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Impact Assessment Methodologies for Microfinance: Theory, Experience and Better Practice

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Summary. — Microfinance programs and institutions are increasingly important in development strategies but knowledge about their impacts is partial and contested. This paper reviews the methodological options for the impact assessment (IA) of microfinance. Following a discussion of the varying objectives of IA it examines the choice of conceptual frameworks and presents three paradigms of impact assessment: the scientific method, the humanities tradition and participatory learning and action (PLA). Key issues and lessons in the practice of microfinance IAs are then explored and it is argued that the central issue in IA design is how to combine different methodological approaches so that a "fit" is achieved between IA objectives, program context and the constraints of IA costs, human resources and timing. The conclusion argues for a greater focus on internal impact monitoring by microfinance institutions. © 2000 Elsevier Science Ltd. All rights reserved.

Key words — methods, microfinance, credit, impact assessment, monitoring and evaluation, poverty reduction

1. INTRODUCTION

In recent years impact assessment has become an increasingly important aspect of development activity as agencies, and particularly aid donors, have sought to ensure that funds are well spent. As microfinance programs and institutions have become an important component of strategies to reduce poverty or promote micro and small enterprise development then the spotlight has begun to focus on them. But knowledge about the achievements of such initiatives remains only partial and is contested. At one end of the spectrum are studies arguing that microfinance has very beneficial economic and social impacts (Holcombe, 1995; Hossain, 1988; Khandker, 1998; Otero & Rhyne, 1994; Remenyi, 1991; Schuler, Hashemi & Riley, 1997). At the other are writers who caution against such optimism and point to the negative impacts that microfinance can have (Adams & von Pischke, 1992; Buckley, 1997; Montgomery, 1996; Rogaly, 1996; Wood & Sharrif, 1997). In the "middle" is work that identifies beneficial impacts but argues that microfinance does not assist the poorest, as is so often claimed (Hulme & Mosley, 1996; Mosely & Hulme, 1998).

Given this state of affairs the assessment of microfinance programs remains an important field for researchers, policy-makers and development practitioners. [1] This paper reviews the methodological options for assessing the impacts of such programs drawing on writings on microfinance and the broader literature on evaluation and impact assessment. Subsequently it explores ways in which impact assessment practice might be improved. It views impact assessment (IA) as being "...as much an art as a science..." (a phrase lifted from Little, 1997, p. 2). Enhancing the contribution that impact assessment can make to developmental goals requires both better

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science and better art. The scientific improvements relate to improving standards of measurement, sampling and analytical technique. Econometricians and statisticians are particularly concerned with this field. Improving the "art" of impact assessment has at least three strands. One concerns making more systematic and informed judgements about the overall design of IAs in relation to their costs, specific objectives and contexts. The second is about what mixes of impact assessment methods are most appropriate for any given study. The third relates to increasing our understanding of the ways in which the results of IA studies influence policy-makers and microfinance institution (MFI) managers.

2. IMPACT ASSESSMENT: OBJECTIVES

Impact assessment studies have become increasingly popular with donor agencies and, in consequence, have become an increasingly significant activity for recipient agencies. In part this reflects a cosmetic change, with the term IA simply being substituted for evaluation. But it has also been associated with a greater focus on the outcomes of interventions, rather than inputs and outputs. While the goals of IA studies commonly incorporate both "proving" impacts and "improving" interventions, IAs are more likely to prioritize the proving goal than did the evaluations of the 1980s. A set of factors are associated with the extreme "pole" positions of this continuum and these underpin many of the issues that must be resolved (and personal and institutional tensions that arise) when impact assessments are being initiated (Figure 1).

Behind the shift from "evaluation" to "IA" are a number of factors. These are not explored in any detail in this paper but they form an essential element for the understanding of IA and its potential contributions. Explicitly, IAs are promoted by both the sponsors and implementers of programs so that they can learn what is being achieved and improve the effectiveness and efficiency of their activities. Implicitly, IAs are a method by which sponsors seek to get more information about program effectiveness than is available from the routine accountability systems of implementing organizations. IAs are also of significance to aid agencies in terms of meeting the ever increasing accountability demands of their governments (in this era of "results" and "value for money") and for contesting the rhetoric of the anti-aid lobby. While recipient agencies benefit from this, they are one stage removed, and many are likely to see donor-initiated IA as an activity that has limited practical relevance for program activities. To quote the director of a large Asian microfinance institution that has received substantial amounts of aid financed IA consultancy and internal IA-capacity building "...impact assessment studies keep donors happy... we don't use them very much."

PROVING<-->IMPROVING

	IMPACTS	PRACTICE
Primary Goal	Measuring as accurately as possible the impacts of an intervention	Understanding the processes of intervention and their impacts so as to improve those processes
Main Audiences	Academics and researchers Policymakers Evaluation departments Program Managers	Program managers Donor field staff NGO personnel Intended beneficiaries
Associated Factors	Objectivity Theory External Top down Generalisation Academic research Long timescales Degree of confidence	Subjectivity Practice Internal Bottom up Contextualisation Market research Short timescales Level of plausibility

Figure 1. *The goals of impact assessment.*