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GOOD PRACTICE IN MICROFINANCE: THE CHALLENGES OF A POVERTY FOCUS IN AN EVOLVING INDUSTRY

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ABSTRACT

The awarding of the 2006 Nobel Peace prize to Grameen Bank founder Muhammad Yunus has further highlighted how microfinance has come to be regarded as a significant and effective tool in making finance available to the poor. However, much debate still centres on both how microfinance should be delivered and its effectiveness measured. Microfinance funding is not something that should be undertaken lightly, and an awareness of all the cogent issues is essential for any donor looking to undertake effective microfinance programming. This chapter will outline some of the key arguments in the contested debate on effective microfinance programming. It will focus on a discussion of poverty and impact assessments and argues that the effective funding of microfinance is dependent on the ability of an NGO to recognise the many forms which microfinance can take and direct their funding accordingly.

INTRODUCTION

Despite the weight of expectation on the back of the ‘microfinance revolution’, it is increasingly evident that the benefits and costs of microfinance cannot be assumed. Much debate still centres on how both financial services to the poor should be delivered and its effectiveness measured. This chapter is based on a working paper completed for World Vision Australia. This paper set out to undertake a comprehensive review of current thinking and best practices in microfinance, not only on issues of measuring effectiveness, but on
many aspects from institutional diversity to product design\textsuperscript{1}. This analysis was then brought to bear on WVA microfinance programming in Southeast Asia, Latin America and Africa, which culminated in the identification of sound practices and some suggestions for a way forward. It outlines some of the key arguments in the contested debate on effective microfinance programming, followed by a discussion of poverty and impact assessments, with an added focus on client monitoring. It argues that to adequately measure effectiveness, donors must be clear on how they resolve issues of ‘best practice’ within the context of the sustainability/poverty debate. Those donors that emphasise microfinance as a tool of poverty alleviation for the poorest have a specific responsibility to be clear about who is being targeted, the motivation for funding microfinance and consequently what is being measured. The discussion on assessments highlights the need for a balance to be struck between tools assessing poverty for targeting purposes, donor-driven impact assessments and client monitoring that best fits a donor’s social mission while maximizing the cost-effective functioning of microfinance institutions.

**MICROFINANCE – WHY IT’S EFFECTIVE**

Microfinance refers to the provision of financial services to the poor and very poor by formal or informal institutions. Although the term microfinance has primarily been identified with the provision of credit to poor entrepreneurs in the form of micro enterprise development, in fact it covers a range of products including savings, insurance, remittances and training, and is used not only for micro enterprises, but also for investment in health and education, to manage household emergencies and other cash needs. It is by now well recognised that microfinance has the potential to impact on poverty in many circumstances. Consequently, donors are placing an increased emphasis on poverty alleviation through the development of micro enterprises by funding microfinance programmes.

While it is widely understood that microfinance is not an instant recipe for poverty reduction, it nevertheless provides a good funding option for donors as a potentially sustainable way of contributing to the achievement of the Millennium Development Goals (Littlefield et al., 2003; CGAP, 2004b). Indeed, various studies have found positive impacts on poverty and food insecurity, education, gender equality and empowerment, child mortality, maternal health and in combating HIV/AIDS (Morduch & Haley, 2002). Although access to microfinance can make a great contribution to reducing poverty, its access by the wider poor still remains very limited (UN, 2005). Many obstacles contribute to this lack of access; high amongst these being the lack of project effectiveness on the part of microfinance funders and the challenge of synthesising the diversity of past lessons learned into a set of agreed upon ‘best’ practices.

Good Practice in Microfinance

QUESTIONS FOR DONORS – HOW DO THEY WANT AN EFFECTIVE MFI TO LOOK?

The perceived potential of the ‘microfinance revolution’ has resulted in many donors fast-tracking the incorporation of microfinance as a key strategy in poverty alleviation in developing countries. However, it is evident that the effectiveness of microfinance must not be simply assumed. Indeed, much of the literature on microfinance is contradictory, with similar programs having failed in different geographic regions, while succeeding in others. As a consequence of this inconsistency, the microfinance community has failed to provide a clear microfinance philosophy (Bhatt & Tang, 2001). This abundance of contradictory literature demands that effective ‘best practice’ begins with a robust analysis and resolution of several key issues pertaining to both the implementation of, and reasoning for, support of microfinance and micro enterprise development. From these issues arise several key questions that must be addressed and are summarised below (Box 1).

