

Helping or hurting: What role for microfinance in the fight against poverty?



The All-Party Parliamentary Group on Microfinance

Report on the All-Party Parliamentary Group on Microfinance's inquiry
into the UK's role in supporting the microfinance sector worldwide

Helping or hurting: what role for microfinance in the fight against poverty?

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The document you are reading is the full report covering the findings of the APPG on Microfinance's 2010-2011 inquiry into the impact of microfinance on poverty and how the UK Government should support the sector. A summary report has also been produced, and is available in electronic form on the APPG's website: www.appg-microfinance.org/inquiry.php Printed copies of the summary report are also available on request from the APPG Coordinator Julia Modern: julia.modern@results.org.uk

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Foreword from the APPG officers

The All-Party Parliamentary Group on Microfinance, established by Annette Brooke MP in 2002, is a leading UK forum for Parliamentarians, practitioners, academics and non-governmental organisations interested in microfinance. What attracted the members of the APPG to the issue of microfinance in the first place was a belief that poor people should have the opportunity and support to tackle their own poverty, no matter where in the world they live. Part of what is needed in order to do this is access to fair financial services. We therefore come to this debate with the desire to see the best social outcomes possible for the world's poor.

In these times of change and reflection for the microfinance community we feel that we have a strong role to play in providing a forum for debate and challenging some of the orthodoxies around microfinance. The purpose of the inquiry on which this summary report is based was to use the evidence submitted to us by academics, practitioners and funders in order to build up a picture of what microfinance is now and to provide recommendations for how the sector should progress from here in order to live up to its promise of providing a substantial boost to poverty reduction. We hope that this will provide both a major contribution to the debate, and also a stimulus for further discussion.

Our inquiry did not conclude that any one form of microfinance is illegitimate. There have clearly been problems in the sector, most obviously in commercial microfinance although the problems we discuss in this report do occur in the not-for-profit sector as well. Professor Muhammad Yunus has recently argued that microfinance has a 'branding problem', which makes it appear that profit-maximising commercial organisations are providing the same services as socially-focused microfinance, hence attracting a 'socially responsible' reputation that they may not deserve. In this report we have tried to offer practical suggestions for how to take a more nuanced approach to the sector which will allow investors, donors and other stakeholders to make better decisions on how to engage with microfinance. We hope and believe that this will help to drive an increased focus on the social role of microfinance, with the ultimate aim of strengthening the ability of microfinance to alleviate poverty.

The officers of the APPG would like to thank all those who submitted written and oral evidence to this inquiry, the panellists who gave evidence at our oral evidence hearings held in March and April 2011, and the secretariat of the APPG for facilitating this process and creating the report.



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Executive Summary

"58% of the poor who borrowed from Grameen are now out of poverty. There are over 100 million people now involved with microcredit schemes. At the rate we're heading, we'll halve total poverty by 2015. We'll create a poverty museum in 2030." – Professor Muhammad Yunus, speaking to Time Magazine in 2006

"The microfinance movement has been in operation now for some 30 years and in that time it has failed to provide robust evidence that it is meaningfully associated with sustainable poverty reduction and 'bottom-up' economic and social development...But even worse, many economists and development specialists are now of the firm opinion that MF actually UNDERMINES the process of sustainable poverty reduction and 'bottom-up' economic and social development." – Dr Milford Bateman, written response to this inquiry, 2011



SKS Microfinance Client, photo by Kalyan3

These two quotes are illustrative of two extremes in the debate over the impact of microfinance on poverty. Currently the microfinance sector is undergoing a massive period of upheaval. After 30 years of growth, the sector has diversified to include a wide breadth of different interventions, products and business models. We believe this diversification is probably a good thing, ensuring that there are a variety of different models available to clients – particularly where it has resulted in access to a variety of financial services, including savings and insurance as well as the traditional credit. However, there are clearly also big problems: while microfinance models have adapted and grown the environment in which they operate has been left relatively unchanged and regulatory frameworks have been slow to develop. Out of this 'free' environment where investment is in many cases abundant and regulation is sparse there have emerged concerning stories of exploitation as well as suggestions of significant progress out of poverty.

The Microcredit Summit Campaign Report is produced every year and is traditionally a place for celebration of the rapid growth of the industry. In 2011, it took a step back and examined the divisions that have come to light, highlighting these through the story of two microcredit clients.

Rita in Ghana received an \$80 loan, along with technical education and membership of a solidarity group, which has enabled her to diversify her income, save, pay school fees and get her family through the traditional "hungry season" before the crops ripen. Rita has big dreams for the future: "The biggest thing for me was starting to save. I had never saved before. Now I have savings to tap when it's time for the school fees and other needs, including more food. My family is better now. We eat better. I want to save more, so I can use my own money for the farm

instead of taking out loans. I want to meet people who earn more money, so I can learn from them.”

Zaheera from Andhra Pradesh in India, on the other hand, was caught in a tragedy unfolding across the state. She died in an apparent suicide on September 13th, 2010. At the time of her death, she had loans outstanding from eight different microfinance institutions totalling Rs. 160,000 (US\$3,500).¹ She had no regular income, just odd jobs in town paying about Rs. 600 (\$13) a week. She used most of the loan money for her daughter’s wedding. Zaheera’s husband explained “This is what drove my wife to suicide...she did not have the courage to face the group members, leaders and loan staff without making payments and there was nowhere from which we could repay all the money”.

It is our thesis that the approach to microfinance taken by donors, practitioners and even many critics, has so far been inadequate. In order to ensure that no microfinance client finds themselves in the position that Zaheera did, and that ever larger number of clients are able to use financial tools to help them move out of poverty like Rita, it is absolutely essential that we recognise two facts: firstly, that credit services can cause harm as well as good because they induce debt; and secondly that the sector is now so diverse that we have to assess individual microfinance interventions on their own merits and relate to them in appropriate ways rather than as a universally positive social force. We must cut through the hype and take a reasoned approach to how the UK government and other stakeholders should support the sector. For not-for-profit, socially focused microfinance this may mean continuing subsidies, along with encouraging increased focus on the evaluation of social outcomes, but for commercial microfinance it is more likely to involve appropriate, rigorous, but not overly onerous, regulation.

The strongest message we want to send with this report is that in many (though not all) regions the sector is currently unbalanced. While access to loans has expanded massively, other financial services have lagged. Where the only product available is a loan, customers will take a loan even if it is not the most appropriate solution to their financial needs. Poor people need access to savings, perhaps even more than access to loans, as well as insurance, safe remittances and other services. Until we extend comprehensive financial services to all we cannot truly claim to be ‘democratising financial services’, let alone contributing fully to the fight against poverty. DFID and other donors must play a central part in refocusing the industry. As Mark Napier, the incoming Director of Investment Innovation at CDC stated during an oral evidence session for this inquiry, donors should act as the ‘conscience of the market’.

¹ It is likely that Zaheera, like many women in Andhra Pradesh, also had outstanding loans from informal sources that increased the pressure on her repayments, however there is insufficient information available for us to know for sure.

Summary of Recommendations

This report makes 9 key recommendations. More detail on each of these recommendations is included in the text of the report.

1. More investment is needed in the research base to develop evidence about what microfinance interventions work the best to reduce poverty. Donors and investors have a big role to play here because most academically rigorous studies can be expensive, take many years, and many MFIs may need support to engage in rigorous data-gathering.
2. The approach to commercial microcredit needs to change dramatically. We must recognise the limitations of this intervention and the abuses that have in some cases been committed in the name of microfinance. More effective and appropriate regulation (not necessarily simply more regulation) and oversight of commercial MFIs is needed, including the establishment of credit bureaux to help reduce cases of over-indebtedness. Donors should not support commercial MFIs with loan-fund capital, but could play a critical role in offering financial and technical support to partner countries in order to develop better regulatory systems and institutions for commercial and not-for-profit MFIs alike.
3. Investors must recognise that investing in microfinance does not always automatically mean the investment is socially responsible. Where they wish to invest in a socially responsible manner they should ensure that sufficient information and research is produced by the MFI or fund in order to judge the social impact of the investment. We recommend that CDC in particular takes this on board and develops an investment code for commercial microfinance.
4. Socially-focused microfinance which genuinely aims to tackle poverty and improve the quality of life of clients should be widely promoted, and in some cases it should be recognised that programmes may not need to be financially sustainable without addition support from donors or from cross-subsidisation. The UK and other donors should be willing to support 'non-sustainable' programmes – directly or indirectly – where they offer a broad range of services to the poorest segment of the population and can demonstrate an impact on reducing poverty and vulnerability. In addition, the UK should work with CGAP and other knowledge leaders in the sector to develop ways that MFIs can be incentivised to offer more in-depth services including savings and 'graduation programmes'.
5. All MFIs that are supported by donors – directly or indirectly – should be pushed to implement independently-verified social performance monitoring (SPM) systems in order to clearly demonstrate their impact on poverty and vulnerability, which should include a systematic assessment of gender impacts. This can be achieved for example through offering capacity-building support, funds for product innovation conditioned on including SPM, and/or rewards for MFIs that engage with academics for the purposes of research. Innovation is needed on how best to encourage MFIs (particularly commercial MFIs) to embrace SPM. These activities should form a central part of DFID and the World Bank's MICFAC initiative.

6. Product diversification must be increased. In particular measures must be taken to ensure that clients are able to access more than just a single one-size-fits-all credit product. Savings are particularly important, and donors including DFID should support regulatory bodies to develop ways in which MFIs can be encouraged to either become appropriately regulated deposit-taking organisations themselves, or to set up partnerships with other organisations to facilitate deposit-taking.

7. There are exciting areas of innovation across the microfinance sector, including mobile banking which significantly reduces costs for clients, making products cheaper; and microinsurance, which can provide a vital lifeline for poor people when disaster strikes. Investment is urgently needed to develop these innovations.

Donors have played a major role already (for example DFID's investment in the M-PESA mobile banking system) and should continue to seek out new areas in which to invest. A particularly

promising area is micro crop insurance, an exciting development that has promise in also addressing the effects of climate change, but requires infrastructure improvements such as effective weather data systems in order to become widely available.

8. It was repeatedly stressed in evidence to this inquiry that microfinance does not and cannot operate in a vacuum. It will never eliminate poverty on its own, although it can make a contribution as part of a broader strategy. Enthusiasm for microfinance should not 'crowd out' investment in other financial sectors, particularly support for small and medium-sized enterprises. In evidence to this inquiry DFID representatives have indicated that they plan to fund microfinance as part of a larger financial sector strategy. The APPG supports this. It is the recommendation of this inquiry that SME financing be included in this strategy and that more focus be placed on linking micro, small and medium producers with markets for their products and services.

9. DFID have also stated that they plan to focus more of their microfinance portfolio in fragile states. We welcome this focus as we believe that donor assistance should target the poorest and most marginalised people wherever they live. While there are examples of successful microfinance in fragile states, there is a paucity of knowledge on the best practices in these contexts. In addition, 'Fragile states' is a term that covers a huge variety of situations, sometimes including issues such as mobile populations and conflict which raise particular challenges for microfinance. We therefore recommend that DFID approach microfinance in fragile states cautiously, recognising that it may not always be the best intervention for the situation, and that they either conduct a consultation or support another body to undertake a consultation to gather disparate knowledge from those who are operating in similar environments across the microfinance sector.



Micro-irrigation in Malawi, financed through the MicroLoan Foundations' 'Micro-Ventures' initiative. Photo by Lottie Heales

The scope of this Inquiry

'Microfinance' is a broad term that can refer to a large number of different financial products, including but not exclusive to microcredit, microsavings and microinsurance. It is not the intention of this report to decide what can and cannot be referred to as microfinance and therefore, for the purposes of this report 'microfinance' will refer to any form of financial service that is provided at the micro-level. This report considers how different forms of microfinance should be supported or regulated by governments and donors.

The majority of submissions to this inquiry focused on microcredit. We believe this is in part because there is currently so much controversy surrounding microcredit, but also stems from the fact that microcredit is by far the most prevalent form of microfinance and therefore submissions came from individuals who had mostly been involved in credit. For this reason debates around microcredit form the main body of this report. Importantly, it is not the intention of this report to imply that credit is the most important form of financial service or that we believe that the sector should remain focused on credit: recent studies suggest that savings in particular are absolutely key to the ability of poor people to improve their lives.

Some important terms as used in this report are defined as:

- **Microcredit** refers to any form of credit service offered to low-income individuals not traditionally serviced by the formal banking sector. This can be offered under several models including commercial, sustainable and grant maintained forms. It can refer to loans for business or for consumption. It can refer to models that offer lending only to women or to both men and women and it can refer to lending either to individuals or to groups (for example in the case of solidarity group lending).
- **Microsavings** refers to any form of savings product offered to low-income individuals not traditionally served by the formal banking sector. It will refer to services that are offered as stand-alone savings products or in the form of forced savings as a prerequisite for taking out credit.
- **Microinsurance** refers to any form of arrangement that sees low-income individuals and businesses, not traditionally serviced by commercial insurance schemes, make contributions to a scheme in order to guard against specific risks. This will include those schemes that rely on regular payment of premiums as well as those that allow for payment of premiums in the form of work (for example the Oxfam "HARITA" project that allows people to 'pay' for insurance by engaging in risk reducing behaviours.²)

This report will consider:

- The quality of the evidence that supports claims about the effects of microfinance and whether the evidence base around microfinance is sufficient to make conclusions about how the sector should proceed;

² Alan Doran, APPG on Microfinance Meeting 17/11/2010

- The different financial models adopted by MFIs and how these have led to different microfinance products;
- The context that microfinance operates in and the effects that this has on the efficacy of microfinance programmes; and
- The future prospects for the microfinance industry, specifically setting out recommendations for the UK Government. For the most part these will be relevant to the Department for International Development (DFID), but some are also relevant to other institutions including CDC.



Members of Kitogani Voluntary Savings and Loan Association (facilitated by Care International), pay into the communal funds at a regular meeting. Photo by Care International

What is microfinance?

30 years ago Muhammad Yunus set up the Grameen Bank, not to provide lending opportunities to the poor (they already had the opportunity to borrow from usurious money lenders), but to provide fair financial services to the unbanked and break the poverty traps faced by so many poor people whose only option was to borrow under exploitative conditions. Among pioneers like Yunus there was a belief in the social ideal that all people deserved fair access to financial services, and that the ability of individuals to capitalise their businesses would ultimately help in the fight against poverty.

Microfinance was presented as a revolution in development because of its potential to be a 'sustainable' intervention. That is to say that it was hoped that (after initial start-up costs) microfinance would break even with the manageable interest rates providing enough to cover the expenses of the organisation, and would therefore not need ongoing injections of cash from outside donors. The industry has indeed grown massively with the Microfinance Summit Campaign reporting that as of 31 December 2009 3,589 microcredit institutions were reaching 190,135,080 clients. Bangladesh, where an estimated 25% of rural households are direct beneficiaries of microfinance programmes (Khandker, 2003), is the plainest example of the ability of microfinance to expand. For some this shows microfinance to be a resounding success; for others it is indicative of an industry that has been allowed to grow too fast and without proper oversight.

Since the 1970s, the concept of microfinance has developed considerably and the mission statements adopted by microfinance institutions (MFIs) now show significant diversity. Some common objectives are:

- Reducing individual poverty through allowing people to invest in business(es).
- Ensuring that poor people are less vulnerable to income fluctuation.
- Improving local and national economies by encouraging enterprise and increasing employment and production.
- The democratisation of financial services, also termed 'financial inclusion'.

There has been some criticism of the diversification of mission statements beyond the ultimate goal of poverty reduction. In his written evidence to this inquiry, Milford Bateman argues: 'there has been a major 'goal rotation' exercise this last couple years wherein people now accept that MF has done nothing for the poor in terms of their poverty status,³ so they now say instead 'Ah, but MF promotes financial inclusion, so we should continue with it'. Maybe it does promote financial inclusion, but this is not what it set out to achieve. And if you use MF now to promote financial inclusion, then you need to specify why this is important and, most of all, indicate why and how resources devoted to MF for financial inclusion will improve the lives of the poor better than other interventions, such as cash transfers, or SME lending or infrastructure spending.' Several other submissions to our inquiry also

³ We discuss the evidence about microfinance's impact on poverty in a later section of this report.

raised this issue, for example: 'The definition of microfinance is proving fluid...and increasingly the talk is of "access to finance" and "financial inclusion"...as if just making financial products and services available to poor people will lead to a reduction in poverty...CGAP now bills itself as "advancing financial access for the world's poor". The danger is that access becomes the end rather than the means.' (Ian Boyd-Livingstone.)

