and weaknesses…" – and that applies to practitioner MFIs and academic research.

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5. Impact and Transparency: The Investor's Perspective

Eva Terberger, University of Mannheim

Transparency and Limits of Transparency in the Evaluation Context

There are situations in which transparency has the potential to do harm. A standard example for such a case is the lack of any published country-specific crisis forecast by the International Monetary Fund (IMF). It is part of the IMF's mission to secure financial stability across the globe, and it belongs to the core activities of the IMF to collect and administer an extensive economic and monetary data base on every country. Although it is possible to feed country-specific data into prognosis models to forecast financial or economic crises, and perhaps this is done internally, one will never find any published crisis forecast by the IMF. Transparency is the standard for the data only, and anybody in the general public is able to use the information for forming a personal opinion on the likelihood of crisis in the country in question. The reasons for forecasts being an exception in transparency policy are obvious. Publishing crisis forecasts is perilous because of the danger of self-fulfilling prophecy. It is quite likely that a crisis warning by the IMF would provoke a withdrawal of investors and a mass capital flight from that specific country. As a consequence, the crisis scenario actually becomes reality.

Transparency is of high value, but not in each and every circumstance.

Scenarios in which transparency is potentially harmful might also arise in the evaluation context. It belongs to good practice of many evaluation units that evaluation programmes and evaluation results are published, no matter whether results are favourable or unfavourable. However, there might be limits to what information is made available to the general public, due to the obligation of protecting privacy or obligations to observe confidentiality. In the microfinance context, microfinance institutions might be in danger of suffering competitive disadvantages if certain data collected during an evaluation are disclosed. Even problems of self-fulfilling prophecy might arise, particularly if MFIs refinance themselves on commercial capital markets.

Transparency is no guarantee for published information being interpreted correctly by the relevant audience.

It is important to note that availability of information is a necessary but not a sufficient precondition for being informed. The problem of misinterpreting information is particularly pronounced if the information is derived under specific assumptions or with specific models or methods which are not self-explaining and require specific expertise in their application.

In the last few years, results of so-called rigorous impact evaluations of microfinance were published. Particularly the evaluation results on microcredit led to critical reports in the media because measured impacts fell short of what some advocates of microfinance had claimed, that is lifting people out of poverty. This caused a kind of backlash in public opinion on microfinance from outright support to scepticism.

It is the goal of this contribution to put recent results of impact evaluations of microfinance interventions into perspective.

The application of rigorous methods of impact evaluation, which rely on experimental or

quasi-experimental designs to compare target groups of an intervention with a control group, requires expert knowledge. Therefore it seems important to know the virtues and limits of these methods to draw adequate conclusions from the evaluation results, which are produced with the help of these methods.

Measuring Microfinance's Impact on the Livelihood of Clients – Results and Limits

Impact evaluations of microfinance interventions based on a control-group design helped to overcome unrealistically high impact promises.

Impact measurements with experimental or quasi-experimental methods provide evidence for: (i) Microfinance improving consumption-smoothing/risk management of low-income households; (ii) Microcredit enhancing entrepreneurial activity, i.e. foundation of new enterprises, growing stocks or other business expansions; (iii) Microcredit facilitating the acquisition of durable assets.

Evidence for income improvements, job creation, health improvements, and empowerment is rather limited. In single cases, evidence for negative outcomes has been found, such as over-indebtedness or increased vulnerability, particularly if loans are used for consumption purposes.

Rigorous impact evaluations of microfinance have their limits.

A major shortcoming of impact measurement is that it is usually short term (12 to 18 months, in exceptional cases 36 months) while some of the effects of access to finance might only become apparent in the long run. Secondly, modern methods of impact measurement probably were applied to microfinance too late. Regions that were likely to be most promising for realising impacts, i.e. urban areas with a lot of informal entrepreneurial activity, were covered by microfinance long ago; today it would be impossible to find a control group there. Thirdly, no experimental design in microfinance can have the quality of a double-blind experiment (like in pharmaceutical research) because members of target groups and control groups will always know whether they received the "treatment" or not. In pharmaceutical impact evaluations it is not evident to participants whether they receive a placebo or the medication. Fourth, no (rigorous) measurement of microfinance's impact on financial market development (training of MFI staff, "good governance", regulation, responsible finance) exists to date. Fifth, impact measurement does not provide information about efficiency (impact per input unit); and here microfinance scores because support for the building of sustainable financial institutions (input) produces a stream of permanent (moderate) impact.

Even pioneers of the application of experimental methods who engaged in research for measuring microfinance impact do not see any reason to abandon microfinance as a development tool.

"As economists, we were quite pleased with these results: The main objective of microfinance seemed to have been achieved. It was not miraculous, but it was working. In our minds, microcredit has earned its rightful place as one of the key instruments in the fight against poverty." Banerjee/Duflo (2011): "Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty". This book won the "Financial Times Business Book of the Year".

A similar – or even more radical – defence of the microfinance approach is provided by Abhijit Vinayak Banerjee, Esther Duflo of M.I.T, and Dean

In a nutshell, microfinance is certainly no universal remedy against poverty, and borrowing money does not come without risk for the borrower. However, existing evidence does not give sufficient reason to doubt the usefulness of microfinance as a development tool altogether.

Karlan of Yale who all are pioneers of Randomized Controlled Trials (RCT), the Gold Standard of experimental methods, in the New York Times Opinion Pages ("On the Ground, The Role of Microfinance" by Nicolas Kristof, The New York Times Opinion Pages): "Many seem to think that this is not enough. However, as we see it, microcredit seems to have delivered exactly what a successful new financial product is supposed deliver—allowing people to make large purchases that they would not have been able to otherwise. The fact that some people expected much more from it (and perhaps they are right, may be it will just take longer), is perhaps inevitable given how eager the world is to find that one magic bullet that would finally "solve" poverty. But to actually blame microcredit for not promoting the immunization of children is no different from blaming immunization campaigns for not generating new businesses". http://kristof.blogs.nytimes.com/2009/12/28/the-role-of-microfinance/

Interventions to Foster Development and Their Suitability for Rigorous Impact Measurement

Not all interventions in favour of promoting economic or social development in the developing world are suited for rigorous impact measurement.

On the one end of the spectrum of interventions are those which are very close to the target group, i.e. conditional or unconditional cash transfers or programmes of providing school meals for children. These types of interventions are aiming to improve the livelihoods in a very direct way. It is very easy to distinguish who has received the treatment and who has not. And as long as the intervention is not rolled out simultaneously all over the country, it should be relatively easy to form target groups and corresponding control groups. Accordingly, these interventions are suited for impact measurement with experimental or quasi-experimental methods.