Box 1: Programming Questions for Donors

- **Program rationale** - Is microfinance needed and practical? Are their other more appropriate interventions?
- **Poverty assessment** - How can programs avoid selection, moral and exclusionary problems while still targeting the poor? How is relative poverty best assessed? Who is being targeted?
- **Economic environment** - Can microfinance contribute to the positive resolution of economic problems? Is microfinance a good safety net? Is program money wasted under adverse circumstances?
- **Impact assessment** - What is the impact of microfinance? How can this be adequately measured? What do different measurement strategies and options reveal about program impacts?
- **Performance** - Can microfinance agencies become performance-based like the private sector? Should they? How does performance relate to impact?
- **Sustainability** - Should microfinance be sustainable?
- **Social intermediation** - Are sustainability and social sustainability incompatible? How can these goals be reconciled? Should they be? Is there an acceptable trade-off with outreach?

(Adapted from Buss, 1999)

It has been suggested that ‘integrating the financial and social in microfinance is more than implementing the correct set of best practices; it is also a mindset, for how we conceptualize issues informs how we approach them and the solutions we bring to bear on them’ (Woller & Schreiner, 2002: 15). From this perspective, what constitutes ‘effective’ microfinance programming is very much dependent on a donor’s conceptualization of these issues. As a result, it is important for players to clearly identify the ultimate aim of microfinance provision, or how effectiveness is defined within the complexity and diversity of the microfinance industry, before ‘best’ or ‘good practice’ for microfinance can be arrived
at. 2 While incorporating the dominant financial orthodoxy surrounding issues of ‘best practice’ for microfinance and micro enterprise development, this chapter seeks to highlight some of the practices aimed at maintaining a poverty focus within the microfinance industry. Rather than aiming to identify ‘best practices’ for a practice that is still being perfected, a variety of policy options will be identified taking into account the diversity of the industry.

‘BEST PRACTICE’ - CAN WE AGREE ON WHAT TO MEASURE?

Uniquely, microfinance brings together two distinct frameworks, those of finance and development, and the quest for sound practice is an attempt to fuse them both together in a way that focuses on the reduction of poverty (Otero, 2000). However, while international initiatives have resulted in the development of guidelines for measuring the effectiveness of the financial regulation, management, and implementation of microfinance institutions, those tools that concentrate on the social and poverty aspects of development have lagged behind. This exemplifies the ascendancy of the financial framework in emphasising financial sustainability as the measure of an effective MFI. However, the tension between the two frameworks still impacts on the quest for sound practices and adds to the complexity of the microfinance funding landscape. The tension between sustainability and poverty outreach remains central to the debate.

The Sustainability/Poverty Debate - Disagreeing on What to Measure

The failure to thus far adequately resolve the tension between the financial and developmental perspectives has resulted in what has been called the ‘microfinance schism’ (Morduch, 2000). The developmental and financial frameworks have been articulated respectively as the ‘poverty’ or welfarist approach targeting the very poor and the ‘sustainability’ or institutionalist approach that effectively targets the less-poor 3. Each position differs in its views on several key issues such as how microfinance services should be delivered (the type of institutional model), on the technology that should be used (‘minimalist’ versus ‘integrated’ service approaches), the kinds of products that should be offered, the extent of donor intervention (for example in interest rate setting) and,

2 ‘Best practice’ has come to define the dominant financial or institutional microfinance policies. As this paper seeks to include both these and developmental and poverty-focused perspectives, both ‘good’ and ‘sound’ practice will be interchangeably to represent this wider set of policies.