We agree with the concerns over the justifications for the support of microfinance, while recognising that the increasing variety in the sector (now populated by among others: commercial MFIs, not-for-profit organisations, moneylenders, banks, *mutuelles*, cooperatives and post office banks) means that a diversification of missions is probably inevitable. While it may be legitimate for commercial MFIs to focus on financial inclusion (while ensuring that they do no harm to clients), donor support for microfinance must remain closely focused on the drive to reduce poverty, and while it may value financial inclusion as a means to an end it should not accept it as an end in itself. ***Throughout this report, we argue that donor support for microfinance must be based on the impact that this has on the lives of the poor in terms of reducing poverty.***

Drawing on the recent work of the authors of *Portfolios of the Poor* we recognise that the financial consequences of poverty go beyond absolute levels of income, to include the vulnerability caused by dramatic fluctuations in income. We therefore view a reduction in vulnerability as an element of poverty reduction and a legitimate aim of donor support for microfinance, although we stress that this reduction should be sustainable and not based solely upon the availability of more credit.

The UK Government and Microfinance

As we seek specifically to provide recommendations for the UK Government, particularly DFID, on how it should engage with the sector we have conducted desk-based research and into DFID's history in the microfinance field and heard oral evidence on the Department's current plans. A brief overview is below.

In a 2002 review of the Department's microfinance work CGAP concluded 'DFID plays a leadership role in pro-poor finance within the donor community. DFID has made a strong contribution to sustainable impact in the global microfinance industry, and this contribution has been disproportionate to its microfinance grant budget.' DFID has supported numerous MFIs, particularly to start up or expand coverage of microfinance services. In recent years DFID support to the sector has increasingly been routed through broader financial sector development programmes in which microfinance is just one component, or alternatively through large-scale apex or wholesale funds such as the Microfinance Investment Support Programme in Afghanistan. In addition, DFID has financed financial infrastructure programmes such as financial sector deepening trusts in Kenya and Tanzania and supported CGAP, the leading independent policy and research centre on microfinance, with a view to improving the enabling environments for pro-poor finance, including but not limited to microfinance. Finally, DFID has made some very important investments in innovation in the microfinance sector, including through a partnership with Vodaphone in Kenya called 'M-PESA', which allows transfer payments to be made from mobile phones.

While CGAP's 2002 review of DFID's microfinance work was largely positive, it also noted significant challenges, including lack of clarity over priorities and policy-setting, the 'marginalization' of microfinance in parts of DFID, and a view of microfinance as a set of disjointed small projects, and conclude: 'A pre-condition to improving practices in pro-poor finance is having a better knowledge of the portfolio. Currently DFID does not have a clear grip on the extent of financial services offered throughout the agency, especially credit components in larger multi-sector projects.' While we believe that there have been many improvements in coherence within the Department since 2002, particularly in the integration of microfinance with other financial services programmes, it is the APPG's experience as well that it can be difficult to determine the scope and detail of DFID's involvement in microfinance. Finally, CGAP note specifically that in common with many other donors and the microfinance industry as a whole, DFID struggles with how to use microfinance effectively in difficult situations such as post-conflict and humanitarian interventions.

With the election of a new Government in May 2010, big changes are happening throughout DFID. One of the biggest is the creation of a new 'Private Sector Department', which has taken on responsibility for DFID's work on the financial sector, including microfinance. The new Coalition Government has stated that they intend microfinance to become a more central part of DFID's work, as well as stating that they are going to implement additional microfinance programmes. Evidence presented by DFID during an oral evidence session for this inquiry reveals that the new Department's priorities are to:

- Focus on a full range of services, not just credit;
- Focus on outreach to unbanked areas, especially rural clients and fragile states;
- Help to address weaknesses in the sector through a Microfinance Capacity-Building Facility for Microfinance in Sub-Saharan Africa (MICFAC), which is being jointly designed with the World Bank and will support MFIs to improve their operations, including in social performance management;
- Incorporate their work on microfinance with wider financial sector development including regulation.

On the 30th May 2011 DFID published 'The Engine of Development: The private sector and prosperity for poor people', which sets out the Department's approach to working with the private sector. One section of this report addresses what DFID will do on 'finance for people and small enterprises', and specifically pledges the following:

'We will help more than 50 million people access savings, credit and insurance through programmes to "deepen" the reach of the financial sector, to serve the needs of poor people. Our support for Enhancing Financial Innovation and Access in Nigeria will help 10 million people get access to finance by 2015. We also help poor people protect themselves from financial abuse. Through the Financial Education Fund we build the financial capability of poor communities. The Financial Sector Reform and Strengthening Initiative, (FIRST), gives targeted specialist advice to help countries reform and strengthen their financial sectors.'

This set of priorities is ambitious and, we believe, well thought out. We have tried wherever possible in this report to link our discussion and recommendations to practical ways in which DFID could implement these priorities.

The effectiveness of microfinance: what does the evidence base say?

In the early days microfinance was generally known as microcredit, as in most cases this was the only service being offered. Assessments of a programme's success were commonly based, not on changes in clients' financial welfare but rather, on the number of people reached. In an initially resource-poor environment where targets revolved around helping as many people as possible, little rigorous monitoring of outcomes took place. However, the idea that paying back a loan means the loan has been 'successful' does not take into account how people are paying back loans. Qualitative and anecdotal evidence has emerged suggesting that in some areas (especially where the saturation of MFIs is high) people have taken out additional loans from other MFIs in order to pay off debts (McIntosh et al. 2005), or else they have begged or borrowed from family and friends. For an intervention that claims to empower this seems counterproductive.

As a result, since 1997 the Consultative Group to Assist the Poor (CGAP – the leading policy and research centre on financial access for the poor) has increasingly called for more monitoring and evaluation of the outcomes of microfinance in order to be able to see how microfinance is impacting upon people and whether it is doing good or harm. In more recent years, a sometimes rancorous debate has arisen over whether the microfinance sector can provide evidence that it is contributing to poverty reduction, or achieving the social impacts it claims. This section of the report investigates the evidence base as it currently exists, and gives recommendations for how it should be developed.

Most of the evidence regarding microfinance that has been produced so far relates almost exclusively to microcredit, and at the present time there have been relatively few studies conducted of the impact of other forms of microfinance such as microsavings or microinsurance. It is for this reason alone that this section deals predominantly with the evidence surrounding microcredit. Given the potential of microsavings and microinsurance to reduce vulnerability without debt, it is the suggestion of this report that more research should be conducted into these and other alternative, non-credit microfinance products, especially as the small existing evidence base suggests that savings can have a significant positive impact on increasing welfare; a study by Dupas and Robinson quoted in written evidence to this inquiry from Nathanael Goldberg demonstrates increased expenditure on crucial items such as food due to micro-savings initiatives, while the randomized impact assessment data on the ongoing CGAP-Ford Bandhan Pilot, a 'graduation programme' which provides a holistic programme of stipends, savings and sometimes credit for ultra-poor customers (discussed in more detail on p34) is showing positive impact.

Findings from existing research on microcredit

Where submissions to this inquiry referred to the quality of the evidence base most noted that there is not a consensus on what the evidence shows about the impact of microcredit: "Despite the existence of microfinance

for such a long time, few reliable statistical data series exist that could prove that microfinance has been a main factor at contributing to the reduction of poverty” (Marcus Fedder).

Both positive and negative impacts from microcredit have been detected in research, and there is a heated and complex debate over the methodological reliability of the findings of many of the key studies involved. A more detailed discussion of the methodological problems plaguing the existing evidence base is in Appendix 1. In this section we have picked out the most salient points.



Lina Limo, 38, at her bread store in Leboinet, Kenya. Photo by John Briggs

Positive impacts include increases in household expenditure and consumption, reduction in income fluctuation and vulnerability, and increases in durable assets accumulated by households. It is often argued that the most reliable studies in terms of their academic rigour are Randomised Controlled Trials (RCTs⁴). While these trials certainly have a place, they have been criticised on the basis that it is very difficult to genuinely implement an RCT for microfinance, as well as for ethical reasons to do withholding interventions from the control group (written evidence from Marcus Fedder, Dr Maren Duvendack and Dr Richard Palmer-Jones). So far these studies have demonstrated mixed, and limited, impacts. Although some increases in business creation, profits and expenditure have been detected among various

groups involved in RCTs, the studies have not detected a substantial impact on poverty, health, education or women’s empowerment, or any universal impacts on expenditure. Some commentators have noted the short timescales over which RCTs have currently been conducted, which are commonly a year to eighteen months, and argued that poverty reduction happens over a longer term. Follow-up studies are being conducted on some RCTs to help illuminate this point, but are not yet available.

⁴ RCTs are studies that use one randomly selected test group and one randomly selected control group to create a fair comparison. The test group are offered a treatment (in this case a microfinance product) and then the outcomes are compared with the control group. In medical research, the field in which RCTs are most commonly used, the most robust studies are ‘double-blind’, meaning that neither the subject of the trial nor the researcher knows whether an individual subject is part of the control or the test group. In microfinance it is slightly different, because obviously the client will always know whether they have received a loan. Having said this, the best studies, where possible, do ensure that the researcher does not know which group each subject is in before conducting analysis in order to ensure pre-conceptions do not influence the interpretation of the data.

A particularly notable study showing negative impacts is a paper produced by the Asian Development Bank (ADB, 2007), which stated that in the Philippines, while microcredit was found to improve the income of many clients, the intervention impacted on the poorest clients in a regressive way, actually making them poorer. Discussion of additional studies is included in Appendix 1. The problem seems to be that microcredit is not always a poverty reducing tool and much of the literature has not made allowances for the different outcomes experienced by individuals.

Perhaps the most important point we wish to make about the current evidence base on microcredit is that most research up to this point – both that showing positive impact and that showing negative impact – has made general and sweeping conclusions that microcredit either moves people out of poverty or does not. One of the most important methodological problems is the lack of nuance in studies. The microcredit industry is extremely diverse, and it was suggested by contributors in our oral and written evidence (Rosalind Copisarow, Anton Simanowitz and Paul Mosley in particular) that this needs to be reflected in the evidence that is being produced. Most microfinance studies should not be generalised as ‘negative’ or ‘positive’ as the findings are actually more complex and demonstrate that microfinance has different impacts upon different client groups, so seeing them in black and white terms can be unhelpful. It is far more productive for research to demonstrate to us how and where microfinance is working – or not.

Ultimately, there is not sufficient high-quality nuanced evidence to be able to make a final conclusion over whether microfinance works, and in fact our sense is that this is the wrong question to ask. Microfinance is not all the same. The well-respected (though still short-term) RCT covering Spandana’s impact in Hyderabad⁵ tells us about the impact of a particular model of commercial microcredit in a heavily saturated microfinance market, but will tell us nothing about the impact of a socially-focused NGO-led microcredit programme in an underserved market like rural Zimbabwe. It does not make sense to assume that we can come to a single conclusion about the impact of microcredit, just as we could not come to a single conclusion about the impact of banking on poor people in the UK. Opportunity International’s written submission to this inquiry commented: ‘at Opportunity we feel it is impossible to answer this question using just one impact assessment, regardless of the rigour or scale of the study. Each individual study is specific to the geographical area that it is evaluating, since microfinance works differently in each location where it is implemented.’

Instead, we need to focus on identifying through research firm conclusions over the efficacy of **particular models** of microfinance in particular situations: ‘whether, under what circumstances, and for whom’ microfinance is working, as Richard Palmer-Jones puts it. Few rigorous studies have yet been conducted of microfinance that has a close focus on social outcomes. This does not mean that these interventions do not reduce poverty – initial findings from MFIs’ own monitoring commonly show that they do contribute to poverty reduction, although they

⁵ This RCT has been extensively quoted by all sides in the microfinance debate, although it has also been criticised for omissions in design and implementation (Richard Palmer-Jones, in correspondence with this inquiry)

only form part of the solution and will not eliminate poverty on their own – and future research would do well to focus on various types of microfinance in various circumstances.

The future of the evidence base for microfinance

While it can be debated the degree to which all microcredit has a responsibility to pursue reductions in poverty rather than just democratise access to financial services, it should certainly not be the case that MFIs are permitted to do harm. We will only be able to ensure that this is not the case when we effectively monitor the impacts of microfinance interventions and regulate or alter services accordingly.

It is important that MFIs are impelled to monitor their interventions and provide evidence on the social impacts, particularly where claims are made that the intervention reduces poverty. Many MFIs submitting evidence to the inquiry including Hand in Hand International, and the Microloan Foundation have already begun social performance management programmes, while NGO Plan International requires their MFI partners to include SPM in their programmes. Some submissions to our inquiry pointed out that social performance management as it is commonly practiced focuses largely upon issues to do with **who** clients are and whether outreach to poorer sections of the population is occurring (Marcus Fedder). While this is important, we would argue that much more in-depth monitoring is required, which addresses the social **outcomes** of the organisation's activities. There are several innovations in this field – for example Grameen's Progress out of Poverty Index, Social Performance Indicators development by the Social Performance Taskforce, and other measures used by organisations such as the Microloan Foundation – and we argue that to be meaningful and more than a PR exercise monitoring must look into these more complex issues.

The burden on MFIs cannot be so great as to diminish their operational capabilities and there is scope for capacity building funds such as DFID and the World Bank's MICFAC to assist with monitoring, with the aim of improving the quality of microfinance as well as the evidence base around what works.

As well as MFI monitoring the academic community needs to be active in both quantitative and qualitative research, as suggested in submissions to the inquiry from Maxwell Stamp, MicroEnsure, and Hand in Hand International. Rigorous and nuanced quantitative research over longer timescales is important in extricating arguments about microfinance from the anecdotal level, however qualitative research is also important for directing research, identifying new questions and building up a picture of how microfinance works.

RECOMMENDATIONS: the evidence base

- **ADDITIONAL EVIDENCE SHOULD BE DEVELOPED THROUGH VARIED BUT NUANCED STUDIES:** DFID can contribute to the development of the evidence base on microfinance through supporting academic studies and monitoring within MFIs. The emphasis needs to be not on 'whether microfinance works', but how microfinance affects people. Funding for studies should be allocated on how useful they are for indicating the efficacy of particular microfinance programmes. There also needs to be an understanding that various types of research are necessary; while RCTs are valuable it is essential that other types of study are also undertaken. Qualitative studies may be better placed to discover mechanisms affecting programme effectiveness that could be missed by a quantitative study.
- **KNOWLEDGE SHARING BETWEEN ACADEMICS AND MFIs:** Both Academics and MFIs have important roles to play in creating a solid evidence base around microfinance. MFIs should be encouraged to allow academics access to their programmes and their monitoring data. As organisations receiving public funding should be able to demonstrate their impact, we recommend that DFID investigate building academic links into grant agreements with MFIs, potentially including support offered through apex funds. MFIs and academics should be encouraged to work together to pilot new programmes and measure impacts.

A diversifying sector: an overview of microcredit

“In the common language, microfinance means everything and the opposite of it” (Microfinance Association White Paper, 2010).

Recent years have seen explosive growth in the microfinance industry. While much of this growth has been in the commercial microcredit sector, it has also resulted in the development of exceptional diversity in the field of microfinance. This includes geographical diversity; as CGAP commented in communication with this inquiry ‘there are four times as many savings as credit accounts in the world, and...a savings-led approach is the dominant model in some places.’ The submission to this inquiry from Maxwell Stamp outlined the scale of difference between microfinance organisations: “At one end of the scale are ‘Grameen model’ lending circles of largely female entrepreneurs from the poorest level in the society... At the other end of the scale are commercial microfinance institutions (MFIs) serving micro entrepreneurs with growth prospects on a bilateral basis.”

One issue that arose again and again in the evidence submitted to this inquiry was that there is insufficient recognition of the diversity in the field; in CGAP’s words, the diversity ‘has been overshadowed in the popular understanding of microfinance, and the tendency to equate microfinance with microcredit’. This causes confusion among the public, media, investors and donors. While we will not be arguing in this report that any particular forms of microfinance are illegitimate (though some organisations have clearly been behaving in an illegitimate manner with respect to poverty alleviation), we do feel it is necessary to recognise the variation in mission statements and the ways in which this drives a variety of outcomes. As Opportunity International commented in written evidence to the inquiry: ‘What the industry needs is a better way to distinguish between ... types of approach – i.e. organisations that have financial goals (such as a profit motive), and those that have social goals (such as poverty reduction).’