On the other end of the spectrum are those interventions which aim at improving the livelihood of the population in partner countries in a much more indirect way, by promoting economic growth or environmental sustainability. An example of such interventions is given by a project to support the building of a geothermal power plant, to relief energy shortages in a specific country with technology based on renewable energies. For this intervention it is impossible to conduct a rigorous impact measurement with experimental or quasi-experimental methods. Many more examples of interventions unsuited for this type of impact measurement exist, e.g. the introduction of a new national law to improve the business environment, the building of a trunk road to foster trade, etc.

Evaluations should help to improve intervention designs, and not the other way round: If the quality of intervention designs is judged by their suitability for rigorous impact measurement this could lead to a dangerous policy bias.

Microfinance is somewhere in the middle of the spectrum. Provision of financial services to people who formerly were excluded from access to formal financial services is not totally unsuited for impact measurement with a control-group design, but the intervention poses certain difficulties of impact measurement. Most prominently, measurement is prone to selection bias, as clients decide themselves whether they demand credit or any other financial service, or whether they abstain from using the service.

6. Improving Financial Literacy: A Case Study from Kenya

Johannes Flosbach, Bayreuth International Graduate School of African Studies and Roland Berger Strategy Consultants

Executive Summary

The consulting firm Roland Berger Strategy Consultants had the task to design a strategy for a financial literacy campaign in Kenya on behalf of a globally active NGO. The team identified the setup of the planning process and the availability and quality of a local partner as specific success factors for the client. Generally, the use of a multi-channel approach to impact awareness and understanding of the target group, as well as a concrete link to action were identified as success factors.

The potential impact of a literacy campaign was considered to be high. The analysis of media usage and the outreach of media channels led to the conclusion that the campaign should use TV as a lead channel. During the course of the field research the firm "The Media Company" was identified as an ideal partner. The company produces the popular soap opera "Makutano Junction", that has over eight million viewers.

A specific storyline on financial literacy is currently being included into the scripts for the next two seasons of the soap opera. Additional educational material is based on the campaign and distributed to financial institutions to link the soap opera with reality. Kickoff of the overall campaign is October 2012.

Assessing Global Best Practice

The analytical part of the project consisted of i) the review of international case studies for social communication campaigns, ii) the assessment of the financial sector in Kenya, iii) the analysis of communication channels to implement a mass communication campaign.

The review of case studies showed that social communication campaigns are being used to transport a variety of educational messages to target audiences. Awareness of HIV/Aids, basic knowledge of household hygiene, the importance for vaccinations or post-conflict reconciliation are common examples. Communication methodology and tools vary as well. Almost all mass campaigns use TV or radio as a lead channel, supported by selected other means like theatre, advertising material, SMS services, and growingly the Internet.

While most campaigns lack scientific impact assessment, it became clear that different communication channels and content formats speak to the different behavioural levels of the clients. Commonly, these levels are described as "awareness", "understanding" and "action". For the example of financial literacy "awareness" could refer to awareness of the existence of product offerings or the danger of over-indebtedness. "Understanding" refers to the capability to make informed decisions on the basis of access to and usage of information, for example in regards to the interest rate or loans. "Action" in financial literacy refers to measures like opening of a savings account or the smarter use of loans.

Justification for Financial Literacy Campaign in Kenya

Field research that was conducted in Kenya during February and March 2012 assessed the status quo of financial inclusion and literacy, media use and offerings, as well as the operational feasibility of running an efficient campaign in Kenya.

The two most relevant findings in the financial sector assessment justify the further campaign proceeding:

1. The number of people that use savings products has largely stagnated since 2009. A large share of the existing savings accounts is dormant. Increase of access points through agent and mobile banking has not translated into the expected uptake of savings services.

2. Hurdles for using a bank vary in their relevance. Those hurdles that reflect the access to a bank (real hurdles – "physical proximity", "no formal eligibility", "lack of documents", etc.) are reason for non-usage of a comparably small part of the population (about 10 %). Hurdles that reflect the literacy of clients (perceived hurdles – "irregular income", "banks are for the rich", etc.) hinder almost 70 % of the unbanked to open an account.

On the basis of these findings we conclude that the increase of financial literacy is expected to have a comparably large positive impact on the uptake of savings account openings and usage.

Media Usage in Kenya

Assessment of the media usage of the rural population showed that more than 90 % of the population individually own a radio. However, radios are primarily used for background music. Tuning in for specific shows, for example radio soap operas or educational programs, rarely happens. In addition, the radio industry is highly fragmented and over 180 radio stations cater to the over 40 languages used in Kenya. Especially the female rural population, which is the target group of the campaign, prefers the various vernacular stations.

While only 41 % of the population own a TV, 85 % watch TV on a regular basis. The targeted watching of TV shows is a common group event in rural areas – in restaurants, or at friends' and neighbours' homes.

Operational Feasibility

To implement a large-scale campaign an international organisation needs a strong and reliable local partner. In addition, the capacity for high quality production and broadcasting must be in place. For the specific case of this campaign the willingness of financial institutions to support the campaign was also defined as a necessity.
The research team shortlisted, met and interviewed several production firms and free lance producers. The experienced production firm "The Media Company" proved to fit best with the articulated requirements.

The Media Company was founded by " The Media Trust Fund", an NGO with a strong commitment to the enhancement of social and economic development through media

in 1997. The firm works with local writers, actors, researchers, NGOs, Government institutions and international donors to develop media campaigns. The company is the producer of "Makutano Junction", the most successful educational soap opera in East Africa, with over eight million viewers in Kenya alone. Other products include the farm improvement show "Shemba Shape Up" and "Know Zone", an educational program for the youth.

Campaign Design in Kenya

The campaign follows a multi-channel approach with the popular TV series "Makutano Junction" as lead medium. A savings campaign that is being introduced in the soap opera will at the same time be implemented by four partnering banks in their branches, using banners, posters and educational comics with the same branding as in the TV show. Viewers that use the text message service during the broadcasting of the show will receive campaign information and account opening forms by mail.

Partnering institutions will be provided with educational and customised CDs to use on the TVs of their branches or their field agents.

Outcomes of the Campaign

The TV show "Makutano Junction" has a loyal and growing audience of currently eight million viewers, who will be directly affected by the campaign. The storyline is currently (July/August 2012) being written, production will be done in September/October 2012 and the 26 episodes will be broadcast between November 2012 and April 2013.

Several measures to assess impact are being implemented:

- A pre-broadcasting and after-broadcasting population survey will measure knowledge and attitude in regards to the raised financial topics, differentiated by viewers and non-viewers of the series
- During the show, viewers have the chance to send text messages with their name and address. Further information material and branded account opening forms will be sent to those viewers and collected at the branches of the partner banks, when used for account opening
- During the campaign, partner banks will collect information on "Makutano Junction" viewership within new clients as part of their regular account opening questionnaires
- Still under discussion is the identification and tagging of dormant savings accounts by viewers and non-viewers to assess changes in usage frequency and balances

Results of the impact assessment are expected for June/July 2013.