3 It is argued that the institutionalist and welfarist positions have defined ‘poor’ differently, thus resulting in different developmental and financial perspectives (Rhyne, 1998). The former target the economically active poor while the latter places a greater emphasis on the very poor or poorest of the poor (Mathie, 2002). Definitions of the poor have much to do with claims as to whether or not microfinance is an effective intervention. CGAP (from an institutionalist perspective) is generally accepted as the industry standard and defines the very poor as those living on less than a dollar a day and the poorest, or destitute, as those who fall below the bottom 50% of those beneath the poverty line (Mathie, 2002). The Microcredit Summit Campaign (generally a welfarist position) uses the same definition with caveats - they heavily refute the institutionalist orthodoxy that the poorest of the poor cannot benefit from microfinance, and question what is really meant by this when confusion over definitions exist (Daley-Harris, 2005). There is a danger that the statement ‘the poorest cannot be helped’ has/will become a kind of industry mantra and must be critically examined every time it is stated.
importantly, on how MFI performance and effectiveness should be assessed and measured (financial indicators or social impact). Consequently, each position also has different priorities in relation to sound practices and how effectiveness is achieved. It is to this we will now briefly turn.

The institutional perspective reflects the dominant orthodoxy in microfinance best practice; MFIs should become financially self-sustainable institutions that, by economies of scale, will increase their outreach to large numbers of poor clients (Rhyne, 1998; Christen et al., 2003; CGAP, 2004b). The institutional perspective recognises the large gap that exists between demand and supply in fulfilling the financial needs of the poor and understands that current donor subsidies to existing institutions will not be able to diminish this. Rather than being an end in itself, sustainability from this perspective is a prerequisite and a means to reaching large numbers of clients. Consequently, ‘breadth of outreach’ (numbers of clients) takes precedence over ‘depth of outreach’ (poverty level of clients), while financial self-sufficiency becomes the measure of a successful MFI (Woller et al., 2001).

On the other hand, some worry that this emphasis on financial sustainability will divert MFIs and donors from their core objective of poverty alleviation. Indeed, it has been suggested that ‘poverty is often an implicit rather than an explicit objective’ within the microfinance industry (Simanowitz, 2003: 2). Making this role more explicit is an important role for donors interested in poverty alleviation.

To this end, the welfarist perspective places less emphasis on measuring effectiveness by financial sustainability and greater emphasis on achieving a depth of outreach that extends down to the very poor, valuing microfinance for the social impacts it can achieve rather than solely for its institutional viability. The emphasis of the welfarists is therefore less on banking, but on the use of financial services to alleviate the worst effects of poverty, whether or not subsidies are required to achieve this end (Woller et al., 2001). This perspective therefore challenges the formulation of a blueprint best practice approach, and suggests that demanding institutional ‘best practice’ from all microfinance institutions is unrealistic considering the diversity of microfinance organisations, strategies and situations (Dunford, 2000a; Morduch, 2000; Woller et al., 2001). Indeed, when thinking about subsidies and the need for MFIs to be subsidy free, it is worthwhile to cast an eye over the economies of the developed world and consider the subsidies provided to many sectors, such the agriculture and automotive industries. Considering the fact that subsidies are acceptable for many donor countries in relation to home-grown industries, applying a strict non-subsidy rule to all poverty-focused MFIs is questionable.

This begs the question - is the aim of microfinance development the building of social enterprises that are able to make long term improvements to peoples lives or to be totally subsidy free? (Dunford, 2000b).

4 Sustainability in microfinance has become synonymous with financial sustainability (Woller & Schreiner, 2002). There are three broad levels of financial sustainability ranging from subsidy dependence through operational self-sufficiency (OSS) to full financial self-sufficiency (FSS) (Christen et al., 1995). Subsidy dependence refers to an MFI that is unable to cover any of its costs and is reliant on donor funding. MFIs that reach OSS are able to cover all non-financial and administrative costs but rely on donor subsidies for financial costs, while MFIs that have achieved FSS are able to cover all costs, both non-financial and financial, without the need for donor funds. Evidence suggests however that very few MFIs reach FSS, especially in the semi-formal sector and considering the developmental goals set out by many NGOs (Morduch, 2000; Mathie, 2002). Indeed, if forced to stand alone few credit programs, if any, would survive (Snow & Buss, 2001).
Minimizing the Trade-off