In the section below we will discuss some of the major forms of microcredit, and the drivers of diversification in the sector. We will then look at other forms of microfinance, including savings and insurance.

Three forms of microcredit: debates that have split the sector

Microfinance is remarkably diverse and it is not possible to easily encapsulate all forms, even if we are just limiting ourselves to microcredit. However it seems fair to draw a distinction between three different types of microcredit providers that are currently the most prevalent:

COMMERCIAL: Commercial microcredit encourages large-scale investment from private and corporate backers. It uses this money to expand operations and increase profitability/efficiency and maintains itself as a desirable investment by offering competitive returns.

SUSTAINABLE NOT-FOR-PROFIT: This model operates in a financially sustainable fashion, ensuring the services provided make enough money to cover costs, but importantly does not attempt to maximise profits and often

claims to have a “double bottom line” that includes a social mission. The distinction between commercial and sustainable not-for-profit models can be difficult to pin down but is essentially one of degrees. For example, sustainable not-for-profit organisations will sometimes launch products that are unprofitable (for example, one that targets the ultra-poor and has many additional services) that will be cross-subsidised from more profitable product lines. While sustainable not-for-profit organisations seek to be able to be financially and operationally sustainable without grants, they do sometimes seek grants and investment capital (equity or debt, at market or concessional rates), in order to more rapidly expand already profitable products and activities.

DONATION-SUPPORTED NOT-FOR-PROFIT: There are a few not-for-profit microfinance organisations that deliberately do not push for sustainability in their operations but instead focus primarily on a social mission and fund their ongoing operations through donated funds. Microcredit is used (as opposed to a grant) for many reasons that can include a desire to build the cash management discipline involved in regular repayment behaviour, or the empowering aspects of giving someone a loan as opposed to a grant. These models cover their operating costs with funding from donors - who could include traditional donors, local government subsidies, or from cross-subsidisation from more profitable, non-microfinance operations. This type of institution is perhaps the most likely to offer a broad range of financial services, going well beyond credit into savings, safety nets and even cash transfers.

The next section of this report looks at some of the debates that have split the sector, teasing out the core issues of contention that have caused diversification.

Sustainability and commercialisation

Many supporters of microfinance argue that its power lies in the fact that it can help to tackle poverty while also achieving financial sustainability. Sustainability is desirable for donors because it means more value for money: sustainable programmes require only capacity building funds and then they can continue working without further financial help. In some cases the money that was initially given by donors can even be returned. For donors, who are constantly under pressure to increase efficiency, sustainable programmes are very attractive.

Sustainability can be attractive for practitioners as well. If they are sustainable they no longer have to worry about donor funding running out. The Maxwell Stamp submission to this inquiry outlined this as a concern: “It can take the poor seven or eight years to rise out of poverty once alleviation measures have been applied... This can be well beyond the funding time scale of many donors supporting microfinance.” The implication is that sustainability without donor funding may be necessary to keep the project running for long enough to see the expected impacts on poverty.

Sustainability also has an impact on an MFIs’ ability to grow rapidly. Many maturing microfinance organisations found themselves facing difficulties increasing their outreach because while they were sustainable, growth was slowed because they had few or no funds to reach new clients. Some MFIs got around this problem by looking to

commercial markets, offering competitive returns to investors and even, in the cases of SKS, Spandana and Compartamos (some of the biggest MFIs in the world), undergoing Initial Public Offerings (IPOs) through which they raised funds on stock markets and became accountable to shareholders. These MFIs demonstrated that when microfinance is commercially viable it can attract a wealth of private investment to expand much more quickly than is possible with donated funds or retained earnings alone.

Many respondents to this inquiry argue that investment capital is crucial in order to reach the approximately 2.7 billion unbanked people in the world (including oral evidence from Chris Bold and Marcus Fedder). Opportunity International commented: 'MFIs currently fulfil only a fraction of the total demand and are still little more than a drop in the ocean when compared with the number of people who need the services we provide. If the industry relies solely on MFIs operating thanks to donated funds, we will never be able to grow at a rate that allows us to become relevant to the size of the need we are called to address. Therefore, there is a role to play for organisations and investors with a double bottom-line return – those seeking to target low income groups while at the same time obtain a financial return.'

However the relationship with investors has meant that some MFIs attempt to maximise profit – either to attract new investment or as a result of the demands of investors. For obvious reasons, this has been very controversial. Evidence submitted to this inquiry raised several questions about the role of commercial microcredit, with most respondents recognising there have been failures in recent years. *The general consensus was that there is a role for commercial microcredit, but that it should not necessarily be seen as a development intervention because increasing access to financial services does not necessarily produce poverty reduction; whether poverty reduction is achieved depends on a large number of factors: what services are offered and how they are delivered, as well as the social, economic and institutional context.*

Commercial microcredit

Commercial microcredit providers often argue that the act of lending itself inserts liquidity into an otherwise relatively illiquid environment. This allows for faster transactions, business innovation, investment in inputs and therefore, potentially, more growth. It is this growth that is then posited to offset the interest on the debt and further provide substantive reductions in poverty. This is how, commercial microfinance practitioners argue, commercial microfinance can create a 'Win-Win' situation. Milford Bateman (2010) argues that in fact many areas in which microfinance currently operates are over liquid – as can be seen in Andhra Pradesh – although it should be noted that other contributions to the inquiry argue that this situation is an anomaly (for example Chris Bold during oral evidence).

Many of the submissions, and much of the literature, argues that pumping credit into a (often quite isolated) financial system does not guarantee growth because the credit is not necessarily being used for productive endeavours. For people with little business education or financial training it may prove difficult for them to put borrowed money to best use and indeed it may be used for consumption rather than for productive purposes.

Further, even people who run their business well may find growth and returns limited by a lack of exposure to outside markets. These issues can be mitigated through the provision of business development and extension services which commercial microfinance in their quest for expansion and profitability often seem reluctant to provide (Paul Mosley). The provision of these additional services is often called 'credit plus', which for the purposes of this report is defined as any microcredit service that also includes non-financial services. This can include business development services, business education, and healthcare as well as other non-financial interventions.



Women in Madhya Pradesh, India, attend a skills training session on vegetable farming. Photo by McKay Savage.

This analysis allows us to isolate features that are common to commercial providers, although it is important to note that none of these tendencies are exclusive to profit-maximising organisations and many can also be seen in some areas of what we are terming the 'sustainable not-for-profit' sector:

1. Stripped down services

Commercial providers often offer basic, stripped down, profitable services, which usually consist solely of credit with little flexibility in terms to suit the customer. There are often restrictions that limit clients' ability to decide the size of the loan they need, and they will often have a repayment plan that cannot take into account any specific cashflow needs of the business. Such stripped down services are more profitable for MFIs who can cut down on product design and administration; however they also make the loan less appropriate and potentially more difficult for the client to pay back. Importantly, the services that more readily reduce vulnerability, being

savings and insurance, are often not offered (Maude Massu); savings, due to the burden of regulation and the very high transaction costs; and insurance, due to the complexity and high barriers of entry for the most helpful products of health and agricultural insurance. Business development and extension services are not offered due to there often being little return for the organisation and it not being an area of core competency. Stripped-down microcredit services are cheap to deliver, but where investment capital is plentiful there is a tendency to over saturate, with many providers offering the same inappropriate services to the same population. Where saturation occurs it becomes more likely that 'outreach' becomes irresponsible lending.

2. Not lending to the very poor

Submissions were split on whether microcredit can help the very poor. Some seemed to believe that only the economically active poor could benefit from microcredit (e.g. Five Talents, Kevin Kennedy, Opportunity), although it's important to note that this caveat does not usually extend to other microfinance services and there is near universal agreement that microsavings are of enormous benefit to the extremely poor. However Anton Simanowitz argued that the 'inability' to reach the poorest was not a result of the poor's inability to use

“While financial sustainability might not always be attainable, several examples have already demonstrated that reaching very poor people with microfinance services does not preclude an approach from becoming financially self-sufficient. In case of ASA and SEF for example, cross-subsidization through higher profits from lending to a less poor market segment enables outreach to a less profitable, very poor market segment” (SEEP: 2006).

microcredit but a reflection of how profitable it is to serve them: “This argument is based on the business model of most MFIs that need easy to reach clients who can use the loans with little support, and who have other income to fall back on if things go wrong to repay their loans.” Other submissions indicated that microfinance could reach the very poorest, with specially designed services (e.g. the Grameen Foundation, NABARD, BRAC, Plan International, Hand in Hand International) but not necessarily under a financially sustainable model. Much of the literature acknowledges that services for the very poor will not necessarily be sustainable because they often involve extra support: “The most careful and comprehensive recent survey shows that the programs that target the poorest borrowers generate revenues sufficient to cover just 70% of their full costs.” (MicroBanking Bulletin, 1998)⁶. Unsurprisingly, this means that where an MFI is aiming for sustainability or profitability it becomes less viable to service the very poor.

Numerous studies (Ahmad, 2003. Coleman, 2006. Hemmingway, 2004. Milgram, 2001) have found circumstances in which poorer clients have been systematically excluded from programmes. Publicly traded commercial MFI Spandana seems to be a good example. Spandana requires that at least 80% of the women in the lending group own their own home, greatly reducing their capacity to reach out to the very poor (Banerjee et.al 2009). In addition, while Spandana requires that the group be affluent enough to pay back a loan, they do not conduct any vetting into what the loan will be used for or the viability of the clients' business model (Ibid.)

⁶ Quoted in Murdoch, World Development Vol. 28, No. 4, pp. 617-629, 2000. P.618

This seems to demonstrate that they care more that a client will be able to pay back the loan than if they use the loan for any productive purpose. As Elizabeth Rhyne writes: “If microfinance were simply a mathematics problem, it would be a problem of dual maximization... one objective or the other must be treated as a constraint, while the other is maximized.” (1998). Because commercial MFIs are accountable to their shareholders, they need to focus on offering returns and this leads to a lack of emphasis on reaching the very poor.

The written submission to this inquiry from NABARD argued that while it is possible to run sustainable programmes and to help the very poor the two cannot necessarily be done simultaneously: “there ought to be clarity on which microfinance models are expected to be financially sustainable and could cross subsidize for other non-viable but needed models.” It seems from submissions that in order to reach the very poor and remain sustainable organisation supplying funds would need to recognise that the profits from successful clients would be subsidising providing services to the very poor, for whom products would have to be specifically designed. Essentially, while a client may not be sustainable, the organisation would be. However as this requires a sacrifice of profitability and therefore reduces the capacity of the organisation to expand and provide returns for investors, this is not necessarily in line with the priorities of commercial microfinance organisations.

3. Maximisation of the client base.

There has been a strong focus on ‘outreach’ as one of the primary aims of microfinance. While some commercial MFIs believe that they have no obligation to reduce poverty, others argue that they are actually reducing poverty, simply by expanding access to financial services. This focus on outreach was highlighted a number of times in evidence provided to the inquiry (e.g. Hand in Hand International, Rosalind Copisarow). Elisabeth Rhyne (2010) places this rapid expansion, and corresponding abandonment of due diligence on the suitability of loan products for a particular customer, in the context of profitability: “The blame for this unfortunate situation falls most squarely on the [micro-lenders] that failed to restrain aggressive growth even as the market became increasingly saturated. Investors...paid dearly for shares in the [micro-lenders], they need fast growth to make their investments pay off.” Commercial Microfinance organisation SKS made the transition from NGO to Publicly Limited Company and then to Publicly Listed Company and the effect of this has been that they have been able to (and required to) expand rapidly, as can be seen in table 1:

	Mar-06	Sep-09	CAGR
Active borrowers	172,970	5,301,181	263%
# of States	4	19	146%
# of Branches	80	1,627	233%
Gross Loan Portf. (in Rs. millions)	919	32,079	274%

From Vikash Kumar & Daniel Rozas (2010)

From the perspective of commercial microfinance organisations, maximising clients increases profits, which they argue increases their ability to further extend outreach. However when the aim is client outreach with as few overheads as possible the level of knowledge of the client is reduced. In the case of SKS loan officers are responsible for an average of some 450 active borrowers (or 550 clients) (Kumar & Rozas, 2010). It is difficult to see with such a high borrower to loan officer ration how quality of services can be maintained. There have also been many reports of microfinance clients taking out multiple loans, suggesting that microfinance organisations are not devoting resources to vetting clients. This increases the risk of microfinance having a negative impact.

These practices demonstrate that much of the commercial microfinance sector is following the profitable model of 'widening' access to a very limited range of financial services rather than 'deepening' it and truly developing a more inclusive financial system. While consumption smoothing is a positive side effect of commercial microfinance, this will often be seen side by side with a lack of vetting, support and consumer protection, generating negative outcomes for some clients.

The role of Commercial Microcredit

Given the potential for microcredit to do harm the question arises: should we attempt to prevent microfinance organisations from maximising profits and offering stripped down services?

In our parliamentary oral evidence sessions many of those representing funders maintained that there was a need for microfinance to be sustainable without donor funding. Many of the contributors believe that microfinance essentially is just another part of the financial landscape and should not be held to any higher standard than commercial banking in other parts of the world and in the rest of the world finance is profit making.

However one cannot get away from the fact that microfinance is touted as a 'development intervention' and yet there is some evidence that commercial forms of microfinance can in fact be harmful, particularly where there is a focus on stripped-down services and consequent lack of systems that might help to foster businesses and

In areas with a high saturation of microlenders and little regulatory oversight many organisations compete for business from the same clients and it can be easy for over indebtedness to ravage a village.

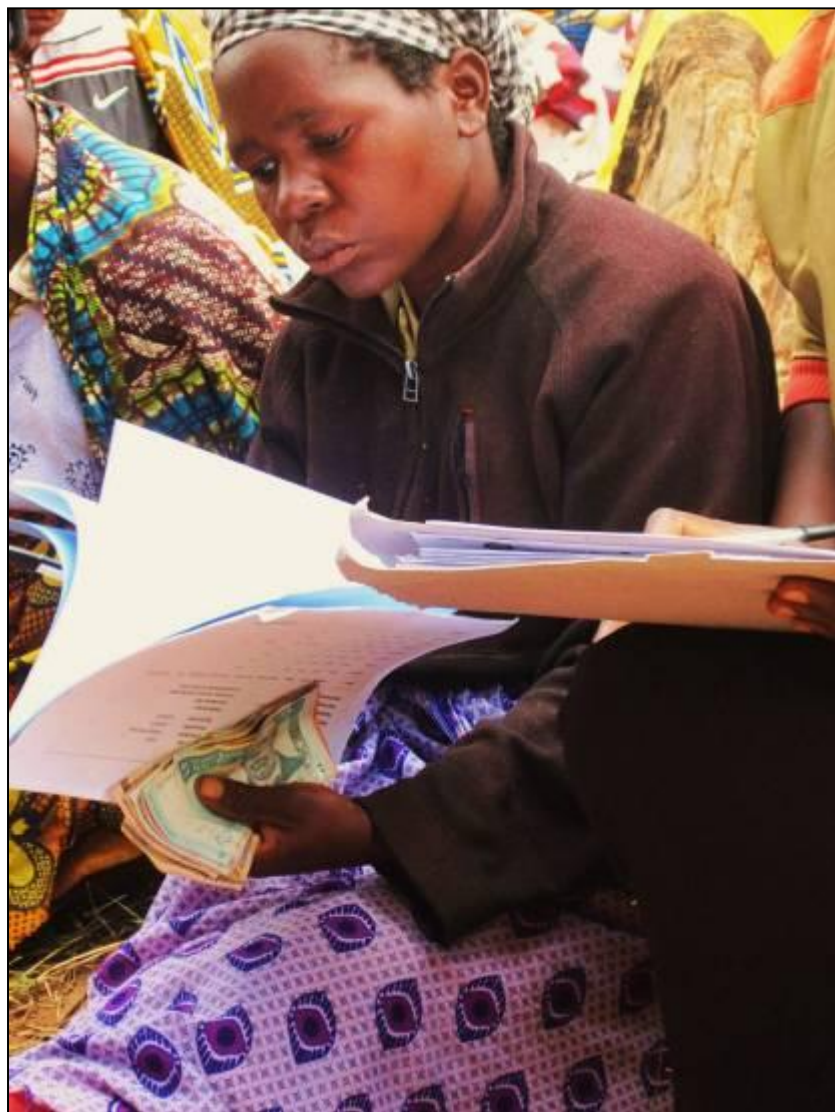
Leo Hornak in the Independent newspaper wrote of the case of Laxmi, an eight year old girl kidnapped and held hostage by a local money lender because her parents had been unable to keep up with their debt. This debt was owed to a registered Indian microfinance institution who had subcontracted repayment collections to the local moneylender, in effect a loan shark. Hornak points out that on its website the microfinance organisation claims to be dedicated to fighting poverty, and particularly emphasises women's rights.