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7. The Role of Governments in Promoting Transparency

Karen Losse and Matthias Minke, GIZ

Executive Summary

In this article, we look at the role of governments in promoting transparency in the financial sector of developing countries. In a first step, we will argue why transparency is an important cornerstone towards responsible financial inclusion. We will elaborate what governments, supervisory authorities and the industry itself can do to contribute to this process. Some examples of GIZ's work will illustrate what this can look like.

Following the global financial crisis, the call for consumer protection in financial markets is growing. Worldwide, policymakers are being asked to translate broad consumer protection principles into appropriate and applicable laws, regulations and enforcement mechanisms for financial services.

Low levels of transparency and information asymmetry found in developed and developing markets need correction. In financial markets, information provides power, and imbalances in power weaken financial systems. The low level of financial capability of consumers in developing markets only reinforces the information advantage of financial service providers. Transparency rules or disclosure regulations seek to create standardised and comparable information on prices, terms, conditions, and risks to consumers and supervisory authorities. For example, transparency rules can prescribe the presentation of information and the methodology for calculations made by financial service providers.

This usually voluntary adherence of financial service providers to transparency rules and other codes of conduct is a form of self-regulation. The challenge here is that not all MFIs always have the right incentives to be fully transparent. Moreover, MFIs and their associations often lack the capacity and mandate to formulate, monitor and enforce appropriate standards.

Self-regulation is one of three mutually reinforcing pillars of responsible financial inclusion:

1. industry self-regulation
2. consumer protection regulation
3. financial capability and consumer awareness

In the field of consumer protection regulation and supervision there is a need to ensure effective prudential regulation, which consists of a regulatory framework to promote the soundness of financial institutions and the financial system as a whole. Moreover, government can apply non-prudential measures, such as conduct of business regulation, disclosure norms enforcement and complaint mechanisms, to protect consumers from fraud. Government-enforced regulation plays an important role in facilitating market transparency. Given these needs it should be noted that often governments and regulators lack the capacity to enforce regulation and transparency.

The third pillar, financial capability is the combination of knowledge, understanding, skills and, most importantly, behaviour, which consumers need to demonstrate to make sound personal finance decisions given their economic and social circumstances. In general, a

distinction can be made between the case for improving financial literacy and the broader understanding and awareness of consumer behaviour and attitudes.

Financial literacy and education programmes conducted by GIZ and its partners aim at the consumers' understanding of financial products and concepts and their ability and confidence to appreciate financial risks and opportunities. The objective is to empower consumers to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being. Although transparency and disclosure norms may prevent consumers from being misled, basic education and information is necessary to help consumers make sound and informed financial decisions by themselves.

Achieving financial literacy is a challenging task in practice. In Ghana, GIZ and the Bank of Ghana are cooperating in the field of responsible finance. Besides activities to promote an effective supervision of MFIs the project is supporting local initiatives in conducting campaigns to foster financial literacy. The campaign is targeting adults and consumers of financial services via DVDs and radio messages. MFIs are trained in the area of customer care and protection. Moreover, the program is supporting the Ministry of Education of Ghana in introducing financial education in High School curricula.

In China, GIZ is supporting Chinese banks in implementing the so-called Ombudsman system. The project is conducted in cooperation with the German Banking Association (Bankenverband e.V.), the German Federal Financial Supervisory Authority (BaFin) and the Chinese Securities Regulatory Commission (CSRC). The Ombudsman system was initially designed in Germany as a mechanism to avoid tedious lawsuits in case of a disagreement of the consumer and the bank. Of course, the German system cannot simply be replicated and adopted by our Chinese partners. Taking legal and cultural differences into account, Chinese and German experts started in 2010 to meet on a regular basis to develop a tailor-made system which meets the needs of over 30 million private investors in China.

In Uganda, GIZ supports the Central Bank (Bank of Uganda - BoU) in developing and implementing consumer protection guidelines. The Bank of Uganda issued key principles of financial consumer protection, including fairness, reliability, transparency, and complaints handling. GIZ's advisory role included bringing in highly specialised experts, facilitating exchange visits with countries such as Malaysia and supporting the Bank of Uganda in keeping up the dialogue with the industry to ensure the applicability of the consumer protection guidelines.

8. Do Microfinance Clients Grow? Microfinance vs. SME Finance

Sophie Wiesner, ADA

Executive Summary

In the late 1980s, public and private investors began to move out of small- and medium-sized enterprise finance (SME finance) and into microfinance, disappointed by the impacts of the first and convinced of the potential of the second[1].

However, as practitioners soon started to point out and as researchers then confirmed, the "microfinance promise", i.e. the promise that microfinance is "a tool of extraordinary power to lift poor people – especially women – out of poverty, by funding their microenterprises and raising their incomes" [2]*, cannot be fulfilled. Promoting microfinance in this way is simply promising too much, and microfinance most often just helps to "fund self-employment activities that [...] supplement income for borrowers rather than drive fundamental shifts in employment patterns"* [3]*. So do we need a shift back from microfinance to SME finance? Or what impacts can and should finally be expected from microfinance and SME finance, respectively?*

This paper summarises the results of two empirical studies that concentrate on the question whether the clients of microfinance and the clients of SME finance "grow" and what determines the respective "growth patterns", linking the findings with a practitioner's point of view.

Micro-enterprises and Business Income Growth

In an empirical study, Charlotte Wagner and Adalbert Winkler from the Frankfurt School of Finance and Management focus on the question whether the business income of micro-enterprises increases after receiving a microloan and what determines this kind of growth.[4]

Their analysis is based on a dataset of 18,500 clients with a total of 63,080 loans obtained from a microfinance institution (MFI) in Sub-Saharan Africa over the period from 2000 to 2011.

Descriptive statistics focus on the monthly growth rate of an enterprise's business income, scaled by GDP per capita. It shows that MFI clients grow on average faster than GDP per capita, that the growth rate declines with repeated loans and that the smallest and the largest clients grow faster than large clients, with the growth advantage of smaller clients declining, however, with consecutive loans.

1 Von Pischke (1991)

2 Www.cgap.org (Frequently Answered Questions/ Does Microcredit Help Poor People?). This, however, is only one example of how the "microfinance promise" can be and is formulated by many.

3 Morduch (1999), p. 1610 ; See Duvendack et al. (2011) concerning the evidence on the impact of microfinance.

4 Wagner/ Winkler (2012). The present article refers to the presentation of Wagner and Winkler, as the mentioned study is still work in progress.

Business income growth as defined above, is the main dependent variable of the econometric analysis. The independent variables on the other hand, are several business characteristics (notably the initial size of the micro-enterprise when receiving the first loan) as well as certain borrower characteristics (above all, the business sector in which the borrower operates, as well as his age, gender and civil status). Furthermore, the study considers certain loan characteristics, such as the number of loans received or the loan use, the maturity of the loan and the interest rate of the loan. Finally, the study takes into account some loan officer characteristics, like their experience in terms of the number of loans handled.

