Microfinance Impact Evaluation: A Managerial Perspective

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Introduction to Impact Evaluation

Impact evaluation has been a popular method for the assessment of various policy, project or program level interventions. It has a wider application in social science domain where it is a preferred method of evaluation of the changes brought by a particular development intervention.

Before we proceed further let us first discuss the definition and meaning of the term "Impact Evaluation". The term Impact Evaluation (hereafter referred to as IE) throughout the discussion will be in the context of any development intervention; esp. Microfinance.

The term is made up of two discrete yet important words of the research parlance. The first one i.e. Impact refers to the change affected by a development initiative whereas Evaluation is the measurement of the nature and magnitude of that change, and happens to be the most challenging part of any IE exercise.

Asian Development Bank defines IE as an assessment of how the intervention being evaluated affects outcomes, whether these effects are intended or unintended. The proper analysis of impact requires a counterfactual of what those outcomes would have been in the absence of the intervention [1].

This definition brings to the light a yet another important term called counterfactual. Put simply a counterfactual simply means contrary to a given fact. In the context of IE it refers to a scenario of complete absence of the development intervention put under study with other conditions remaining the same. This involves counterfactual analysis, that is, "a comparison between what actually happened and what would have happened in the absence of the intervention [2].

Here it is important to note that counterfactual analysis is different from *scenario analysis* which focuses on possible future outcomes rather than actual outcomes. It is also different from 'before & after' state of affairs of any development initiative which is captured by multi-variable *longitudinal studies* being typically linear in approach.

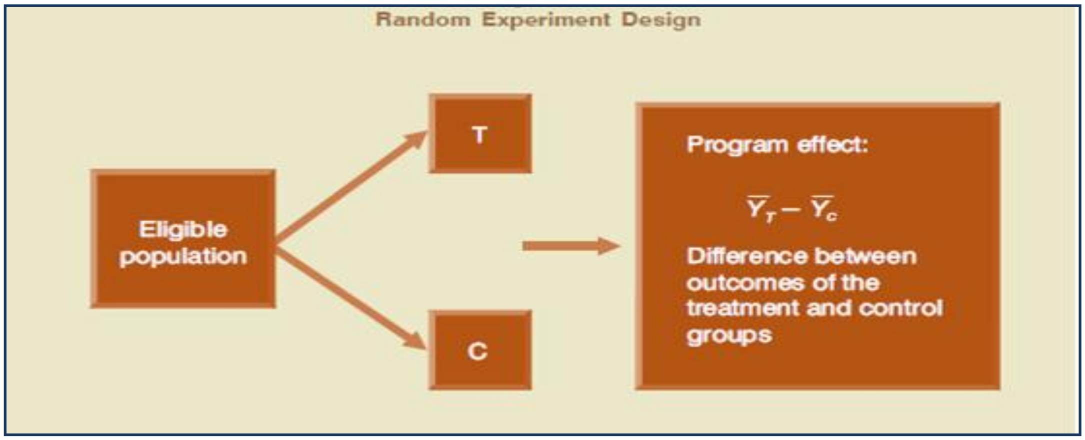
Accurately determining the counterfactuals play a key role in the whole research design process and there can be several design methods to approach IE depending on the nature of the intervention to be evaluated. IE designs are identified by the type of methods used to generate the counterfactual and can be broadly classified into three categories – experimental, quasi-experimental and non-experimental designs – that vary in feasibility, cost, involvement during design or after implementation phase of the intervention, and degree of selection bias [3].

IE in the context of Microfinance is mostly based on experimental design commonly known as **Randomized Control Trials** or **RCTs**.

RCTs are studies that measure an intervention's effect by randomly assigning individuals (or groups of individuals) to an intervention group or a control group. An intervention or treatment group is a set of randomly selected participants who are the target of the assigned development intervention. On the other hand control group consists of a randomly selected set of participants who do not undergo the assigned development intervention.

For example, suppose that a school district wants to rigorously evaluate whether a new teacher professional development curriculum is more effective than the district's existing curriculum. The district might undertake an RCT which randomly assigns teachers to either an intervention group, which receives the new curriculum, or to a control group, which uses the existing curriculum. The RCT would then measure outcomes – such as teacher content knowledge or test scores of their students – for both groups over a period of time. The difference in outcomes between the two groups would represent the effect of the new curriculum compared to the existing curriculum [4].

The underlying concept is depicted in the figure below:



(Source: ADB, Impact Evaluation: Methodological & Operational Issues, 2006)

RCT is a fairly good methodology to assess the effectiveness of any development intervention but like any other experimental design model it has its own set of limitations and pitfalls like:

- **Selection Bias:** Non-random selection of participants
- **Contagion Effect:** Participants of control group getting affected by the intervention
- **Contamination Effect:** Effect of any other intervention on either or both the groups

Hence it is imperative that such delimiting factors are identified and considered in the early stages of the IE project. In order to do that, the Research Manager must resort to the following practices:

- Consider macro view of the entire eco-system in which the target community resides.
- Carefully assign participants to the control as well as treatment group and avoid selection bias.
- Must be cognizant of all the past development interventions and also those which are currently being administered.

- Adopt a participatory approach and must engage in dialogues with the research staff, managers of the development intervention and most importantly the people of the community which are the focal point of the entire study.

Importance & Relevance of Impact Evaluation in Microfinance

The AP crisis is undoubtedly the biggest crisis in the history of Microfinance and it shook the very foundations of some of the largest MFIs in the world. The crisis far from being over underlines some of the relevant aspects like multiple-lending, client-protection, Social Performance Management (SPM) etc. that were hitherto not paid as much attention as they deserve.