Cases like this are not normal practice, but they are happening. While microcredit first began as a way for people to avoid moneylenders, the line between MFIs and moneylenders has become blurred due to increasing commercialisation, lax regulation and in some cases bad practices such as sub-contracting out to the sorts of people microfinance was set up to marginalise.

(Independent: Hornak 08/05/2011)

make them successful. Our submissions repeatedly make the point that microfinance endeavours that involve

some form of 'credit plus' will ultimately be more successful at alleviating poverty than those offering just credit. Opportunity International's submission notes that access to credit is not necessarily going to be a force for good, by itself, in an economic system: "use of financial services is as vital as "access" if a poor person's life is to be transformed. This is particularly so in rural areas, where high illiteracy rates are combined with a lower familiarity with banking."



A meeting of Tiramwawi credit group in Malawi, which is supported by the MicroLoan Foundation. Photo by Lottie Heales

It was generally acknowledged in the vast majority of our submissions that microfinance requires better regulation. While it would be a double standard to say that financial organisations can be commercial in the global north but not in the global south the fact is that there are currently widely varying regulatory systems between countries, some of which have low emphasis on consumer protection. Regulatory systems have also sometimes allowed MFIs to get away with practices that other financial institutions could not, under the cloak of being 'poverty-reducing institutions'. In Andhra Pradesh, a lax regulatory system for MFIs (though not for banks) has ultimately led to over-indebtedness of clients and allowed MFIs to operate in ways that are harmful to them.

While a commercial microfinance organisation has no obligation to focus on poverty alleviation it should have an

obligation not to prey on people or do harm. **At the moment, in many areas, regulatory structures are not strong enough and so MFIs are free to do harm, even if such harm is inadvertent.** As such, while commercial microfinance does have a role to play in financial systems, proper regulatory frameworks are needed to govern these institutions and ensure that they do not exploit the poor in order to enrich themselves and their shareholders. These organisations can no longer be viewed as part of the development community: they are profit seeking and their goals are often ultimately commercial not social.

Further, investment groups should not be permitted to market commercial MFIs to their customers as Socially Responsible Investments (SRIs) - or include them in SRI packages - without clear evidence that the MFIs invested in are having a positive social impact beyond outreach. A commercial MFI is no more of a socially responsible investment than any UK bank. Our own experience tells us that service provision alone is not an unambiguous social good; food sellers feed the hungry, but this does not make your local fish and chip shop a way of fighting urban poverty in the UK.

Sustainable Not-For-Profit (SNFP) microcredit

This type of microfinance attempts to need no donor inputs to maintain its portfolio but instead covers costs by using interest payments in order to pay for personnel and administration. In this section we will be looking not just at those models that have achieved operational self-sufficiency but also at those models that are attempting to reach operational self-sufficiency. Because there is no organisational profit to be made from such a structure these types of MFIs are usually run as NGOs, although the definition can cover fully regulated deposit-taking institutions like the Opportunity International Banks as well.

SNFP Organisations are often the favoured recipients of donor funding because any funding that they do require is not a long term need but instead will be necessary for something like capacity building, and there is even the possibility of having donor investments repaid, while the mission statements of the organisations usually remain focused on poverty-reduction. DFID very rarely provides funding direct to MFIs, however they have contributed to some apex funds that channel support to not-for-profit MFIs such as the Microfinance Investment Support Facility for Afghanistan (MISFA). In oral evidence to this inquiry DFID stated that they target sustainability in the microfinance initiatives that they support, while also strongly pushing for evidence of impact, including social indicators.

Different approaches within sustainable not-for-profit microfinance

The outreach model:

Some models, the Grameen model included, conceptualise poverty as a side effect of financial illiquidity and therefore concern themselves primarily with financial services. ASA has taken this focus on a minimalist product even further. Whereas Grameen offers a choice of general loans, housing loans, farming loans and other products, ASA attempted to ensure their sustainability and outreach by providing only one type of loan. This is concerning given that many of the submissions to this inquiry (Microloan Foundation, Anton Simanowitz, BRAC Development Institute) and much of the literature stressed the importance of providing appropriate loans to clients: "Appropriate, client centred products and services, delivered efficiently and therefore at as low a cost as possible, are key factors [to the success of microfinance]" (Marcus Fedder). Therefore, some of the issues that we raised with regards to commercial microcredit, particularly the use of stripped-down services to lower costs, apply to this sub-sector as well.

In an interview for this inquiry Graham Wrigley commented that it is crucially important to effectively regulate the not-for-profit microfinance sector as well as the commercial sector, because a not-for-profit or NGO can operate as a for profit company on the ground. In fact, as CGAP pointed out in communication with this inquiry, long-term data from MIX Market, which provides financial and social performance data on MFIs around the world, shows that not-for-profit MFIs traditionally have a higher Return on Assets (ROA) than for-profits. Due to the pressure on finances, there is a tendency for very little investigation into clients' circumstances or vetting to be carried out, and for monitoring of outcomes (despite improvements in recent years) to remain limited. There is also a risk with these forms of MFIs that the desire to expand to reach more people can lead to mission drift as larger loans are given to the less poor because these represent 'low hanging fruit'.

The credit plus model:

It was repeatedly stressed in evidence to this inquiry (including from Professor Paul Mosley, Five Talents, Microloan Foundation, and Opportunity International) that additional educational and support services are very important in attempting to ensure that microfinance services are used in a way that will help the clients long term.

Many of the submissions to this inquiry have been from MFIs implementing sustainable services while also attempting to ensure that those services are appropriate and include other forms of support to help clients to make effective use of microfinance services for improving their welfare. This type of model attempts to use interest rates to cover both operational costs and additional support. This, as one can imagine, can be quite challenging and in some circumstances will limit expansion or require that expansion costs are covered by some form of external funding. Many credit-plus model organisations may be only partially sustainable.

SNFP MFI Opportunity International, for example, places a high level of importance on sustainability. While they are a charity and receive some outside funds which they utilise in order to drive their technological innovation and fund expansion, they run a number of their country wide operations sustainably. In many countries they have become 'Opportunity Bank' which means that they are able to take savings and redeploy these by lending them out. They offer a wide variety of financial services including insurance, and combine these financial services with some forms of credit plus including financial education. They attempt to maintain a focus on women (84% of beneficiaries are women) and target hard to reach groups. However it is the scale that Opportunity has reached that ultimately makes it sustainable and as far as 'credit plus' goes Opportunity is relatively limited in terms of the non-financial services that it offers.

Five Talents and the Microloan Foundation represent two smaller MFIs that work to this model and have reached operational sustainability in some programmes. However both noted in communication with this inquiry that organisations can struggle to fully provide services or scale up without the help of grants. In circumstances where an MFI wishes to extend credit plus services or innovate in these areas but does not have the money to do so

donors may be able to play a role in providing money for capacity building of the non-financial service support mechanisms.

The tendency to limit investments in 'credit-plus' services is very strong, and we therefore believe that it is likely to be necessary for donors and other actors in the industry to provide strong incentives for MFIs to adopt these approaches, perhaps through conditioning funding (for expansion or innovation, as we do not believe donors should provide loan capital to sustainable microcredit) on providing comprehensive services, or supporting the development of an effective accreditation system for MFIs, which we discuss in the accreditation section below.

The movement to focus on social performance

If the assumption that all microfinance is a positive social force and will automatically help clients is perhaps most prominent among commercial microfinance providers, it is not limited to that sector and can frequently be found among not-for-profit and NGO microfinance providers as well. A fairly recent industry development, in part a reaction to commercialisation and to recent criticisms of the assumption that microfinance always helps the poor, is a movement towards the intentional inclusion of a social focus into microfinance programmes. Social Performance Management (SPM) means the practice of judging the performance of an organisation against social as well as financial measures. While this has sometimes been interpreted simply as ensuring that MFIs are reaching those clients they say they are (for example the poorest), more recent developments in SPM have gone much further and look to measure the social *outcomes* of

The Microloan Foundation has been particularly forward-thinking in terms of their monitoring. They use a combination of Household Indicators adapted from the Grameen PPI Indicators and interviews/ focus groups with clients in order to gauge how their products are affecting clients. They use the results of their consultations and monitoring for product design. They also use feedback as a basis for the training of their staff and improvement of service delivery. They pay for this monitoring through a combination of UK fundraising and the money made through their provision of financial services. While this requires resources it does not, they argue, preclude financial sustainability, in the long term.



A MicroLoan Foundation client in Malawi, photo by Lottie Heales

programmes, through means such as household indicator studies, feedback from staff, and client focus groups.

Using SPM places more focus on the quality of the services offered. In response to the question ‘what factors make microfinance successful in alleviating poverty?’ contributors to this inquiry told us that proper knowledge of clients and their experiences is key. Ian Boyd-Livingstone commented that the following is crucial: ‘fulfilling the requirements of "know your customer" beyond the level demanded by regulators. Understanding the lives of those you serve and therefore the value you can add through the provision of microfinance.’ Product officers or loan officers are the face of the MFI and it is they who have the greatest wealth of knowledge about how microcredit products are working. A good relationship between loan officers and clients can help to identify clients in need of extra support, to find ways of improving products and to ensure that microfinance is not having negative effects.

It is argued by some not-for-profit MFIs and in some of our submissions (Five Talents, Malcolm Harper) that requirements on MFIs to monitor the outcomes of their work would create a significant financial burden on the organisation particularly where monitoring is required to be very detailed. This inquiry believes that it is important that MFIs do engage in monitoring, although we recognise the concerns. While engaging with SPM can be a painful thing for an organisation (both in terms of the cost and because it can show up weaknesses in organisational structures) it is of exceptional importance if microfinance is going to progress and improve as a development intervention. Given that SFNFP MFIs are often working to a tight budget and initial implementation of monitoring can be costly this inquiry believes that the sector could benefit from the use of donor funds to build monitoring capacity. Funds like DFID’s MICFAC could be usefully spent on ensuring that a culture of monitoring and evaluation is instituted into the sector and into individual institutions. It is crucial that this is not viewed as a way to gather ‘good news’ about the sector or ‘prove’ that it is socially useful – rather it needs to focus on rigorous, independent investigation into and evaluation of social outcomes, and be used to drive improvements in service delivery. DFID input into the current debates over SPM (discussed in the later section on accreditation) should focus on ensuring this independent, investigative approach.

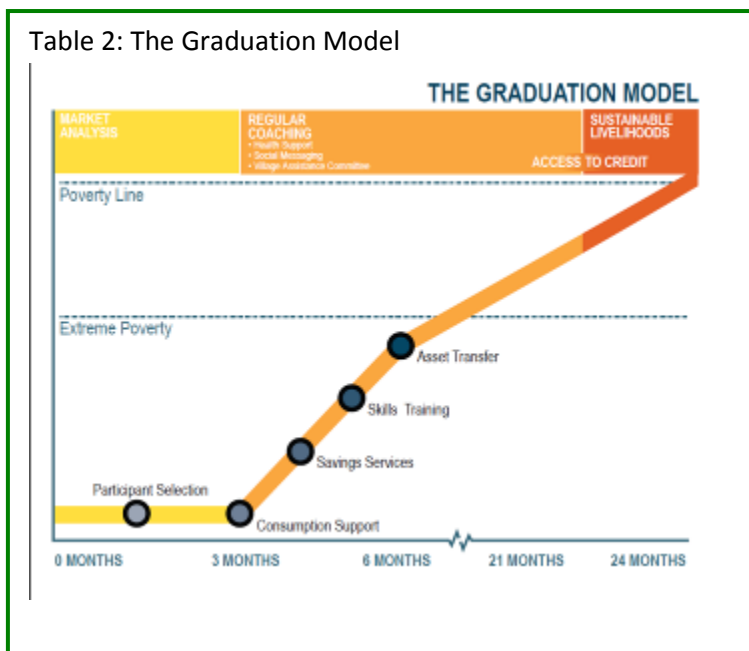
There is as yet no international best practice on social performance monitoring, although many examples of effective methodologies were raised in evidence to this inquiry, including Grameen’s PPIs, the Microloan Foundations’ methodology explained in the box on the previous page, and the Cashpor House Index. Further discussion of how donors should engage with and support the wider adoption of SPM is in the later section on accreditation.

Grant Maintained Not For Profit

Grant maintained microfinance is often criticised for being inefficient and, indeed, credit-only forms of microfinance should never have to be grant maintained as this suggests that the credit product is inappropriate or badly designed. However microfinance is not simply the provision of credit and in some cases MFIs have made the decision that it is the development mission that they wish to focus on. As such they offer client inputs (like health care, business training, veterinary services etc) that are never going to be paid for by the interest from clients

loans, either because loans are too small or because not all clients are accessing credit. Grant-maintained microfinance interventions are usually aimed at helping people, often the very poor, to move into a state where they would be able to take part in the wider economy. However, the fact that credit plus services are provided doesn't necessarily mean that the products being offered are of a decent quality. Therefore, just as is the case with SFNFP microfinance it is recommended that monitoring of these services be conducted.

Table 2: The Graduation Model



One form of grant-maintained microfinance that has been specifically developed to serve the poorest sectors of society is 'graduation programmes',⁷ typified in the models offered by BRAC and Fonkoze. Under this type of model the extreme poor are targeted and given access to a stipend in order to cover immediate expenses and assets in order to start a business (e.g. livestock or materials for trade). They are also provided with various other support services such as health, education and veterinary services. They are encouraged to save and it is hoped that after an initial period (of around 24 months) clients will

have graduated from extreme poverty to a point where they are able to take part in the wider financial sector.

In an interview with Professor Malcolm Harper conducted for this inquiry he argued that 'Targeting the very poor' (TUP) programmes were capable of yielding impressive results. Over the past five years BRAC's Ultra-Poor programs has reached 800,000 households. Over 70% of them are expected to be food secure and manage sustainable economic activities on exit from the programme.

Savings-led methodologies tend to support poor people building on their own assets and resources. A common model is represented in the Village Savings and Loan Association (VSLA) model. This is a saving-based approach to microfinance, which was originally developed by CARE International in Niger in 1991. It has since been rolled out to 23 countries in Africa, reaching 2.5 million active participants so far. The organisation targets groups of very poor people, mostly women and mostly in rural areas, who pool their savings into funds from which members can borrow, without any need for external money for lending. The organisation facilitates the start-up of the VSLA and provides financial and non-financial services to support the groups for the first 12 months after set-up at which point the VSLA can to be equipped enough to continue without further assistance.

⁷ Represented in table 2 which was found at <http://www.cgap.org/p/site/c/template.rc/1.9.50739/>

Rahila Mamane, former VSLA facilitator for CARE: “The success of VSLAs is due to the fact that the method is very simple and participative. We did not bring money from outside... If we brought in money, the women would not have had to learn and the groups would not have survived” (CARE, 2011)



A VSLA meeting facilitated by CARE International in Tanzania in 2007, photo by CARE.

There are potential problems with this model, including the relatively small amount of capital available for lending, and limited products such as the lack of availability of longer term loans. Further linkage opportunities with Formal Financial Institutions are being piloted across countries to allow members to deposit their savings or have access to external resources when needed. There has however been a fair amount of success with this model, which has been adopted by other agencies since being piloted by CARE. DFID’s study of CARE’s programme in Zanzibar in 2001-2002 showed that the VSLAs have been generally successful even after the end of the period when intense support is provided. Drop-out rates from this model have been significantly lower than with other models (around 12% over the course of 5 years, compared some MFIs

which can be between 10-15% per year) (Anyango et.al), and the average growth rates and profitability of VSLAs was actually increasing (written evidence from CARE). The VSLA model significantly supports households’ development of income-generating opportunities and because it involves local people, who are essentially their own financial institution, they have the ability to adapt services to their needs.

The role of Grant Maintained Microfinance

This form of microfinance is far more akin to traditional aid programmes, in the sense that there is no opportunity for donors or social investors to recover costs, and this limits potential outreach. However it is unlike traditional aid programmes in that it encourages enterprise. The phrase often used in microfinance is: ‘a hand up not a hand out’, and grant-maintained microfinance still encourages a culture of saving and enterprise and offers a sense of agency to the recipient who is empowered to take a role in their own future.