The box below highlights the key findings of the econometric analysis as elaborated above.

Findings Wagner and Winkler (2012), p.32

- *MFI clients grow on average faster than GDP per capita.*
- *The smallest and the largest clients grow significantly faster than large clients.*
- *Growth rates decline over time, with loan repetition.*
- *The decline of growth rates is most pronounced for clients with low initial income.*
- *Income growth is more pronounced when loans are used to finance fixed assets.*
- *There are no income growth differences among sectors.*
- *These findings are robust when growth is measured in terms of the monthly growth rate of an enterprise's business income, scaled by GDP per capita, but not when measured in terms of employment/job creation.*

Dörte Weidig from the Internationale Projekt Consult GmbH (IPC), confirms some of the conclusions mentioned above from a practitioner's point of view. In her intervention at the University Meets Microfinance (UMM) Annual Workshop 2012 she points out that in the experience of IPC "[Microfinance clients] grow with the first loan; repeated loans don't trigger any further business growth, but can improve the living standard of the household". And she continues: "Few [micro-businesses] grow such that they become small businesses." [5]

Nevertheless, even if we should not expect microfinance to lift poor people out of poverty or to make all micro-enterprises embark on a path towards becoming market leaders, there still seems to be a role for microfinance, or more precisely for microcredit, in economic development. In this context, the study by Wagner and Winkler suggests that microcredit can be expected to contribute to the growth of the smallest and the largest micro-businesses in an initial phase and especially when used to finance fixed assets.

These findings raise the question whether this is also true for SME finance? What is the growth potential of small- and medium-sized enterprises? And what are the determinants of their growth?

5 Weidig (2012), p. 8

SMEs and Job Creation

Barkan Baybogan and Rainer Fitz from the International Advisory Services of the Frankfurt School of Finance and Management, address some similar research questions in their evaluation of the Turkish Small Enterprises Loan Programme II (SELP II)[6].

SELP II was initiated by the European Union and is currently implemented in co-operation with the Turkish Treasury, the Council of Europe Development Bank (CEB), the KfW Development Bank, as well as with technical assistance from the International Advisory Services of the Frankfurt School of Finance and Management. It aims at supporting the Turkish Government's policy towards job creation and labour market stability, as well as towards SME development, by extending loans of 11,000 EUR on average to SMEs via different banks.

Findings Bayboğan and Fitz (2011), p.31

- *The loan amount as an independent variable seems to be relatively insignificant in improving the prediction probability of whether a job is created or not.*
- *If the loan purpose is , "Working capital only", the probability of creating additional jobs is greatest.*
- *If the loan purpose is, "Fixed Assets only", the probability of creating additional jobs is lower.*
- *If the loan purpose is ,"Fixed Assets and Working Capital", the probability of creating additional jobs is smallest.*
- *These findings result from the application of a logistic regression model for the prediction of the probability of job creation.*

For their study Baybogan and Fitz use the SELP II database, recording 12,648 loans to SMEs from 4 commercial banks in 49 provinces of Turkey between 2009 and the end of 2010. Baybogan and Fitz apply a logistic regression model in order to predict the probability of job creation, testing for the influence of different independent variables.

Contrary to what might have been expected, the key findings of Baybogan and Fitz are the following:

As Baybogan and Fitz underline, one interpretation of these conclusions might be that the effect observed is due to the small size of the loans disbursed in SELP II, another might be that the companies sampled have actually asked for working capital loans, but then used the funding for fixed assets. Only further research could settle this issue and allow for clearer conclusions concerning the specific conditions under which SME finance has effects on SME growth.

However, the conclusion that, given certain conditions, SME finance does have effects on SME growth in terms of job creation can, again, be confirmed from a practitioner's point of view.

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6 Baybogan/ Fitz (2011)

As Dörte Weidig states in her intervention at the UMM Workshop: While many micro-enterprises are « survivor type » businesses, with less than three employees and often self-employment only, small- and medium-sized businesses, also showing a higher degree of formalisation and professionalisation, as well as a higher degree of entrepreneurship or business management capacity, are "growing family businesses" with more than three employees and with a higher potential of creating further jobs (both internally and externally).

Finally, in IPC's experience, this potential can be exploited when the SME's growth projects are supported, i.e. when the SME's financial and technical assistance needs are served[7].

Microfinance and SME Finance for Growth

As Weidig underlines, it is actually very hard to characterise the groups of micro-, medium-, and especially of small-sized enterprises, as there is a large variety of them, with very different structures, products and service offers, and also with very different funding and technical assistance needs. In practice the questions of whether and how exactly to support the entities that finance them, i.e. microfinance entities as well as SME finance entities, therefore always have to be answered on the basis of an individual and critical assessment[8].

On the one hand, this means tailoring to the institution's specific needs, but on the other hand, it also means considering whether the institution's approach is responsible from the perspective of the overall sector development.

In regards to microfinance Weidig reminds us that in the past years competitive environments have led to an extension of target groups, also including people "who were not and will never be entrepreneurs". When (i.e. if at all) repayment capacity was calculated, salary income of employed family members, as well as remittances were included in the calculation, justifying loans which then did not flow into small-sized businesses, but more likely into small-scale consumption, and which put a high number of borrowers or their family members into debt. The same is true with respect to SME finance. As Weidig emphasises, "still too few SME finance entities have committed to a responsible SME banking approach because of low cross-selling opportunities, a labour-intensive lending process and the necessary institutional learning process". And she continues: "The very high NPLs [non-performing loans] in the SME sector in many markets show that many banks have sent a lot of SMEs into bankruptcy" [9].

What does this mean for our initial question "Do clients grow? Microfinance vs. SME Finance" ? Well, above all it means that contrary to what is often assumed, there is no "conflict" between microfinance and SME finance in the sense that we should rather turn to microfinance and not to SME finance or vice versa, because only one and not the other has any effects on growth[10].

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7 Weidig (2012), p.10

8 Weidig (2012), p.7, pp.12-13

9 Weidig (2012), pp.12-13

10 Bateman (2010) and David Rodman's Open Book Blog at http://blogs.cgdev.org/open_book/2010/08/why-doesnt-milford-batemans-book-work.php

Obviously both, microfinance and SME finance matter in economic development under certain (but mostly different) conditions. This is suggested by the empirical study of Wagner and Winkler, as well as by the analysis of Baybogan and Fitz, and it is also exemplified by the IPC's involvement in both the microfinance as well as the SME segment. As Weidig puts it, an organisation such as IPC "invariably seeks to implement sustainable structures", whether by supporting financial institutions that serve micro-enterprises or by supporting financial institutions that cater to small- and medium-sized enterprises. And as one might add: that is because, in fact, clients do grow, with the help of microfinance and with the help of SME finance.