Owing to the changed regulatory environment and vulnerability of Indian MFIs to political risk, measuring the impact of Microfinance and the products and services being offered under its umbrella has become all the more important. As MFIs take stock of the scenario; donor agencies, regulatory bodies, on-lending commercial banks, rating agencies, private equity investors etc. are beginning to question the very objective of poverty alleviation and the difference Microfinance makes to the lives of people it serves. As a result MFIs should and will resort to measure the outcome of their products and services on the target beneficiaries.

Recently a leading Microfinance consultancy services provider duly highlighted the need and importance of such initiatives in one of their focus notes.

It stated, ***"MFIs often collect data about the nature of the clients they serve, but this typically remains on loan application forms, unanalyzed, in branch offices. But this data could provide important insights into how MFIs are indeed reaching the very people that the Government of India is so keen to have served. Furthermore, very few MFIs are tracking their social impact – not least of all because of how difficult it is to do effectively without falling into attribution and selection biases. This problem is compounded because the tools available and currently being promoted focus on depth of outreach rather than how best to serve the poor. Analyzing and acting on social performance analyzed on the basis of client satisfaction and loyalty makes***

business sense – not just because it can be used to describe how the MFI is performing to external stakeholders, but also because it enhances the client responsiveness of the MFI" [5].

Let us discuss few quick points as to why a rigorous Impact Evaluation program comes with added benefits:

- **Customer Insights:** Most of the Microfinance beneficiaries happen to be economically active working women with moderate to low level of education. Due to this asking direct questions and conducting customer satisfaction surveys etc usually does not lead to proper insights about their needs and requirement. Whereas IE can reveal some of the rarest customer insights as they study specific variables under appropriate framework.

- **Product & Process Improvement:** IE can help MFIs utilize findings from the IE exercise to fine-tune the products and processes as it highlights areas of improvement. It may also help in customer segmentation and designing appropriate products and services. This in turn leads to customer retention and increased customer stickiness.

- **Performance Measurement:** Undertaking IE can also help MFIs gauge their relative performance to the internal benchmarks in terms of outreach, intended benefits to the customers etc. Further the MFI can get insights regarding competition and design their strategies accordingly.

- **Better Reporting Standards:** MFIs can include results obtained from IE exercises in their annual reports and reports send to regulatory/ donor agencies or investors. This will enhance the overall goodwill of the organization and project it as a responsible partner in the mission of financial inclusion.

Let us discuss a few roadblocks that can come in the way of undertaking IE by MFIs and how they can be overcome:

- **Problem: Lack of Expertise:** Impact evaluation requires certain level of expertise and only trained professionals can undertake a rigorous and meaningful IE exercise. Otherwise instead of benefitting it can harm the MFI.
- **Solution: Consultants/ Research Agencies:** MFIs can appoint independent consultants or advisory bodies which can undertake IE on their behalf and come up with unbiased findings. Such agencies have professional experts and have experience in successfully executing IE programs for various MFIs and other development organizations.

- **Problem: Lack of Focus:** In their quest for expansion and growth, MFIs leaders tend to neglect the need and importance of initiatives like IE.
- **Solution: Role of Top Management:** MFIs need not to wait for a crisis like AP and then wake up only to realize it's too late to undertake activities like IE. Here it is important that top management of any MFI like its board of directors, its MD or CEO should take a call and build a culture where such initiatives are taken. The idea is that the top management must be sensitive to this issue and orient its staff towards achieving such objectives.

- **Problem: Lack of Resources:** This can be a big limiting factor for smaller MFIs as undertaking IE is a costly and time consuming exercise.
- **Solution: Look for Partnerships:** MFIs can network with various leading grant foundations and donor agencies that can provide funding for such endeavors. Also such agencies bring technical know-how of IE with them and can assist the MFI in implementing IE as well as training their staff for conducting future IE exercises.

Following are the points worth keeping in mind while executing any IE program:

- **IE is not a once in a life time activity:** It should not be taken as a once in a lifetime exercise where IE is done only once. IE on the other hand is an exercise which is intervention specific and should be carried out separately for separate interventions on a periodic basis.

  Example: Once IE is done for the credit products of an MFI it can also be done for its insurance products, as both these are two related yet different interventions.

- **IE is not an end in itself:** It is a common misconception that once an IE program has been implemented and its findings are out there is no need for further follow up. In fact once IE is over it is the time to understand what worked for an MFI and what not and more importantly why? Based on these critical questions MFIs can take further course of actions.

  Example: Based on the IE of the credit products, the MFI decided to revamp its Individual Lending vis-à-vis Group Lending for its well-off customers as results of its IE program showed positive impact of Individual Lending on well-off customers and (cross-subsidization) lower interest rates for poor-off customers of Group Lending products.

- **Strategic nature of IE program:** IE program is of strategic importance and should be carried out with an open mind i.e. without any bias which can creep into the research design which instead of benefiting will harm the MFI. It is not suggested that decisions to be taken solely based on IE findings but should be given due consideration.

  Example: A MFI conducted IE for its health awareness initiative neglected the findings only to discover later that one of its major causes of delinquency in a particular area were due to deaths due to Malaria. Instead they should take note of this and design an intervention that addresses to the problem of prevalence of Malaria and helps the MFI in safeguarding its customers and well as its portfolio.

Concluding Remarks

The objective of this concept note was to introduce Impact Evaluation and highlight its need and importance during these turbulent times. As it turns out that Impact Evaluation holds promise to a host of benefits to the MFIs ranging from consumer insights to launching of new products and services and from better reporting standards to performance measurement. It will gain further prominence in coming days as focus of various stakeholders undergoes drastic shift towards social performance and understanding the consumer behavior. Not only it will be a strategic exercise but it will be adopted as a risk mitigation tool for identifying loopholes and appropriate measures to plug them.

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