This is an area of microfinance in which donors have a big role to play since these types of programmes have can

Since 2006, CGAP and Ford Foundation are helping to implement ten Graduation Pilots, in Haiti, three places in India (Bandhan, SKS, and Trickle Up), Pakistan, Honduras, Peru, Ethiopia, Yemen, and Ghana. These pilots explore how safety nets, livelihoods and microfinance can be sequenced to create pathways for the poorest out of extreme poverty, involving diverse institutional forms, economic contexts, and cultures. The preliminary results from the randomised impact assessment study at Bandhan in West Bengal, is showing very promising results with an average rise in monthly consumption of around 25% for those participating in the program- with an important increase in nutritious and high protein foods such as meat, eggs, dairy and fruit.

have a high impact on poverty but sometimes need external support to cover their running costs. Wherever possible we would recommend that programmes should be set up in a way that ensures their sustainability without external funding, including through cross-subsidisation from more profitable areas of business.

Gender

The assumption that microfinance will do good is made particularly often when policies are framed around women. Microfinance is often claimed to automatically empower women, and in addition MFIs often target women. Frequently the justification for this is that women are often the poorest, they are responsible for household welfare and women are far less likely to have access to formal credit. These arguments are valid: in Uganda, for example, just 1% of available agricultural credit goes to female entrepreneurs and a lack of access to credit is often cited as a significant barrier to diversifying livelihoods or expanding agricultural activities (FAO:2011). However, women also tend to have higher repayment rates and this too, is a reason why many MFIs do not lend to men. Currently around two thirds of microfinance clients around the world are women (AUSAID, 2008).

Submissions to this inquiry and the microfinance literature suggest that in fact the impact of microfinance on women may be more complicated than first imagined. Simply because money is loaned to a woman does not mean that it gives her more power in the household or indeed that it was her that wanted the loan. Indeed in the study by White (1991) it was found that 50% of loans taken out by women were used for men's productive activities. The fact that money is loaned to a woman does not necessarily mean that female household members would be increasingly prioritised: "Expenditure decisions may continue to prioritize men and male children...In other instances, the responsibility of women to repay loans may absolve men of responsibility for the household, further entrenching poverty."(AUSAID, 2008) However, the fact that a loan is co-opted by men in the household does not by itself mean that women are not empowered. In an evaluation of BRAC activities participation of women in BRAC was found to increase the empowerment of women (who reported higher levels of self-confidence and a reduction in their dependence on male members of the household) despite the fact that 53% of clients gave the money to their husband⁸.

Microfinance has been linked with the frustration of family relationships and it has been argued that this can create a heightened risk of gender-based violence. Linda Mayoux among others has highlighted that the change in dynamics when women are given more power over finances (because men may feel that they are sidelined) can lead to conflict. It should however be noted that there are also examples demonstrating mutual support and encouragement between partners who take up microfinance services.

⁸ Halder cited in AUSAID, 2008

Dr Kate Maclean in oral evidence to this inquiry noted that while women may have more of an opportunity to begin businesses through microfinance the idea that microfinance will reduce a woman's poverty does not take into account unpaid work that women do in the household. While women may have more access to funds, their new role as entrepreneur is taken on in addition to unpaid work that they undertake (including running households, caring for children and maintaining social relationships). She pointed out that to empower women the intervention needs to valorize and *challenge* the gendered burden of labour and women's role in the household and community. What is more in oral evidence to this inquiry Dr Maclean noted that whilst women may run businesses when they are small, when the business begins to become successful it is often the case that it is then taken over by male household members.



A group of SKS Microfinance clients in Nelogi, India. Photo by Kalyan3

In this sense microfinance, in attempting to 'empower women' rather simplistically by injecting capital, is failing to address some important issues at the root of gender relations. This highlights the need for women beneficiaries to be genuinely empowered in defining the aims of the intervention and institutional procedures. There are many examples of small scale operations – the original Rotating Savings and Credit Schemes that inspired microfinance for example – in which women decide the repayment rate and the interest rate on the loan. This contrasts with many organizations in which women beneficiaries are given responsibility for the administration of the loan but limited if any say in how the programme is run. It is crucial for MFIs that aim to empower women to

Microfinance can be beneficial to woman, and many clients refer to the empowerment that they feel. However the 'empowering' effects of microfinance are by no means universal. The impact of microfinance on women is

extremely various and depends on how the intervention is delivered as well as the cultural context. As noted previously, the social outcomes of a microfinance programme rely heavily on the quality of relationships that MFI agents such as loan officers develop with their clients. Where these relationships are healthy, and clients are able to feed back into the structure and management of the institution and the details of the products offered, the chances of positive social outcomes are much higher. We therefore believe that it is crucial that MFIs are encouraged to train their staff thoroughly, instil a culture of engagement and responsiveness to clients, and to monitor the social outcomes of their interventions, including the impact on women.

RECOMMENDATIONS: approaches to different forms of microcredit

In this section we have reviewed the common institutional forms of microfinance, looked at how microfinance is currently delivered, and identified some of the issues that need to be addressed. Our recommendations based on the evidence we have received are:

1. **COMMITMENT TO MFI MONITORING:** It is important that the UK Government and other donors ensure that they are not funding interventions that cause harm. DFID can promote good practice by:
 - a. Placing requirements on DFID funded projects to conduct monitoring, looking at social impact as well as outreach and ensuring that evaluation is independent and evidence-based. DFID rarely provides direct capital to MFIs, but this requirement should apply when funding is channelled through apex funds and other mechanisms as well.
 - b. Using capacity building funds to help increase the capability of the microfinance sector to conduct SPM, and ensure that monitoring looks at the social outcomes and experiences of clients as well as measures such as outreach. We particularly recommend that this become a major focus for the MICFAC initiative currently being designed by DFID and the World Bank. Those designing the initiative should investigate how best to maximise take-up of funding for SPM, including considering whether provision of other funding through the initiative should be conditioned on either having an effective SPM system in place, or agreeing to develop one.
 - c. Encouraging and facilitating knowledge sharing on effective ways for MFIs to monitor, through establishing 'centres of excellence' and collaboration between MFIs in different regions.
 - d. Contributing to the creation of best practice guidance on social performance monitoring through engaging with CGAP other bodies leading efforts to create universal standards and accreditation schemes for MFIs.
 - e. Gender must be an integral part of social performance management. We recommend that DFID invest in research into how gender can be comprehensively incorporated into SPM tools, including monitoring whether female clients are involved with MFIs' governance and product design.

2. DFID should ensure that its funding does not go to sustainable (either commercial or not-for-profit) microfinance bodies in the form of increased loan funds, including any funding that is delivered through apex organisations. Money for lending should come from private investment, from savings (where the MFI is capable of mobilising them) or should be attained by sustainable organisations through taking on debt through the increasingly mature capital markets. However, we feel that exceptions could be made for start-up activity in extremely under-served regions if support from donors would stimulate investment that would not otherwise occur.
3. DFID should seek to facilitate sustainable organisations to offer more in-depth non-sustainable products to very poor populations. We recommend that DFID work with CGAP and other knowledge leaders to investigate whether regulation and/or accreditation processes could be used to leverage greater investment in these products. Any regulation would have to be designed in a sensitive manner to avoid creating perverse incentives and ensure that the programmes established would be appropriate to the needs of the population and effectively monitored to keep track of social outcomes.
4. CDC should develop formal guidelines for investment in microfinance, justifying investments in terms of social and economic impact and requiring evidence to back up claims from monitoring, include requiring any MFIs supported by CDC to provide evidence that they do no harm.
5. Donors, as always, have a unique role in funding innovation, and in every case this innovation should be focused on alleviating poverty with thorough evaluation of the social impact. We recommend DFID support MFIs, particularly in under-served regions, to pilot and scale up business models and products to have greater impact and provide a deeper and broader range of services. Support could be provided through DFID and the World Bank's MICFAC initiative. Care should be taken when working with commercial microfinance organisations to not subsidise innovations that would be undertaken anyway. In these cases donor money should be used to encourage these organisations to push down-market with pro-poor products and services, and should always be linked to rigorous social performance management.
6. Where donor-supported not-for-profit organisations are providing proven social impact, DFID should consider subsidising and supporting these interventions even where sustainability is not attempted, on the same terms as other development interventions that could achieve similar outcomes. If they choose to do this, care should be taken so as to not unduly distort the market to the point where sustainable not-for-profit organisations are undermined.

Regulation

Recent investigations by the media^{9&10} into the lending practices of commercial microfinance organisations have suggested that some MFIs are engaging in ‘predatory lending’, seeking out clients and encouraging them to borrow regardless of whether they need the loan or not. Commentators including Dr Ha Joon Chang of the University of Cambridge¹¹ have recently argued that predatory elements in the microfinance industry need to be distinguished from other forms of microfinance organisations. Ha Joon Chang points out that some MFIs charge interest at 100-150% and demand repayment to begin the following week. During an oral evidence session for this inquiry it was agreed by panellists that while it is the MFIs who have offered services irresponsibly, responsibility for the abuses that have occurred has to be shared with other elements of the sector including informal sources of lending contributing to high rates of debt, and States that have not effectively regulated. Mainstream financial institutions – banks, building societies, and to a lesser extent, other formal financial institutions – are subject to rigorous regulation that limits exploitation of the poor, and demands that clients must be subject to consumer protections (in the wake of the global financial crisis which was in part caused by sub-prime lending it has been argued that regulation could be strengthened further). Such protections are notably lacking for the clients of many MFIs, which under the protection of the ‘development’ label have been in, some ways, permitted a relatively free reign.

On the other hand, it is also clear that knee-jerk reactions to bad press can be very harmful as over-regulating the sector risks shutting down the entire microfinance system and effectively pushing poor people back into the hands of moneylenders, as commentators have suggested is currently happening in Andhra Pradesh, India. Ensuring that regulation can be enforced is also crucial; some of the practices of MFIs reported in the recent Andhra Pradesh scandal were actually illegal (for example the kidnapping of clients’ children in order to force repayment), but the legal authorities failed to take action.

In this section we will look at regulation as it relates to commercial and not-for-profit microfinance (it is important to note that not-for-profit microfinance also urgently needs regulation as this section of the sector is certainly not immune to abusive practices).

It should be noted that each country has many different regulatory regimes. However, a basic distinction is usually drawn between:

- 1) A bank, which is characterised as being a deposit taking institution that has a banking license. Obtaining a banking license also implies the highest level of regulation, with the Central Bank of the country paying careful attention to factors such as capital adequacy, liquidity, foreign exchange exposure, and even the

⁹ BBC article: “Microcredit in Bangladesh ‘helped 10 million’” 27 January, 2011

¹⁰ NPR (National Public Radio) Article: “India’s Poor Reel Under Microfinance Debt Burden” Flintoff, C. 31 December, 2010

¹¹ During Guardian Podcast on Microfinance 01/04/2011

professional experience and qualifications of senior staff. Often banks must report their positions weekly, or even daily to the Central Bank, which implies that these organisations must have sophisticated computer systems.

- 2) A non-bank formal financial institution (FFI). The main difference between a bank and a non-bank FFI is that the FFI is usually not allowed, by law, to take deposits. For many commercial microfinance organisations, this legal structure is sufficient: there is often much less regulation than if a full banking license is obtained. Often these organisations focus exclusively on lending, as they cannot legally offer savings or insurance products. These organisations can thus be highly profitable and to add financial products or processes that support a social mission can prove costly.
- 3) A microfinance organisation. Many countries have created a separate class of financial institution in order to deal with the microfinance industry. The quality and type of regulation applied to these organisations varies widely from country to country. In many cases, savings accounts are not allowed.
- 4) A not-for-profit organisation, or an NGO. What these organisations are allowed to do varies hugely from country to country. These organisations tend to be smaller, there are usually a very large number of them, and Central Banks would find it very difficult to effectively regulate such a profusion of tiny operators.

Issues in Regulation Policy

It has been argued among many of our submissions, oral and written, that there has been both over and under regulation of the microfinance industry. In oral evidence to this inquiry, Chris Bold argued that governments have over-restrictive on the types of players and business models employed, and have under-regulated for consumer protection and transparency. Marcus Fedder in written evidence to the inquiry stated that 'lack of proper regulation often stands in the way of MFIs setting up greenfields to reach the poorest but rarely stands in the way of those MFIs maximising profits.'

Particular issues that have been identified include:

1. **SAVINGS PROHIBITION**: In some regions there have been regulations in place in order to stop MFIs from taking savings deposits. This is because it is suspected that the volatility of the portfolio puts savers' money in danger. The need to safe guard people's savings is important; the history books are full of bank failures where, through no fault of their own, people have lost their life savings. However, if people are denied savings then a significant and positive element of microfinance is closed down, and with people's financial options limited to credit the potential for inappropriate lending leading to harm increases. There remain ways for MFIs to facilitate savings - in Malawi, for example, the Microloan Foundation has a relationship with a bank through which, although they don't hold money themselves, they can ensure that their clients are saving. Regulation that prevents MFIs from taking deposits has in fact sometimes worked in the interests of commercial MFIs and against the interests of the poor for whom the ability to

save can represent a significant coping mechanism against income shocks. Submissions to this inquiry (for example from Malcolm Harper) suggested that many MFIs have no desire to take savings, because where the deposits are small the provision of this service can be costly. Therefore it is important that when Governments regulate MFIs they ensure find ways to encourage safe savings since savings are a vital element of financial service provision and vulnerability reduction.

1. HAMPERING TECHNOLOGICAL INNOVATION THAT CAN ASSIST ACCESS BY THE POOR: Another area where

regulation can cause dramatic exclusion is through overly zealous “Know Your Customer” laws. Frequently these regulations are brought in due to concerns over money laundering. The poor are those most likely to not be able to provide evidence of identity – birth certificates, driving licenses, and so on. In the best case this raises transaction costs and makes it difficult to sign-up new customers (particularly the poor), and in the worst case it can completely exclude the undocumented poor. In some countries that do not have standardised identity documents this problem can be acute: Opportunity International Malawi has actually developed fingerprint

M-PESA is a branchless banking services that allows users to bank without needing to visit a bank branch. This is extremely important given that, for the rural poor, visiting the bank can be a costly and time consuming thing to do.

M-PESA has now been expanded into new countries and demand for the product has proved high. A local M-PESA agent in Bukura, Kenya said: “Since we have become M-PESA agents we have no time to rest... They only want M-PESA” (CGAP: Rosenberg, 2008)

Mobile Banking technology is becoming a force for financial inclusion in the developing world. Since its introduction in 2007 the number of M-PESA users has risen to 11.9 million. It is important that while regulatory frameworks protect users, they also ensure that they do not hamper the vital role that innovations, like mobile banking, can play.



Image courtesy of the Bill and Melinda Gates Foundation.

identification technology to address exactly this issue. The successful Kenya M-PESA mobile banking initiative (sponsored by DFID) has mitigated this issue by limiting transaction sizes so that only very few identity checks need to be carried out. However there is scope for larger transaction sizes by introducing staggered levels of checking according to the amount transferred (Allen & Overy, May 2010). Again it is important that states ensure that the services can be provided safely, but also learn from best practice and implement innovative forms of regulation so as to ensure that services can be widely provided at the lowest risk to the public.

2. VETTING: Rosalind Copisarow in oral evidence to this inquiry explained that the lack of proper vetting procedures meant that microfinance organisations are lending irresponsibly, without properly looking into the debt burden already on that individual – and this charge has been repeated from many other sources. There is an argument that much of the infrastructure that is needed to check multiple lending, for example a credit bureau system, simply isn't there. However a lack of this kind of infrastructure should not be an excuse for poor lending practices and therefore steps need to be taken to ensure that a culture of vetting is instituted into the microfinance community. This includes investigating whether or not a person is able to repay the loan and looking into their current debt burden. In order for vetting procedures to be effective this will require both responsibilities to be placed on MFIs and for governments to take a role in instituting the kind of infrastructure needed for vetting (including credit bureaux and possibly identity verification measures (see above). Donors can play a crucial role in promoting good practice and providing capacity-building resources for governments.
3. PREDATORY LENDING: As we have discussed above, there have been reports, notably in Andhra Pradesh, India, of predatory lending practices. In the UK financial institutions are expected to abide by statutory regulations, and those individuals who contravene these regulations are subject to individual criminal liability. It is important that where regulation is put in place, there is a focus on predatory lending practices and that such cases are pursued with vigour.

The future of regulation

Though the APPG feels that the above issues need to be taken into account by microfinance regulation, it is beyond the scope of this investigation to advocate any particular form of regulation.