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9. Investing in Microfinance: Benchmarking Microfinance Investment Funds

Julia Meyer, University of Zürich

Executive Summary

The presented paper provides a comprehensive overview on the microfinance investment market. Using a unique dataset of 28 funds, the microfinance investment universe is analysed in detail within the calculation of a benchmark and the comparison to other asset classes.

The data situation allows the calculation of two indexes, one for US Dollar debt funds and one for EUR debt investments. The comparison of the performance of the two MF indexes to SRI and commercial equity and debt indexes indicates the persistence of considerable diversification possibilities. Furthermore, the indexes show strong independency of the financial crisis in 2008 and low performance volatility in general.

Current Data Situation in the Microfinance Investment Market

To date "Microfinance" as a part of the asset class SRI (socially responsible investment) is still at its early stage. The amount of assets invested in microfinance is constantly rising and reached USD 6.42 billion in 2011 but transparency still poses a challenge (CGAP (ed.), 2010b, 16). For research projects the most important challenge is the lack of transparency and timely data availability on microfinance institutions (MFIs) and especially Microfinance Investment Vehicles (MIVs) (O'Donohoe et al., 2009, 1 and J.P. Morgan/CGAP, 2010, 10). Despite some recent effort in the form of online reporting platforms, no generally accepted key performance indicators or benchmarks for the microfinance investment sector exist.

Why the Calculation of a Benchmark?

The earlier reported weakness of reporting and governance standards in microfinance (Pouliot, 2005, 149) is still prevailing and leading to difficulties when comparing investments. Some funds regularly provide investors with information within a factsheet; however, information provided is difficult to valuate and interpret because of the lack of benchmarks and regulation. When it comes to reaching decisions, potential as well as existing investors typically rely on benchmarks, such as the Money Market Index, MSCI Emerging Markets and others.

Furthermore, an index helps comparing different investment possibilities within an asset class as well as correlations to other asset classes (Lhabitant, 2008, 488). The existing benchmark SMX (Symbiotics Microfinance Index) shows certain shortcomings, which I try to control for by including all existing funds. Meaningful performance information is particularly important in microfinance, as return assessment is complex due to the duality of social and financial factors. Furthermore, because microfinance shows attributes of an alternative asset class, investors can expect diversification effects by adding microfinance to existing portfolios. Nevertheless, the attraction of new clients and investors by illustrating recent data is particularly important within a rather innovative sector. The

design of an optimal benchmark has the aim to provide a comprehensive picture of large parts of the referring market while including comparable investments. I therefore base my examination on special features of microfinance investment funds in order to assure the consideration of similar funds in the index calculation.

Empirical Approach

Because detailed data on individual MIVs were not available, I elaborated a questionnaire and distributed it to 104 fund managers in October 2011. The aim of the survey was to gather informative data on fund structures, portfolio and performance.

For the index calculation, I use absolute day-to-day total returns (%) provided by funds respectively Bloomberg on a monthly base. By cumulating monthly returns I calculate the index starting with a base value of 100 in December 2003. The level of the index at each point in time reflects the performance of the included funds relative to the particular base period (Bos, 2000, 11). I apply the following two methodologies of index calculation: Weighted by total assets 2010 and equally weighted.

Results

Based on the feedback of the fund managers and data availability in Bloomberg, I calculate two indexes representing both investments in USD and EUR. I find positive average returns of the funds reporting in EUR for all months observed between 2004 and 2011 and for the ones in USD for all except two months. Interestingly in 2008, when the turmoil caused by the financial crisis started to show its effects worldwide, the average performance of the EUR-MFIFs was larger than in all other years. Overall, the results show slightly lower performance of both indexes in contrast to the SMX.

The comparison of the MF index to commercial and SRI indexes shows major differences in volatility and performance development. Debt investments in microfinance exhibit no correlation to SRI or commercial equity indexes. Interestingly, the analysis of the emerging market debt index (JP EMBI) leads to similar results, whereas the JP Morgan Global Government Bond Index shows a rather comparable performance pattern. The fact that the crisis is so far not seriously reflected in the funds' performance is interesting from an investors' perspective. However, the results need to be analysed with caution as the crisis might have a lagged impact on the funds' performance.

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Existing Data Bases on Microfinance Investments:

- http://www.luminismicrofinance.com/
- http://www.nachhaltiges-investment.org
- http://www.syminvest.com/
- https://yoursri.com/

10. Fighting Poverty in Mexico Through Microfinance Non-Financial Services

Olga Biosca, University of Sheffield

Executive Summary

Microfinance non-financial services have been reformulated as high quality demand-led programs. In the Mexican context, these are now voluntary, can be delivered at a cost and are frequently supplied in partnership with specialised public or private agencies. Using primary data from a survey of clients of two credit-plus programs in Chiapas, this paper examines and compares the participation determinants and impact of the training sessions on monetary poverty outcomes of the borrowers. We focus on two specific programs: Business Development Services and Preventive Health Services. Results suggest that the participation decision mainly depends on borrowers' characteristics. Nonfinancial services are found to reduce the clients' likelihood of being under the asset poverty line.

Context

A large proportion of MFIs have implemented successful integrated programs in which credit is linked to education and other Non-Financial Services (NFS) for the past few decades. These "plus" programs are widely heterogeneous. They can be classified into:

- Social-related services: health education, maternal and child healthcare, literacy, etc.
- Micro-entrepreneurial development services: financial and business training and technical assistance.

The main motivations for the supply of non-financial services by micro-lenders are:

- Improving the returns to borrowers' investments
- Diminishing the risk of the loan being diverted from productive to consumption activities
- Reducing the likelihood of default (Marconi and Mosley, 2006)

Literature

In the early days of microfinance practically all MFIs supplied to their borrowers compulsory training and education programs. However, during the 1990s, the increasing pressure from multilateral donors to specialise in microfinance activities and concentrate on financial sustainability, contributed to phase out many of these integrated microfinance projects (Goldmark, 2006). Since then, efforts have increasingly focused on cost-effectively overcoming the rigidities and inefficiencies of the first-generation 'credit-plus' models and creating links between the borrowers and the service providers in order to enhance microfinance's impact (Sievers and Vandenberg, 2007). As a consequence, NFS have been substantially improved.

Mexican MFIs, in which this process has been stimulated by competition, have succeeded in considerably reducing the main disadvantages of bundled human capital products.

The academic literature does not present clear evidence that NFS contribute to poverty alleviation objectives. McKernan (2002) is responsible for a pioneer study aiming to gauge the separate impact of non-financial program aspects using cross-sectional data of over one thousand households that received microcredit in Bangladesh. Her aim was to disentangle which part of the positive effects of microfinance was exclusively due to the loan and which to the other procedures used in group-lending methodologies. She finds positive non-credit effects in self-employment profits of borrowers. Smith (2002), in his impact analysis of health training on the expenditure levels of Project HOPE's borrowers in Ecuador and Honduras, finds mixed results.