Indications from current discussions of regulation suggest that a tiered structure (with different levels of regulation for different sizes and different types of institution and regulates issues, as discussed above) is often preferred (Arun & Murinde, 2010) - this is because different licenses offered to different types of institutions allows the flexibility to reflect differences between microfinance models and regulate accordingly.

One major concern voiced in the microfinance community is that, because regulation is being looked at as a reaction to the bad practice of some MFIs, there may be a tendency to over regulate (quite possibly as a political, rather than practical, response) and this could stifle the industry. They have been urging that regulation should not be too deep and that there is a need for stable regulatory frameworks to be put in place quickly. This argument is based on the idea that unstable regulatory environments are difficult to invest and operate in (since one never knows when new regulations could make practices unviable or even illegal). While there is certainly a need for a stable regulatory framework, it is also of exceptional importance that inadequate or inappropriate regulation is not rushed through and then kept in place for fear that the instability could hamper investment. A

good regulatory framework developed through progressive reform is preferable to a rapidly stable framework that is not fit for purpose.

The APPG feels that donor countries should work together with knowledge centres such as CGAP to acknowledge the need for better regulation in the sector and to share best practice with governments about how to regulate microfinance. This inquiry recommends that DFID fund research into the efficacy of regulatory structures, remain closely engaged with the debate on regulation, and consider providing technical and financial support to governments to implement regulatory systems and infrastructure.

Accreditation

Regulation cannot provide solutions to all of the problems in the microfinance sector and therefore it is important to find new ways to incentivise good practice. One way that is currently being discussed is by introducing a form of accreditation. The idea is that MFIs would be accountable to an outside organisation in order to provide legitimacy and ensure that they are working for the benefit of clients.

There is currently a proliferation of proposals and initiatives on increasing the focus on social goals and SPM. The Social Performance Taskforce is now undertaking a consultation on creating 'Universal Standards for Social Performance',¹² building on the work of the Smart Campaign, Microfinance Transparency, CERISE and the Imp-Act Consortium, although at present it looks as though this is planned to set out a 'foundation' to set minimum standards rather than to also recognise exceptional performance. During oral evidence sessions for this inquiry Dr Phyllis Santamaria of Microfinance Without Borders recommended that the UK Government and MFIs engaged with this inquiry should become involved with the 'Microfinance Seal of Excellence' initiative proposed by the Microcredit Summit Campaign, which aims to create a multi-tiered accreditation system, using the existing tools and systems that have been developed for SPM, in order not only to set minimum standards but also to allow for the recognition of exceptional impact on poverty reduction. Others have concerns about the level of nuance built into this kind of system and Marcus Fedder commented that another route for accreditation may be by encouraging the role of microfinance ratings agencies. He argued that these institutions are able to provide a more sensitive assessment of MFIs than a 'seal'. What is more, many ratings agencies (some that take into account client protection and social performance) are already operational.

We believe that it is crucial that an effective but flexible suite of SPM tools is developed and recommend that DFID give support to the existing initiatives – particularly through the Social Performance Taskforce, but recognising that we may need to do more than set minimum standards – both to develop tools and to ensure that they are as widely adopted as possible. This should include integrating a comprehensive understanding of SPM into accreditation processes, requiring comprehensive SPM through any donor-supported initiatives, and putting

¹² For more information see <http://sptf.info/page/sptf-universal-standards-for>

in place regulation to ensure that marketing practices (including funding solicitation from not-for-profit MFIs) base claims regarding poverty reduction on comprehensive SPM findings.

Accreditation is a potential route to ensuring it is possible to distinguish those organisations that can demonstrate a positive impact on the social welfare of their clients from other sections of the microfinance field, including organisations with a profit-maximising approach and ultimately predatory lenders. It would both provide a good way for investors and Donors to make responsible decisions about where to put their money and, if widely adopted, provide a strong incentive for improvements in ensuring positive impacts on clients across the industry.



Rosette Pateño, a client of MFI Ahon Sa Hiram in the Philippines, makes bukayo, a shredded coconut snack. Photo by John Briggs.

RECOMMENDATIONS: regulation and accreditation

- **RESEARCH:** There needs to be funding available for additional research into successes and failings of regulatory structures in order to provide good practice guidance. Research should look not just at the effect of regulation on the MFI but also the effect of regulation on the well-being of clients.
- **ENGAGING IN DIALOGUE:** The microfinance community appears to be reconciling itself to the need for regulation. Donors need to be a driving force for regulation in the sector and must be vocal about the need for Governments to provide stable, uniform and adequate regulation.
- **PROVIDING FUNDING AND TECHNICAL ASSISTANCE FOR DEVELOPMENT OF REGULATION BODIES:** Many developing countries still need to develop regulatory infrastructure. Donors can play a role by sharing information and technology on how to set up these systems. Funding for instruments and institutions of financial protection such as credit bureaux is also an important area where donors can contribute.
- **SECTOR INVOLVEMENT IN ACCREDITATION:** The possibility of accreditation is an interesting and positive direction for the sector. As such it is the recommendation of this report that an extensive and diverse proportion of the sector becomes involved in this discussion. It would be particularly useful for donors such as DFID to contribute to consultations that are being undertaken through the Social Performance Taskforce, and to investigate how they could use accreditation systems to improve the focus on social goals within their own support for the sector.

Enabling Environments: how does microfinance fit into context?

One of the most repeated sentiments in submissions to this inquiry was that microfinance is not a 'magic bullet'. The degree to which microfinance can help to reduce poverty relies on a number of other issues which need to be tackled simultaneously and with vigour if poverty is going to be reduced.

The larger economic environment: Many submissions (particularly those from Kevin Kennedy and Milford Bateman) looked at the importance of market access to the success of microfinance. One of the major purposes of microfinance is to **exploit the potential for growth** in a given market. It offers initial capital for businesses but this is predicated on the idea that the business that it is being lent for is a viable one. Businesses suffer where there is a lack of people to buy the product being sold and where markets are isolated and impoverished the potential for growth is limited. As the written submission from NABARD noted: "enabling a person to be more productive by giving money through microfinance will only be useful if she is able to sell the product at a better price and get a decent return". Where micro-entrepreneurs cannot find markets for their products there is the possibility that they will be unable to recoup the investment in their business and keep up with the loan repayments, and therefore will default and slip into indebtedness.



A clay pot making family enterprise in India. Photo by McKay Savage

It has been noted in many criticisms of the way that microfinance currently operates (notably in Thomas Dichter (2006) and the written submission to this inquiry from Milford Bateman) that often micro-entrepreneurs are not offering new products to the market but instead are attempting to compete in saturated sectors. For example where there are many roadside tomato sellers and insufficient demand for the product new entrepreneurs attempting the same business will merely be competing for the same customers. Market links help people to transcend these local markets and find better prices for their goods. Some experimentation has been carried out in how to improve microfinance provision by tackling market constraints; for example during one of the oral evidence sessions for this inquiry there was an extended discussion of micro-franchising, where small individual producers are linked to a large buyer of their products (this

initiative was raised by Rosalind Copisarow). Diversification is also an option; programmes that help individuals to add value through secondary production (making milk into cheese, or peanuts into peanut butter for example) can help individuals to move past local markets. These innovative ways to multiply the impact of microfinance should be supported by donors and governments, particularly in their current early stages.

Secondly, oral evidence sessions for this inquiry¹³, as well as numerous written submissions, noted the neglect of Small and Medium Sized Enterprise (SME) financing. SMEs play an important role in promoting economic growth, and are traditionally good at breaking down barriers between isolated local economies, therefore providing injected non-debt based liquidity. SMEs tend to be better than microbusinesses at providing employment outside of the business owner's household and therefore providing the non-entrepreneurial with a wage. However SME financing is often neglected in developing economies, leaving a funding gap between micro and large business. This means that micro-entrepreneurs find it harder to scale up businesses and the meso economy is stifled, which given the positive impact that SMEs have been shown to have on economies (Tanzi & Davoodi, 2000), may limit the growth of developing economies. Financial sector strengthening needs to take place throughout the financial system if developing economies are going to grow. As such it is the recommendation of this inquiry that SME financing become an increasing focus of DFID's financial sector strengthening programmes. It should be noted that this report does not argue that the focus should shift from microfinance to SMEs but rather that the two need to be developed together to form an effective strategy of development across economic dimensions.

Government economic interventions have also been shown to be an important element in helping wider economies and specifically helping micro-entrepreneurs. In Malawi the Government's decision to subsidize agricultural inputs like fertilisers has proved very successful in helping farmers to continue producing even in the event of low rains. These sorts of interventions help to create the kind of environment in which it becomes easier for individuals to make a living.

Governance and Legal Frameworks: One important obstacle to economic development is the Governance of the state in which businesses must operate. Corruption or a lack of legal protection can be a significant hindrance to business. In some states where the access of rural entrepreneurs to legal services is poor, it is difficult for smallholders to develop contracts with larger businesses. In agriculture for example a farmer might make a lot more money selling to a regional rather than local retailer but doing this is a risk since the lack of contract law means that commitments may not be honoured. Thus working with states in order to improve governance is an important part of reducing poverty. Further corruption has been shown to be more damaging to smaller businesses than larger businesses (IMF: Tanzi et. Al 2000) possibly because larger firms are more institutionalised and therefore more integrated into the corrupt system. Smaller businesses, which usually operate on the peripheries of the economy and tend to engage poorer people are less able to cope with corruption and therefore corruption and poor governance stifles economic development at the poorer end of the economy.

¹³ Panellists at this session included Chris Bold, Marcus Fedder and Sukhwinder Arora

Other factors: Finally, an important issue when looking to address poverty through business is to look at other factors that impact upon micro-entrepreneurs. Many submissions to this inquiry highlighted the need to pursue the provision of people's basic needs – in addition to providing microfinance – as stated in the submission from NABARD: “Factors like health, nutrition, etc., are necessary for sustaining development through microfinance or otherwise, these areas take secondary importance to basic survival and poverty alleviation”. Where there is no provision of free healthcare and education it becomes more likely that credit and savings will be diverted into paying for these services, than spent on investing in an enterprise, while improved health has been shown to have an effect on the ability of individuals to accumulate capital (Bloom et. al, 2003).

RECOMMENDATIONS: enabling environments

- **MICROFINANCE AS PART OF WIDER ECONOMIC STRATEGY:** DFID made it clear in oral evidence sessions for this inquiry that they plan to fund microfinance as part of a larger financial sector strategy. The APPG supports this. It is the recommendation of this APPG that SME financing be included in this strategy and that more focus be placed on linking micro, small and medium producers with markets for their products and services.
- **SOCIAL WELFARE ISSUES:** Donors need to ensure that thought is given to the social support given to microfinance clients. Health and education are vital elements of economic development and therefore, where microfinance schemes are instituted donors should attempt to ensure that there is corresponding health and educational support.

Micro-Savings

Despite the focus on credit a large number of submission received by this inquiry stressed the importance of savings and, in particular, the importance of ensuring that all individuals have access to micro-savings. While there is increasing recognition of this issue and use of savings-led approaches to microfinance, many organisations continue to offer just credit. Savings products would benefit from the concerted attention of all elements of the microfinance sector.

The effect of micro-savings on vulnerability

Access to funds has been demonstrated in numerous studies, as being important for reducing the vulnerability of poor people (Wright, 2000 p. III). “Good microfinance encourages and facilitates savings which can be used to overcome health shocks, bad harvests, price hikes, emergencies etc.” (Five Talents). An incidence of illness or damage to housing can mean a significant setback, even for those people who have a steady income, let alone those who are struggling below the poverty line.

A study by UN-DESA demonstrated that among micro-entrepreneurs in three surveyed countries (Peru, Zimbabwe & India) those people across all three countries who took part in formal saving practices were very likely to use these savings as a strategy to address shocks to income. Further to this, the 2002 report by Gertler, Levine & Moretti, which looked at the role of financial institutions in helping people to insure against health shocks in Indonesia, indicated that those families with substantial assets and/or a high savings to consumption ratio are in a substantially better position in the event of illness.

These women, part of a Self Help Group (SHG) in India, have access not just to loans but to savings as well. Savings are an important tool for reducing vulnerability and yet savings services remain scarce for many of the world’s poor. It is important then, that we rebalance the micro finance sector, improving access not just for credit but also for savings, insurance and remittances.



Photo by McKay Savage

In a study by McCulloch & Baulch (2000) they found that microcredit also reduced vulnerability in this way. However, where possible the use of savings for this end would appear to be more beneficial than the use of

credit, if only because credit is comparatively expensive and there is a greater risk of falling prey to indebtedness. In light of this the poor should be encouraged to save in order to guard against such risks rather than to rely on credit.

It should be noted, though that in many instances (particularly in the event of severe illness), the stress on income is too large to be conceivably covered by savings (Cohen & Sebstad, 2003). In practice the savings of the very poor tend to guard against smaller scale fluctuations in income and therefore to fully guard against vulnerabilities a combination of micro-savings and microinsurance might be appropriate. Microinsurance will be explored in a later section.

Access to Savings Services.

Demand for savings products is not being adequately met. UN-DESA (2009) found that there was an enormous market for such services; in Bosnia for example 40% of survey respondents said they wanted but did not have a bank account. The demand for savings products is corroborated by numerous studies including the Kenyan paper by Dupas and Robinson (2009) in which 89% of people offered a savings account opted to open one.

However there are a variety of obstacles to poor people's access to savings, and this service lags far behind credit. Of 166 MFIs surveyed in 2009 by the think-tank Microfinance Information Exchange (MIX) all offered credit but only 27% offered distinct, non-credit-related savings products. Some MFIs require compulsory savings linked to credit products, but in many cases this is simply to provide collateral in the event of a default on the loan. If savings products are only offered with credit then this essentially incentivises credit, and while credit can be a valuable intervention it is also one which can be exceptionally costly. The unavailability of savings along with easy availability of credit has led to a shift from 'thrift' (savings) to debt in the form of credit as a strategy for poor people to manage their money (Hulme et.al, 2009).

Many organisations feel that it is simply too costly to provide micro-savings products to the poor. The amounts that they save are relatively small meaning that, when one takes into account the cost of administering the account, it is deemed too great to be profitable for the MFI. In other cases MFIs have not been allowed to provide stand-alone savings products due to regulatory restrictions on deposit-taking. However, generally where MFIs have wanted to find a way to offer savings they have been able to. Smaller MFIs have entered into partnerships with banks who are capable of taking savings, and larger MFIs like Opportunity International have converted country operations into banks and therefore are subject to the level of regulation and licencing that allows them to take deposits.

This demonstrates that there are options available to MFIs that would allow them to at the very least facilitate savings. However, some submissions emphasised that the more profitable option can be to not take savings: "[Some MFIs] make a great play about the fact that they are not allowed to take savings but some of them are plenty big enough to be banks but they don't want to be banks, much cheaper, as Northern Rock showed in

For rural populations with few transportation options it can be difficult and expensive just to get to a bank. A lack of local branches is a major obstacle to savings and credit. Opportunity International Bank Malawi (OIBM) was one of the first institutions to reach its remote clients with a mobile branch, the 'Bank-on-Wheels'. This is an excellent example of the kinds of innovations that need to be supported if savings are going to continue to reach the 'unbanked'.

Anastasia is an OIBM customer in Mzuzu. When she first opened up her bank account and took a loan she was sacrificing significant amounts of time and resources to use the branch 3 times a month. The mobile bank means that she no longer has to lose money travelling and she has more time to devote to her grocery business.



Image courtesy of Opportunity International

England, to put people into debt and not take their savings. Much cheaper money can be got from Citi Bank, HSBC and from donors for that matter.” (Malcolm Harper, in an interview conducted for this inquiry). Donors and Governments should be placing more of an emphasis on ensuring that these important services are integrated into financial inclusion programmes through regulation, incentives and potentially through providing funds for product innovation. The microfinance sector should no longer be able to offer only credit and argue that it is extending access to financial services. Savings are a universally valuable form of financial service and therefore should be the priority financial service.

Both MFIs and banks need to be encouraged to offer or facilitate savings products for the ultra-poor. Innovation in the products offered is needed and research should be carried out into the demand for different types of saving services including deposit collection services and commitment savings (also known as illiquid savings, this savings model does not allow clients to take out savings immediately and so can be

useful in helping to build up larger savings pots, as well as ensuring individuals are less vulnerable to community or family pressures to spend their savings (Anderson and Baland, 2002)).

Technological Innovation

One of the most significant innovations in recent years has been the move towards mobile banking, especially (though not exclusively – see box above) banking through mobile phones. Mobile banking provides a way of transferring money that does not require a branch or teller, potentially making the holding of an account less expensive for isolated or rural populations and the administration of that account less expensive for the institution, which can administer accounts to disparate groups more easily and from one location. Mobile banking

represents a real success for DFID who pioneered the trial of mobile banking in the form of M-PESA in Kenya. The growth of mobile banking is particularly promising in Africa, which has the highest rate of financial exclusion of any continent in the world but is well served by mobile telecommunications companies. Given the possibility for innovation in this area to have a positive effect on the lives of individuals and on the level of financial inclusion of hard to reach groups this inquiry fully supports DFID in their decision to allocate £8 million through CGAP's Technology Program to further innovation in the area of mobile banking, although care should be taken to ensure that the funding is not used to support initiatives that could attract commercial backing without donor support. DFID is also currently supporting MAP International to provide hand-held electronic chip and pin devices in Uganda, which have helped around 50,000 clients who did not previously have a bank account to access formal savings.¹⁴

RECOMMENDATIONS: micro-savings

SUPPORT FOR PRODUCT INNOVATION: DFID and other donors should strongly support MFIs to offer new savings products. We believe that this would be an ideal area of focus for DFID and the World Bank's MICFAC, which could provide capacity-building services to support MFIs to branch out into this new area.

REGULATORY SUPPORT: Wherever possible, MFIs should be enabled to take deposits or to create partnerships with Banks in order to facilitate savings. It is crucial that regulation maintains safeguards to protect clients' money, and donors including DFID could play a role in providing technical support and resources to governments to create and enforce appropriate regulatory systems that encourage MFIs to either adopt institutional forms that allow deposit-taking or to set up partnerships with banks to facilitate savings.

¹⁴ Department for International Development (2011) *The Engine of Development: The private sector and prosperity for poor people*. <http://www.dfid.gov.uk/Documents/publications1/Private-sector-approach-paper-May2011.pdf>

Microinsurance

Microinsurance has great potential to reduce the vulnerability of the poor against many different types of shocks. Despite this potential there are few organisations offering the service, particularly in comparison to credit. However this is an area that is growing and current data suggests that, just in Africa, the number of microinsurance policies rose 80% between 2005 and 2009.¹⁵ Evidence submitted to this inquiry was generally positive about the role that microinsurance can play. Microinsurance can be bought by poor people and products fall into the broad categories of life, health, property and weather insurance. The main benefit of microinsurance is that the payment of small premiums can guard against significant losses, in a way that savings and credit can rarely do. The MicroEnsure submission stressed that microinsurance pools risk, and: “plays a role because it provides a safety net that moves up underneath the working poor to ensure that they do not slide back into poverty when disaster strikes.”

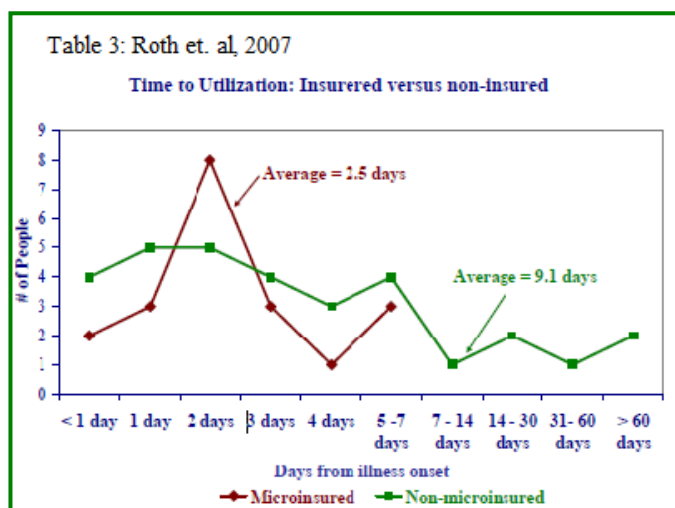
Life insurance was not talked about in detail in submissions to the inquiry, we suspect because it is simple and the “bread and butter” insurance product. Looking at the products that are generally available, however, tells us that life insurance generally takes two forms, either some kind of ‘credit life’, or a funeral product. ‘Credit life’ insurance is a policy that is linked to a loan, paying out to cover the outstanding balance in the event of borrower death. Many MFIs offer, or make compulsory, some kind of ‘credit life’ insurance even if it is disguised under another name such as a ‘Mutual Benefit Fund’. These products are typically very cheap. Funeral insurance is similar, but covers more than just the borrower and their loan, extending to family members as well. In some communities, funerals can be a major expense that can bankrupt a family, so having an insurance policy to cover these costs can be an excellent investment.

Health insurance can be an important tool for guarding against poverty. Having fast access to health insurance means many things including:

- The cost of treatment will cause less of an economic shock to the household.
- Income is less likely to suffer due to time when earners are unable to work.
- Research has shown that people who have micro-health insurance are more likely to get help more quickly than those without (Roth et.al, 2007).

The table to the right demonstrates that people

with health insurance take an average of 2.5 days to seek help whilst those without health insurance take an



¹⁵ Ed. Morelli, E. et.al, (2010), 'Microinsurance: An innovative tool for risk and disaster management'

average of 9.1 days. Accessing care quickly means that the severity of illness is reduced and this will typically mean that treatment costs less. It also means that recovery times are smaller and therefore the client does not need to be out of work so long (therefore reducing the impact of the illness of the household (Roth et.al, 2007)). However, it is important to note that this effect is only found with indemnity insurance models. Other products that reimburse clients after the fact still require people to find the money upfront and therefore have a far less profound effect on the time that it takes for people to get help (Ibid.)

Drought-related risks are a real concern throughout Ethiopia where 85% of the population is dependent on rains for agriculture. The ability to offset these risks through insurance products is vital.

However poor people can find it difficult to find the funds to pay for insurance products or be reluctant to invest in them, particularly if they are not familiar with what insurance is and how it works

Oxfam's HARITA (Horn of Africa Risk Transfer for Adaptation) project allows clients to 'pay' for microinsurance through taking risk-reducing activities such as installing irrigation or using fertiliser. This introduces clients to the concept of insurance and allows the programme to offer protection to a wider base.



Medhin Reda, 45, with her daughter Tekleweini, 7, tending to their crops

While a full exploration of health insurance is beyond the scope of this report, it is recommended that where donors work towards implementing health insurance, there is adequate thought given to the larger health structures available. Responsibility for health cannot be foisted onto the individual and states need to take responsibility for ensuring that there is adequate health infrastructure in place for all individuals, not simply those who can pay for the policies.

Weather insurance is also a significant area of microinsurance, working to reduce individuals' vulnerability to droughts, floods and other natural disasters. This is particularly important in relation to the risks associated with climate change, with the scientific community increasingly united in predicting average temperature rises of 2 degrees with many (negative) associated consequences. Climate issues can be exceptionally dangerous, particularly in rural and farming populations where an entire year's crop can be decimated in an adverse weather event, wiping out people's savings and capital base and even leaving people destitute and hungry.

Crop microinsurance for smallholder farmers has benefits beyond just protecting the farmer from an extreme weather event. With risks covered by an insurer, this allows MFIs and other lenders to increasingly make credit

available to rural markets for agricultural purposes where before they would not consider putting a large part of their portfolio at such risk. This in turn allows more farmers to access credit for farm inputs such as high-yield seeds or fertiliser with confidence, whereas previously the farmers themselves would rather not take the risk of falling into a debt trap due to a failed crop.

It is an area that is ripe for innovation. To give just one example, in his presentation to the APPG on Microfinance¹⁶ Alan Doran talked about a model being trialled by OXFAM that allows people to offset the cost of their premiums by taking risk-limiting behaviours (irrigating farm land or using pesticides, for example), helping to make it possible for the very poor to engage with these products. This kind of product innovation is vital for microinsurance in these early stages and it would be very useful for donors to contribute to this, either by offering funds for innovation or by encouraging knowledge and technology sharing.

Implementation issues for microinsurance

The adoption of Index Based Microinsurance: Most modern agricultural microinsurance is 'Index Based Insurance'. That is to say that loss estimates are based on an index, (such as measured rainfall) rather than upon the individual actual loss of each policyholder. Crop insurance has previously (in many different parts of the world) been based on actual assessed loss but this model is widely regarded as unfit for purpose for smallholder farmers due to high costs.

One issue with index based microfinance is ensuring that the indicator that triggers payments is specific to the loss suffered by the policy-holder. In communication with this inquiry Richard Leftley, CEO of MicroEnsure, described a weather index insurance product against typhoon damage, which was designed around wind speeds and the distance of the farmer from the storm. However when typhoons began to become less windy and slower moving the damage was no longer inflicted by winds but by excess rainfall and subsequent flooding. Therefore cases occurred where a client was insured against typhoon damage, but because the payout depended on the wind-speed even though the damage was not all done by wind a payout was not always triggered when damage had been done. This undermined the quality of the product and made it difficult for the insurance company to assess claims. The fact that MicroEnsure identified the problem and took steps to change the product and mitigate the effects is encouraging. Such insurance products are new and cannot be expected to begin with flawless products. The important thing is that products are assessed on a continuing basis and adapted quickly when problems do arise.

If poor communities are paying premiums in order to protect their crop but are afflicted with something not covered by the policy then it is likely that they will see this as an injustice. Because these issues are complex, significant investment and specific expertise is needed for MFIs to be able to provide appropriate quality

¹⁶ Alan Doran addressed a joint meeting of the APPGs on Microfinance and Climate Change on 17 November 2010
<http://www.appg-microfinance.org/events.php>

products. Donors can play a core role in ensuring this is available, as well as disseminating and promoting best practices.

Infrastructure: Many countries do not have wide ranging weather data, particularly in rural areas (essential for correctly assessing the risk and associated price), or timely access to weather data as it happens (essential for paying claims). This is due to local meteorological services generally being low priority for many developing countries and thus chronically underfunded. A lack of weather stations “on the ground” cannot always be made up with remote sensing technology (i.e. through satellites), as it is simply not as accurate. In addition, where historical data is available, it is often on paper and of poor quality. For this historical data to be useful in designing weather indexed insurance products, it must first be encoded and “cleaned” by experts.

The amount of investment required to develop effective weather data systems is frequently more than NGOs or commercial insurance groups would be able or willing to spend. In addition, these systems are a public good that has multiple other uses, many developmental in nature such as disaster preparedness. It seems that this is a crucial area for donors to help stimulate investment in and ownership by national governments. Donors could also provide assistance where historical records already exist to “clean” this data and make it publicly available so it can be used for new weather indexed insurance product development by a variety of stakeholders.

Privatisation of risk- state social protection: One of the major criticisms about microinsurance is that it is effectively the privatisation of risk. It places the responsibility for dealing with poverty and vulnerability on the poor and the vulnerable themselves. While it has been demonstrated that some of the poor can engage with these products, not all poor people will be able to and it is important that wider government policies are run alongside and complement insurance initiatives, with the ultimate goal being to safeguard people.

For example it should not be the case that health insurance discourages states from building health infrastructure for those who cannot access health insurance. Similarly crop insurance should be implemented alongside other measures that assist people in reducing their vulnerability to natural disasters or extreme weather events. Many state run programmes have been successful in helping rural populations to avoid falling foul of weather. State subsidies of agricultural inputs have taken Malawi from a country that routinely faced droughts and relied on food aid to a country that is now food self-sufficient. Corn production went from 1.2m metric tons in 2005 (before the programme began) to 3.4 million in 2007.¹⁷ Similarly creating irrigation or anti-flood infrastructure will help both to protect individuals from poverty and also serve the macro-economy by safeguarding agricultural production. It should be a priority of DFID, both through national schemes and through microinsurance to attempt to ensure that vulnerability reducing schemes are implemented.

¹⁷ It should however be noted that 2005 saw a major drought, whereas 2007 had better than average rainfall: the subsidy was not the only reason for the increase.

RECOMMENDATIONS: microinsurance

- **PRODUCT AND TECHNOLOGICAL INNOVATION:** Microinsurance is in relatively early stages and therefore, considering the lack of infrastructure in many programme countries and the complicated nature of the product design it will require some time and resources in order to innovate and trial new products. DFID should contribute through providing funds for product development and capacity building of staff to design and deliver microinsurance products, and also by helping to build in-country infrastructure such as installing weather stations and cleaning and making public historical weather data. Again, we feel that capacity-building for microinsurance product innovation would be an ideal area in which to use funding available through MICFAC.
- **VULNERABILITY REDUCING ENVIRONMENTS:** It is also important that donors and Governments do not forget the role of states in reducing the vulnerability of citizens. Microinsurance should be undertaken alongside other programmes aimed at supporting individuals and shoring up the country against risks, and we recommend that DFID's private sector team work closely with other relevant teams in the Department including Climate Change, Education and Health.
- **HEALTH INSURANCE:** A sensitive approach must be taken both by DFID and in country to ensure that microinsurance doesn't build a 'parallel' health service.

Microfinance in fragile states: can it work?

In the recent review of DFID strategy and priorities following the establishment of the Coalition Government in May 2010 there has been a shift in focus towards engaging in fragile states. Of the states that DFID outlines as being possible targets for the World Bank/DFID initiative MICFAC many, including Angola, the Democratic Republic of the Congo (DRC), Ethiopia, Sierra Leone, Somalia, Sudan and Zimbabwe have been referred to by DFID as 'fragile states'. Yemen and Afghanistan are also classified as 'fragile states'; microfinance programmes are currently being implemented by DFID in Afghanistan and the Department has indicated that it is looking to extend programmes in Yemen. All of this seems to clearly indicate that it is the intention of DFID to escalate microfinance within fragile states. Indeed experiences in Afghanistan and the Finance Salone initiative in Sierra Leone seem to indicate that there is demand for these services in at least some fragile environments. Whilst little information exists on client outcomes, these programmes have demonstrated that in some regions of these countries the implementation of microfinance programmes is at the very least viable. That is not to say however that it is easy.

In Afghanistan, while there is little information on social outcomes there are some indications that microfinance can work. The number of clients is currently estimated at around 427,561 and the amount given in loans since 2003, when operations started, hit \$1bn in February 2011. 60% of clients are women.

A 2011 UNHCR and BRAC Afghanistan study looked at the effects of microfinance in Afghanistan. The study documented a survey of 1,274 BRAC microfinance clients from four different Afghan provinces and found that, of those who were returning refugees, 50% used their loan either as a working capital, or to purchase equipment or a piece of land, or to repair their house for the business.

Fawad Hakimi said: "I returned from Pakistan five years ago and borrowed 100,000 Afghanis (US\$ 2,000) from BRAC to start my own business and I am very pleased with the outcome."

This report seems to indicate that microfinance in fragile states may be of particular use to returning displaced populations needing an injection of capital to rebuild their livelihoods. Moreover cases like these demonstrate a potential viability (in the absence of data on outcomes) for microfinance in fragile states.

Information from the MISFA (Microfinance Investment Support Facility for Afghanistan) homepage accessed on 31/05/2011: <http://www.misfa.org.af/?page=home&lang=en>

The Challenge of Microfinance in Fragile States

As the previous section on 'enabling environments' discussed, the context in which microfinance is implemented is instrumental in its success. As such unstable, unpredictable environments can be problematic. Microfinance is not a short term intervention, and because it seeks to reduce poverty long term through economic development

it requires the kind of environment that will allow for such development to take place. While it is not inconceivable that some fragile states may be able to provide a suitable environment for microfinance programmes there are numerous problems presented:

Paying back loans: In fragile states like Sudan (particularly in the south and the west) and the DRC, as well as in Afghanistan, populations are often more mobile than in other countries. Many of the countries that are targeted under DFID's new strategy have significant numbers of internally displaced people (IDPs). Mobile populations can make the logistics, particularly of microcredit, difficult. "Refugees, IDPs and returnees lack the basic assets, social bonds or predictable future that traditional microfinance methodologies rely on to mitigate risk, conduct client assessment and structure incentives." (USAID, 2004). USAID however also argues that with adaptation to the microfinance model, programmes can be created that serve such populations. In Sierra Leone the MFI ARC created the Finance Salone programme (which works along similar lines as 'graduation programmes' discussed on p33. However, while examples can be found where engaging with mobile populations has worked, there are risks to operating in these areas too. (Currently repayment rates on microloans in Afghanistan are at only 84.6% (MISFA¹⁸)). Where microfinance does not properly serve communities, as demonstrated through low repayment rates) there is a significant risk of entrenching poor borrowing practices and thus making it harder to access these populations in the future.