Similarly, Karlan and Valdivia (2011) find no significant positive impact of a Peruvian business development program on key outcomes of FINCA borrowers, such as business revenues and profits. However, both of these last studies do find positive added impact of NFS on specific objectives of the training programs such as breastfeeding or business practices, respectively.

Method

The hypothesis that NFS have positive impact on income and monetary poverty levels of borrowers is tested using a special survey conducted in Chiapas, Mexico, to 434 clients of two different MFIs, Alsol and Conserva, taking advantage of the design and progressive supply of NFS: Business Development Services (BDS) and Preventive Health Services (PHS).

Following Coleman (2006), two groups of borrowers were initially identified. The first group was eligible to receive the credit-plus programs and participants and non-participants could be observed in it. The second group was not currently eligible to participate in NFS but was about to be given access and the groups of would-be participants and non-participants had already been formed by the MFIs. The ineligible group was used as a control group, presenting the additional advantage that the selection process could also be observed in it.

This special setup allows us to control for the endogeneity bias. The appropriate identification strategy for this approach is difference-in-difference (DiD) estimation.

Empirical Findings

Findings can be structured in two areas:

- Our findings show that participation in NFS depends on borrower-related factors more than on characteristics of the programs. Individual socio-economic characteristics that are found to determine participation tend to differ between types of NFS, which should be taken into account in the designing process.
- Significant poverty alleviation impacts of NFS were identified around the asset poverty line. No significant differences were observed between the impacts of the two non-financial programs, though BDS seems to drive the results.

Policy Implications and Product Design

An interesting contribution to the literature is that the beneficiaries of the Oportunidades program are more likely to participate in NFS. This finding reveals unexplored synergies between public and private poverty alleviation programs, suggesting that coordinated actions between MFIs and governmental social departments might contribute to reach the targeted populations more efficiently and cost-effectively.

Results show that the impact of NFS on poverty alleviation depends on the measure that is used. There is evidence of significant poverty alleviation impacts of NFS around the asset poverty line, i.e. for the better-off clients within the sample. However, in practice, NFS frequently target the poorest borrowers of the MFIs as these are thought to take more advantage of this type of intervention. According to these results, redefining the target groups who will most benefit from these non-financial programs might be necessary.

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11. Can Introducing Social Performance Management Help a Microfinance Institution to Better Achieve the Social Mission?

Martin Schellhorn, Solvay Brussels School

Executive Summary

Sustainable development has become a, if not the major issue for most economic players today. Not least the current economic and financial crisis in Europe demonstrates that it is not enough to merely pursue financial performance, but it is just as important to look at social performance. In order to achieve sustainable development, however, continuous measurements and monitoring of social performance is needed. Despite the social mission being at the core of most MFIs, it is only after the first signs of crisis appeared in the microfinance sector, that an increasing number of Microfinance Institutions (MFI) started to make use of social performance measurement tools, as witnessed by an increased use of social reporting tools. The objective of the present study is to explain why, in the light of commercialisation, managing social performance is important and to see how it can best be managed. The results are highlighted with findings from a case study at a Vietnamese MFI, where the Social Performance Indicator (SPI) tool by CERISE was applied. The study shows the benefits of SPM and that of SPI as a very valuable tool for MFIs in order to measure and improve their social performance, giving interesting insights on stakeholder involvement additionally.

Methodology

The chosen methodology, a case study, is the preferred method when the questions are "how" and "why". It is used when wanting to understand complex social phenomena. In this research an illustrative case study will be analysed, using descriptive theory from the literature review to complement empirical findings, collected during a field-internship at the Vietnamese MFI TYM. By collecting opinions of different individuals and from different sources for the research, the study is equivalent to a collective case study, allowing to generalise the findings for a bigger population. Nevertheless, using a single-case design, caution has to be applied when making generalisations (Tellis 1997), especially since MFIs can have very different characteristics.

To answer the main research question, three sub questions were chosen:

1. "How did commercialisation influence the achievement of MFIs' social mission?"

2. "How can social performance best be managed?"

3. "Why SPM?" (Illustrated by the case of TYM)

To evaluate the social performance during the field-internship, the SPI-assessment tool was used. According to Yin (1994: 98-99), it is essential for case studies to make use of a variety of data collections ("triangulation") in order to have a more convincing conclusion. In this study, the collection methods for the SPI assessment included interviews and surveys with the target group being the CEO, staff, board of members, investors and

clients.

Results and Main Findings

1. "How did commercialisation influence the achievement of MFIs' social mission?"

On one hand, commercialisation can improve the efficiency of MFIs and make them more transparent, allowing for benchmarking on the MIX (Microfinance Information Exchange) for financial as well as social performance. On the other hand, there are many negative consequences, especially with a situation of increased competition, as witnessed during the microfinance crisis. These negative consequences can however be curtailed when applying good governance with strict budget constraints, appropriate staff incentives (Morduch, 2000: 627) and the application of stakeholder theory in the governance of MFIs (Rhyne, 2010).

2. "How can social performance be managed best?"

Managing social performance can best be achieved by setting objectives based on the social mission, monitoring and assessing the progress towards the achievement of these goals and by using the information from the assessments to improve the overall organisational performance. As a self-regulatory mechanism, SPM is better suited than compulsory government regulation in motivating companies to improve and monitor their social mission. The SPI tool developed by CERISE was particularly useful for the assessment part, because it can be conducted as a self-assessment, even when applied for the first time, enabling the MFI to see where they could make improvements and to self-evaluate their progress towards a better social performance. The SPI tool looks at the 4 dimensions defined by the SPTF, with a multitude of questions and a sub-score for each dimension, as well as a final score which allows the MFI to evaluate itself. It mixes quantitative with qualitative data, with many questions being able to serve as benchmark (i.e. by looking at the suggested answers). It also gives many hints as to where it would be useful to collect more data. The findings from the SPI assessment gave many inside views into TYM's operations that otherwise would have been difficult to explore, providing an excellent opportunity to test the theories from the literature review on social performance management and to explore other important findings.

3. "Why SPM?" (Illustrated by the case of TYM)

Social performance management is a good way for an organisation to pursue and maintain its social mission in a self-regulatory manner. It can even be more efficient than external regulation due to better staff motivation etc. In order to measure and continuously monitor social performance, the SPI-assessment tool is considered the most appropriate one, according to CERISE and SEEP.

Results of the SPI at TYM

The SPI-assessment revealed that TYM has effective governance, mainly thanks to the strong involvement of its stakeholders. TYM's client focus, for instance, is benefiting TYM in many ways. Communication links between clients and management are very strong, with a member council participating in the decision-making of TYM, client grievance mechanisms and the conduct of client-exit surveys. Putting much emphasis on the repayment capacity of its clients, TYM is benefiting both its clients - that are less inclined

to become over-indebted – and itself, by receiving less default payments. TYM's focus on its clients is also central, when developing its products. Market research is conducted to find out the product requirements of clients. In order to suit the individual needs of the clients, three different loan products are offered, with the possibility of choosing different durations. When client feedback or an exit survey reveal that a product is not adequate or that collection practices are too burdensome, new products are launched and services improved.