Lack of available markets: Availability of markets is of exceptional importance to the success of microfinance. If the economic environment is such that there is no demand for products, possibly due to the impoverished nature of the region, then there is little to lead us to suspect that microfinance will be successful in building livelihoods. In some 'fragile states', like Nigeria, the economic infrastructure is such that markets have developed, products are exported and the macro-economy of the country suggests that long term economic development is a reasonable prospect. In other areas, for example in South Sudan¹⁹, instability, poverty and economic isolation mean that the macro-economy is stifled and this has implications for the success of microfinance schemes in these areas. Chris Bold (CGAP)²⁰, during the oral evidence sessions for this inquiry noted that in Afghanistan the lack of access to markets hampers microfinance and that this is an area that DFID is already working on.

Resources issues: Chris Bold also noted that human resources can be a problem in fragile states. Using the example of Afghanistan he stated that there are difficulties in getting people with programme expertise to work in these countries, making it more difficult to implement programmes. In most fragile states programmes will therefore be more costly, both due to extra security requirements and because you have to offer higher salaries

¹⁸ Information from MISFA homepage <http://www.misfa.org.af/> accessed 31/05/2011

¹⁹ At the time of this report the South had voted to secede from Sudan but independence had not yet been formally recognised. However given that the South has been governed by the autonomous 'Government of South Sudan' since the Comprehensive Peace Agreement in 2005 it seems sensible to recognise 'South Sudan' as an autonomous region, even though it is not yet legally recognised as a state in its own right.

²⁰ At the time of our oral evidence sessions Chris Bold was on secondment from DFID to CGAP

to attract people with expertise. This might be tackled by attempting to use more in-country expertise, however in some cases the need to use outside personnel may be unavoidable.

Corruption: The issue of corruption and governance is often even more pronounced in fragile states. In Yemen monopolies on agricultural inputs held by rich families mean that fertilisers and pesticides are expensive, priced well above what many can pay. This pushes up the price of produce and can mean that farmers have difficulty recovering their costs (Lyman et al, 2005). These types of problems, often endemic in fragile states, may create obstacles for microfinance. Where, in some states (like the DRC and Somalia) corruption has given rise to a shadow economy this can place extra burdens on aspiring entrepreneurs and makes the prospect of their success less likely (2010 Index of Economic Freedom).



A client of First MicroFinance Bank, Afghanistan. Photo by Homayoun Niksear / First MicroFinance Bank / Aga Khan Agency for Microfinance

The DFID focus on fragile states

In evidence to this inquiry from DFID it has been made clear that DFID believes that it has an important role to play in innovation and in trying to offer microfinance programmes in areas that, unsupported, would be unlikely to be infiltrated by other MFIs. The APPG believes that innovation in the sector is a good thing and it is essential that donors do focus on those areas where the need is greatest. However it remains unclear whether attempting to implement microfinance programmes in fragile states is going to be the best use of departmental money. Economic development can be easily undone in fragile states and it is arguable that the money would be better

spent on building health and education infrastructure, on reconciliation and governance programmes, designed at creating a more enabling environment for economic development.

DFID should be aware of possible negative ramifications of implementing programmes in fragile states and they should commission research that looks into the social issues around microfinance in particular environments. A 2008 report from International Alert identified that microfinance could, particularly in conflict and post-conflict settings (where men are more often unemployed and 'masculine identities' become more pronounced), exacerbate gender divides and increase social tensions by injecting a new gender dynamic into social relationships. It is of exceptional importance in fragile states that there is holistic monitoring of how microfinance is affecting cultural and social dynamics, but research into this area remains limited.

DFID should look carefully into whether the cost:benefit ratio of implementing microfinance programmes in fragile states is greater than if that money was spent either on other programmes within that state or on microfinance elsewhere. 'Fragile state' is a diverse term and therefore the success with which microfinance can be implemented in such regions will depend very much on the particular circumstances of each state, and in fact of each region within an individual state.

DFID should exercise caution and restraint and be aware of the negative ramifications that policies could have. This includes the use of micro-credit to support illicit trades. Chris Bold (CGAP) stated that this is a concern for DFID and that they are doing what they can to limit the extent to which money is being diverted to this, however he argued there is also a limit to which you can detect illicit uses of donor-supported initiatives. Indeed most development interventions can be used in ways that benefit criminal elements in some way (for example a donor funded road will be used for legitimate and illegitimate purposes). Ultimately the focus should be on building effective interventions that adhere to legal requirements that are in place to ensure that they are not knowingly funding illicit activities.

Chris Bold also indicated that some programmes in fragile states have been unsuccessful because they have been attempting to operate in situations that were simply too unstable for microfinance. He argued that the timing may not yet be right for microfinance programs in particularly unstable regions of Afghanistan. Also, in Afghanistan, microfinance programmes have on occasion been run in areas where 'grant programmes' are in operation and in these situations there can be some confusion about whether or not money has to be repaid. It is important that wherever microfinance programmes are being run best practice is followed: "historically some microfinance projects affected by armed conflict have failed to comply with best-practice principles. A large proportion have subsequently failed leaving a legacy of repayment indiscipline, creating distrust toward financial services providers and making the development of a thriving microfinance market more costly and time consuming to achieve" (Concern Worldwide & Springfield Centre, 2004). If the quality of microfinance is suffering due to the environment then it should be considered whether or not microfinance is the right intervention for these regions:

RECOMMENDATIONS: microfinance in fragile states

- **SENSITIVE AND SLOW APPROACH TO FRAGILE STATES THAT FOCUSES PARTICULARLY ON THE ENVIRONMENT:** In the evidence that this inquiry has received it appears that DFID is planning to increasingly locate its microfinance programmes in fragile states as part of larger attempts to stimulate regional economies. This inquiry believes that this is good, however the focus should remain on how microfinance fits into wider economic development in the region and microfinance initiatives should be run alongside programmes aimed at reducing state fragility.
- **RESEARCH INTO EFFECTS OF PROGRAMMES IN FRAGILE STATES:** In fragile states there is a heightened risk of interventions (particularly involving liquid capital) becoming a source of contention, particularly where certain groups are given priority in the intervention (e.g. women). There is also a risk of microfinance being diverted through corruption. It is important that where there is intervention in fragile states steps are taken to understand how the intervention is working and mitigate any negative effects.
- **CONSULTATION ON FRAGILE STATES:** We recommend that DFID either undertake a consultation with stakeholders and implementers who work in the sector or support another body to undertake a consultation, in order to build up a knowledge base for how to engage with microfinance programmes in fragile states. Currently there is too little evidence over what works in fragile situations, especially due to the diversity of fragile states.
- **COST FOCUSED APPROACH:** While microfinance can be a useful tool for economic development, it should be accepted that it is not always the most appropriate tool. Where the costs involved in making a programme successful outweigh the potential benefits (particularly when compared to other interventions) questions should be asked about whether the money could be better spent elsewhere.

Appendix 1: methodological issues with microfinance research

This Appendix outlines some of the crucial methodological issues that surround the evidence base on microfinance.

If the microfinance sector is going to progress past some of the controversies relating to the provision of credit then it is important that it does that with its eyes open to the impact that microfinance services are having on clients. This is problematic because there is no methodology for the study of microfinance that is assented to by all elements of the disparate microfinance community. Results from existing data have differed widely and in some cases two academics using the same data set but different treatments find conflicting results (Morduch, 2002. NYU Wagner Working Paper). The differences in the findings from studies have led to increasing attention to the difficulties of conducting trials into microfinance. It has been assumed that flaws in the data are responsible for the inconsistencies in the cannon of evidence and there has been particular focus on a number of methodological issues. The purpose of this annex is to provide some more explanation of the methodological problems facing research into the impact of microfinance, whilst also indicating the ways in which different types of studies can be utilised in order to build up a more comprehensive evidence base.

Household Indicator Studies: Household Indicator Studies such as the Progress out of Poverty Index (PPI) involve measuring poverty through a variety of proxies such as housing materials, level of education etc. These are used to give households a 'poverty score'. Such studies have both good and bad aspects. They are a relatively easy form of monitoring for an MFI to implement; for example the Microloan Foundation has used this form of monitoring and has found that it is instructive and can be manageably implemented. However many academic or quasi-academic studies of the effectiveness of microfinance have focused their methodologies around such indicators and this is problematic because household indicators do not truly reflect how microfinance has affected the income of a household, they merely show change in the income of that household – which may or may not be related to the use of microfinance. As such they cannot show that microfinance caused a reduction in poverty, only that there is a correlation between microfinance and poverty reduction. They often will not take into account the wider economic environment (as noted in submissions to this inquiry from Kevin Kennedy and Milford Bateman). However, household indicator studies, while not good at 'proving' the impact of microfinance, can be a useful resource to academics by providing indications of possible effects of microfinance programmes that can then be investigated through more robust methodologies.

They can also be a very useful form of monitoring for MFIs because they are comparatively easy to implement and can be used to identify problems and allow the organisation to learn about better ways of providing services. Many MFIs are in fact already using household indicator studies as part of their monitoring. However, another potential problem is that with these types of studies it becomes tempting to over-focus on the specific indicators that have been selected and not look more holistically at how microfinance is operating. MFIs could improve the

evaluative effects of household indicator monitoring by using it in conjunction with focus groups and by looking at the results in the context of loan officer feedback.

Randomised Control Trials (RCTs): RCTs are studies that see the creation of one randomly selected test group and one randomly selected control group. The test group are offered a treatment (in this case a microfinance product) and then the outcomes are compared with the control group. Double blind RCTs, where neither the researcher nor the subjects of the study know who is assigned to the test and control groups, are often seen as the 'Gold Standard' of microfinance research.

By contrast to Household Indicator Studies, RCTs can more reasonably claim to show a causal link between poverty alleviation and microfinance. However, the evidence so far has been mixed. Some examples of the findings that have been indicated include:

- A study of a small, relatively high interest commercial consumer loan by Karlan & Zinman in South Africa (2008) showed that clients were more likely to keep their jobs and (possibly because of this) have significantly higher incomes, and they were less likely to experience hunger.
- Another study conducted by Karlan and Zinman (2009) in the Philippines indicated that increased access to microcredit led to decreased investment in the target business and instead led to investment in education and a move away from insurance. This suggests that microcredit was used for risk management and for household investment and in some cases contributed to the neglect of other forms of risk limiting behaviours.

Even RCTs have come in for criticism. Most RCTs conducted so far have been relatively short term (CGAP, 2010, see below for further discussion of this issue). In addition, some have argued that the subjects in a treatment group of MFI clients are likely to have different characteristics to a randomly selected control group (this is often termed selection bias); they may well be more entrepreneurial, for example (Meyer, 2008.) Such issues can be tackled by creating a test group by randomly approving loans to some of those whose loan applications have been marginally rejected by an MFI, and using the other marginally rejected applicants as the control group (as was the case with the Karlan & Ziman studies of 2008 and 2009). However despite this criticisms of the use of RCTs remain. Some of the most frequently-cited are below.

Time Scale: In several of the written submissions made to this inquiry, along with discussions during our oral evidence sessions, it was argued that many of the shorter-term RCTs are missing the long-term effects of microfinance. The submission from Hand in Hand International commented: 'real impact takes time to see'. The lack of long-term studies or time-series data means that in order to gauge a longer-term impact studies have to work retroactively and try to rely on clients' memories to establish the long-term effects.

Heterogeneity of Models: Repeated throughout the evidence presented to this inquiry is the sentiment that the term 'microfinance' does not mean one thing. In his submission Anton Simanowitz noted: "Microfinance is many

different things, and therefore we need to be asking: What aspects of microfinance design impact on what outcomes? ... Complex impact assessments are meaningless unless there is a very detailed analysis of the inputs of MFIs". Many studies, such as Khandker & Pitt, (2003) and the recent 2011 report from the Microcredit Summit Campaign do not account for the different types of intervention and different missions that MFIs in different areas of the sector adopt, and which will necessarily have different outcomes. The same point was made a number of times in oral evidence sessions by representatives of implementing groups, including CARE, Opportunity, and Rosalind Copisarow. This heterogeneity of the sector has important ramifications for the data. The expectation that a single RCT should demonstrate the impact of 'microfinance' must be abandoned, and future evidence must concern itself with differentiating between microfinance models.

Difficulty and Expense of Impact Study: MFIs have a need to ensure they are not doing harm to clients through their work, however there are limits to how much of a burden in monitoring can be put onto MFIs. Written evidence to this inquiry from not-for-profit MFI Five Talents reads: "We are concerned that some impact measurement approaches rely on in-depth client interviews which are sensitive to interview bias, costly, burdensome, sometimes intrusive, not always repeatable or scaleable". This suggests that a balance needs to be struck between placing demands on MFIs and ensuring that we understand the outcomes of programmes. Rigorous studies that can prove causality are difficult for MFIs to produce without considerable expense but other less rigorous forms of monitoring are possible, and indeed submissions from Microloan Foundation, Plan, CARE, Five Talents, and Hand in Hand International stated that these groups were performing some form of monitoring. Rigorous quantitative studies (RCTs in particular) or holistic or long-term qualitative studies are more appropriately conducted by academics and indeed academic studies are needed in order to provide a check on the self-evaluations of MFIs which Professor [Paul Mosley](#) point out, may be biased.

Support is urgently needed to ensure that effective long-term data, including cohort longitudinal studies and RCTs, can be collected and used. The need for these long-term studies builds a case for monitoring to be conducted by the MFIs themselves as well as by academics, as this could provide useful datasets in which the impacts of interventions can be detected, although it is of course important that the validity of MFI monitoring data is independently verified. In addition, during the academic evidence session all three of our panellists (Professor Paul Mosley, Dr Kate Maclean and Professor Thankom Arun) expressed their belief that long-term holistic qualitative studies need to make up part of the evidence structure.

Appendix 2: Evidence submitted to this inquiry

This inquiry solicited both written and oral evidence from a wide range of stakeholders in the microfinance sector. Below are a list of written contributions and a list of the oral evidence sessions held in the House of Lords in March and April 2011. Most written submissions along with notes from the oral evidence sessions are available on the APPG's website at <http://www.appg-microfinance.org/inquiry.php>

Written Submissions:

Milford Bateman, ODI	K.G. Karmakar, NABARD
Nigel Biggar, Grameen Foundation	Geoffrey Kebbell, Maxwell Stamp
Ian Boyd-Livingston	Michaela Kelly, Plan International
Maren Duvendack, School of International Development, University of East Anglia	Kevin Kennedy, Clearcape Consultancy
Marcus Fedder, Agora Microfinance	Kevin Kilty, Young Ambassadors for Opportunity
Deborah Foy, Opportunity International	Richard Leftley, MicroEnsure
Nathanael Goldberg, Innovations for Poverty Action	Paul Mosley, University of Sheffield
Hand in Hand International	Ben Ovio, ENDIP
Malcolm Harper, Emeritus Professor Cranfield School of Management	Peter Ryan, Microloan Foundation
Karishma Huda, BRAC	Carolina Sanchez, Coffey International Development
Assadul Islam, Monash University	Tom Sanderson, Five Talents
Artifful Islam, Muslim Aid	Anton Simanowitz, Imp-Act Consortium, Institute of Development Studies
	Graham Wrigley

Oral Evidence Sessions:

23rd March 2011: Academic Evidence Session

Panellists:

Dr Kate Maclean	Kings College London
Professor Thankom Arun	University of Central Lancashire and University of Manchester
Professor Paul Mosley	University of Sheffield

29th March 2011: Implementers and DFID Evidence Session

Panellists:

Maude Massu	CARE International
Rosalind Copisarow	Founder of Constellation Communities and Fundusz Mikro ²¹
Roger Witcomb	Opportunity International
Claire Innes	Department for International Development

4th April 2011: Funders Session

Panellists:

Chris Bold	CGAP
Sukhwinder Arora	Oxford Policy Management
Marcus Fedder	Agora Microfinance

²¹ On 1 July 2011 Rosalind Copisarow will take up the role of Managing Directorship at Oikocredit

Acronyms used in this report

CGAP	Consultative Group to Assist the Poor, an independent policy and research centre on financial access for the poor
DFID	UK Department for International Development
MFI	Microfinance Institution
MICFAC	DFID and the World Bank's Microfinance Capacity Building Facility for Sub Saharan Africa
MISFA	Microfinance Investment Support Facility for Afghanistan
MIX	Microfinance Information Exchange, a source for microfinance data and analysis
NABARD	National Bank for Agriculture and Rural Development (India)
NGO	Non-Governmental Organisation
RCT	Randomised Control Trial
UN DESA	United Nations Department of Economic and Social Affairs

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