TYM's staff is equally involved in TYM's governance. Regular staff satisfaction surveys monitor if staff expectations (an interesting and stable workplace with fair treatment) continue to be met. In addition, staff members enjoy all legal social rights and receive many additional benefits, such as uniforms, children's festivals and company trips, as well as a performance based bonus system. TYM also has a clever remuneration policy that gives an incentive to staff to stay for a long time, using a mix of short-term and long-term incentives. At the same time, TYM can also count on a high productivity of its staff in collecting and disbursing loans. Finally, the investors and the owner have a strong commitment to TYM's social mission and a strong interest in good social performance. The latter is also a precondition for their continued support, as determined in lending regulations.

In summary, TYM's major driving forces for good governance can be accredited to a combination of incentives to focus on the needs of the clients ('carrots') and the pressure exerted by stakeholders with the same social mission ('sticks' or reinforcement). Strictly following the demands of stakeholders also gives TYM a competitive advantage to develop additional skills, difficult for its competitors to imitate. Similarly, transaction costs can be lowered when cooperating closely with the stakeholders, apart from bringing other soft benefits like improved loyalty, better motivation of staff and a better understanding of the entire value chain for the MFI.

Conclusion

The study demonstrates that social performance management is a good way for an organisation to pursue and maintain its social mission in a self-regulatory manner. It can even be more efficient than external regulation due to better staff motivation etc. In order to measure and continuously monitor the social performance, SPA tools prove to be most convenient, not least due to the possibility of applying them as a self-assessment and due to their cost-effectiveness.

Furthermore, the general results of the SPI are consistent with previous impact assessments and social ratings at TYM, suggesting that TYM could also decide to replace its external evaluation with an assessment tool. Despite the external evaluation giving some more specific insights into the effects on poverty, the same could be achieved with the SPI when supplementing it with a Progress out of Poverty Index (PPI).

Nevertheless, caution has to be applied when using the SPI score as a benchmarking tool to further improve social performance, as the indicators generally do not account for regional differences. It is therefore always necessary to look at the results within the context in which the MFI is operating. TYM, for instance, was facing little influence from regulation and competition.

Finally, with the transformation process to become a licensed MFI, TYM underwent many

changes with potential influence on its performance. On the positive side, the possibility of allowing in more shareholders and taking loans from more commercial sources can create pressure to decrease costs. On the negative side, the profitability will be reduced by a 25% tax levy, while local authorities impede TYM from raising its interest rates. Free technical assistance or donations therefore will continue to play an important role in ensuring good social performance at TYM.

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12. Measuring the Impact and Viability of Nonbank Microlending

Nargiza Alimukhamedova, CERGE-EI and Charles University in Prague

Microfinance is the non-standard provision of a broad range of financial services such as collateral free loans, saving deposits, insurance, remittances, leasing and money transfers to low-income households that are used to support family business or productive activities. Despite the wide recognition of microfinance since its birth in the 1970s, it is still astonishing that there is little reliable evidence on its positive impact. The first major obstacle is a lack of reliable data, while the second stems from flaws in robust methodology (Armendáriz and Morduch, 2010). Moreover, an "evaluation gap" has emerged because governments, donors and other industry stakeholders do not demand or produce enough impact evaluations and because those that are conducted are often methodologically constrained. This calls for advanced techniques of microfinance program evaluation and broader country evidence.

Recent changes in the microfinance landscape are characterised by client over indebtedness and MFI failure in India (in 2010), Bosnia and Herzegovina (in 2009) and Bolivia (in 1999) due to commercialization and signal that canonical microfinance models do not work. Critics of microcredits suggest that job creation that boost economic growth and hence reduces poverty is better done by larger enterprises defined as small and medium enterprises (SMEs) (Karnani 2007). The original model of Mohamed Yunus assumed that small, informal microenterprises supported by microloans can be unlimitedly absorbed by weak local economies of developing countries. However, judging from general equilibrium effects, this microfinance model was doomed to fail. Being tiny, unskilled, informal start-ups, these microenterprises eventually did not have enough capacity to scale-up, diversify and innovate, leading to an unproductive underdeveloped economy and creating negative externalities to existing productive businesses (Bateman, 2011). The strategy of development economics is to focus on middle level, growth-oriented SMEs, the so-called missing layer. These models have been already proven to be successful in European countries such as Italy, Germany and Scandinavia where growth oriented, productive microenterprises integrated promptly into supply chains, innovated and scaled-up with the support of state, trade unions and larger corporations (Bateman, 2011).

Proposed research thus contributes to a general body of microfinance and development finance literature testing the viability of the mid-level, growth oriented SME lending model as opposed to the donor reliant, canonical microfinance model. The methodology is based on a novel approach for impact assessment which is based on a combination of propensity score matching and retrospective data collection when no panel data is available or when an experimental solution is not viable. The primary motivation for using a retrospective approach vis-à-vis experimental intervention is based on the fact that accurately measuring program impact has historically been logistically difficult, time consuming, and costly. Many institutions would like to evaluate the effectiveness of their programs ex-post to implementation, which creates problems with the establishment of baseline surveys, control groups, and other means of identification. To address these issues, we extend a one-shot cross-sectional survey with retrospective questions to capture respondents' pre- and in-treatment experiences on changes in discrete, memorable "fundamental events" in their history. Based on collected data, a dynamic panel is re-

constructed, allowing for inference on how changes in fundamental events are affected by microfinance participation. In other words, a dynamic retrospective panel setting enables us to go beyond finding simple differences in people's lives with and without microfinance - which is generally found very marginal – but rather to focus on a much more informative agenda of answering who is being served by microfinance and how it is working.

Obtained results find the support for market segmentation and a particular niche hold by two types of non-bank microfinance institutions (MFIs). As such, microcredit organizations (MCOs) serve the lower end segment of the population thus confirming the social objectives. Credit Unions (CUs) serve higher profile consumers though no impact is detected on business profit indicators. This implies that lending mechanism matters. We also observe the substitution on the market between formal (i.e. non-bank MFIs) and informal (i.e. relative, friends, connections) source of lending which confirms the theory of missing markets (Tirole 2006; Holmstrom and Tirole 1997).

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ANNEX I: Photo Gallery

ANNEX II: Workshop Program

8th University Meets Microfinance
Workshop of the e-MFP Action Group
University Meets Microfinance

Microfinance in crisis?
Impact and financial transparency

Frankfurt School of Finance & Management, July 19th - 20th
Sonnemannstrasse 9-11, 60314 Frankfurt am Main, Germany

Thursday, July 19th

Time	Programme	Room
2:30 – 3:00 pm	*Registration*	
3:00 – 4:30 pm	**Opening and Welcome** Adalbert Winkler, Frankfurt School of Finance & Management (Center of Development Finance) Sven Volland, PlaNet Finance Deutschland e.V.	Audimax
	The Impact of Microfinance James Copestake, University of Bath	
	Transparency in Microfinance – the client perspective Chuck Waterfield, Microfinance Transparency	
	Plenary Discussion	
	Moderation: Adalbert Winkler, Frankfurt School of Finance & Management (Center of Development Finance)	
4:30 – 5:00 pm	*Coffee break*	
5:00 – 6:30 pm	**Discussion in small groups**	
	Group A – The role of governments in promoting transparency Input by Karen Losse, Senior Advisor Financial Systems Development, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH Comment by Chuck Waterfield, Microfinance Transparency	Room 2
	Group B – Impact Assessment – Practical vs. theoretical approach Input by Bernd Balkenhol, Université de Genève Comment by Sylvia Wisniwski, Finance in Motion	Room 3
6:30 pm	*Cocktail*	

The workshop is made possible thanks to the financial support of:

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ANNEX II: Workshop Program

Friday July 20th

Time	Programme	Room
10:30 – 11:15 am	*Registration*	
11:15 – 12:45 pm	**Introduction** Susanne Dorasil, German Ministry for Economic Cooperation and Development (BMZ) **Impact & Transparency – The investor's perspective** Eva Terberger, University of Mannheim Christian Etzensperger, responsAbility Matthias Adler, Kreditanstalt für Wiederaufbau (KfW) **Plenary Discussion** *Moderation:* Aurélie Feld, PlaNet Finance	Audimax
12:45 – 2:00 pm	*Lunch*	
2:00 – 3:30 pm	**Presentation of students' research**	

Group A - Room 2
Moderation: Aurélie Feld, PlaNet Finance

- Nargiza Alimukhamedova, CERGE-EI Prague, "Measuring the impact and viability of nonbank microlending"
  Comment by: Davide Castellani, Università degli Studi di Bergamo
- Olga Biosca, the Universidad Europea de Madrid, "Microfinance non-financial services in Mexico: Design and Impact"
  Comment by: Eliane Augareils, PlaNet Finance

Group B - Room 3
Moderation: Eva Terberger, University of Mannheim

- Martin Schellhorn, Solvay Brussels School, "Introducing Social Performance Management to better achieve the social mission – The Vietnamese case of TYM"
  Comment by: Juana Ramirez (e-MFP)
- Julia Meyer (PhD), University of Zurich / Center for Microfinance ,"Benchmarking Microfinance Investment Funds"
  Comment by: Christian Etzensperger, responsAbility
- Johannes Floßbach (PhD), Bayreuth International Graduate School of African Studies focuses / Roland Berger, "Financial Performance of Microfinance Institutions in Ghana and Uganda"
  Comment by: Roland Knorren, Consultant to Accion

Time	Programme	Room
3:30 – 4:00 pm	*Coffee break*	
4:00 – 5:30 pm	**Discussion with practitioners**	
	Group A: Do our clients grow? - Microfinance vs. SME Finance *Moderation:* Sophie Wiesner, ADA Charlotte Wagner and Adalbert Winkler, Frankfurt School of Finance & Management Dörte Weidig, Internationale Projekt Consult (IPC) Rainer Fitz, International Advisory Services	Room 2
	Group B: Transparency – Microfinance Transparency Initiatives in Africa *Moderation:* Juana Ramirez, European Microfinance Platform (e-MFP) Eliane Augareils, PlaNet Finance Natacha Seker, African Microfinance Transparency Forum (AMT) Johannes Flosbach, Roland Berger Strategy Consultants GmbH	Room 3
5:30 pm	*Cocktail*	

ANNEX II: List of Participants

Adler, Matthias; KfW
Augareils, Eliane; PlaNet Finance
Baena de Dios, Maria Pilar; Universidad San Pablo CEU
Balkenhol, Bernd; Université de Genève
Bano, Suriya; Plan international Pakistan
Bartz, Wiebke; Frankfurt School of Finance & Management
Beer, Volker; Freelancer
Bensoussan, Pauline; PlaNet Finance
Biosca, Olga; University of Sheffield
Bongolomba, Jacques; Sorbonne Paris
Breuer, Agnes; Private
Camara, Fatoumata; Solvay Brussels School
Castellani, Davide; Università degli Studi di Bergamo
Claudel, Julie; PlaNis
Copestake, James; University of Bath
Cosa, Laura; PlaNet Finance
Crux, Assunta; University of St. Gallen
Czura, Kristina; Goethe University Frankfurt
Daviaud, Eva; Private
De Inza, Marta; Universidad San Pablo CEU
Dhital, Rajendra; CSD Nepal
Domingo Bravo, Guillermo; Universidad San Pablo CEU
Dorasil, Susanne; BMZ
Etzensberger, Christian; responsAbility
Feddersen, Marietta; Finance in Motion GmbH
Feld, Aurélie; PlaNet Finance
Fitz, Rainer; International Advisory Services
Flierman, Wilco; University of Amsterdam
Floßbach, Johannes; Bayreuth International Graduate School of African Studies
Forkusam, Akem Noela; University of Oldenburg
Garve, Christian; KfW
Gashevska, Mirjana; Savings House Moznosti
Glücker, Judith; Frankfurter Allgemeine Zeitung
Golovina, Tatiana; Financial University under the Government of the Russian Federation
Gross, Roland; GIZ
Haug, Ulrike; Oikocredit Deutschland
Herrera, Beatriz; University of Göttingen
Huber, Claudia; GIZ
Huppert, Johanna; PlaNet Finance
Hussain A.H.M., Belayeth; University of Kassel
Jackson, Cornell; University of Greenwich
Jones, Juliane; FS Summer School
Kaluba, Joe Mwansa Lombe; Goethe-University Frankfurt
Kessler, Hansjörg; Social Business eG
Kirchgässler, Benedikt; University of Munich
Knorren, Roland; ACCION International
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Meister, Rüdiger; Akademie Deutscher Genossenschaften
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Meyer, Julia; University of Zurich
Moore, Gal; Private
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Neuhaus, Inga; Maastricht University
Nguyen, Thi Huong Tra; University of Cologne
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Odoemenam, Franklin; University of Bielefeld
Ogidan, Steve; Global Knowledge Consulting Group
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Poser, Christina; GIZ
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Schulte, Markus; ConCap Connective Capital GmbH
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Steidl, Michael; KfW
Terberger, Eva; KfW
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Vasquez-Caicedo, Gloria; Saarland University
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Waelde, Helke; KfW
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Waldschmidt, Sophie; GIZ
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Weidig, Dörthe; IPC
Wiesner, Sophie; ADA
Winkler, Silvia; Oikocredit Hessen-Pfalz
Winkler, Adalbert; Frankfurt School of Finance & Management
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