Welfarists will argue that there is an inevitable trade-off between sustainability and poverty outreach. Indeed, criticism of the institutionalist position centres on whether or not the drive to become financially sustainable is resulting in pressure on MFIs to increase loan sizes and consequently the wealth level of their clients, leading to a trade-off between the two positions (Morduch, 2000). This argument is reinforced by the fact that relatively few sustainable institutions serve the poor, in particular poor women (Edington, 2001). However, while recognising the boundaries of these two perspectives is important, it is in the resolution of the debate that the future of microfinance for poverty alleviation depends (Bhatt & Tang, 2001). This can only come with the recognition that no one model can adequately serve the diverse needs of the poor and the near-poor. To maintain a poverty-focused perspective is not to ignore the potential for creating financially sustainable institutions. Indeed, the conventional wisdom that achieving sustainability and depth of outreach is incompatible is being challenged (see Littlefield in Daley-Harris, 2005; Khandker, 2005). From a development perspective, the aim of effective sound practices is to twin the goal of practical sustainability with the recognition that financial services can help even the very poor.

The potential and limitations of both perspectives has significant implications for all donors/funders that hope to improve the effectiveness of their microfinance programming in developing countries. That partiality for one side or another is fundamentally a matter of political outlook (Rhyne, 1998) is consequently an organisational governance issue and is dependant on the resolution of wider developmental viewpoints surrounding issues of growth, poverty alleviation and how these might be achieved. However, a holistic assessment of effective good practices, and the measurement of them and their impacts, needs to recognise that these positions are not necessarily diametrically opposed and indeed need to be considered in light of the varied situations of client communities and the ‘bewildering variety of types and combinations of borrowers, delivery systems, and institutional structures’ (Dunford, 1998).

MICROFINANCE STRATEGIES — WHAT IS BEING MEASURED?

Poverty Alleviation and Micro Enterprise Development

Microfinance and micro enterprise development exist under the same umbrella but reflect a difference emphasis on who is being reached and how. While these might be respectively categorised as poverty alleviation and promoting growth with equity (CIDA, 1999), poverty reduction is the objective of both methods. Micro enterprise development (MED) is considered a promotional strategy that aims at reducing poverty though the provision of income-generating loans. Promotional programmatic strategies have been in the ascendancy as they are most in line with market-led approaches to microfinance (Matin & Halder, 2004). Funding MED initiatives contributes to the creation of financial systems for the poor in the informal economy while integrating them into the wider financial system. However, promotional credit schemes are more likely to impact on the middle and upper-poor, while the very poor fail to receive many direct benefits from credit initiatives (Hulme & Mosely,
1996). Indeed, Hulme & Mosely (1996:108) argue that ‘micro enterprise and/or small enterprise development should not be equated with poverty reduction. At times the two will coincide but this needs empirical validation and should not be assumed, as is commonly the case’. While assessments of impact suggest that the consumers of promotional products are better off with them than without them, using funds only for micro enterprise development means that demand for consumption and income smoothing go underserved (Flaming et al., 2005). Millions of poor people do not operate small enterprises but have the capacity to save and make use of alternative financial services.

Poverty alleviation, while having distinct ties to growth, does not make the assumption that growth through MED alone can reduce poverty. Microfinance from this perspective is predicated on a deliberate targeting of the poor (addressed later) and is based on the integration of finance with services such as health, literacy and nutritional awareness to address protectional strategies. There are a variety of protectional strategies used by the poor to respond to their vulnerability to risk. Lifecycle needs (such as births, deaths and marriages) and emergencies (such as sickness, flood, and drought) often require lump sums of cash that might result not only from credit, but also savings and insurance. In responding to these, the poor use two types of strategies that have been identified as income smoothing (conservative production and employment, diversifying employment activities to protect from shocks) and smoothening consumption (borrowing and saving, depleting and accumulating non-financial assets and employing formal and informal insurance mechanisms) (Matin et al., 2002). Protectional microfinance strategies therefore are needed to reduce the economic vulnerability of the very poor and should be measured accordingly.

**Box 2: Poverty alleviation or MED?**

Within the evaluations that were considered for the original working paper, MED was most often identified as the microfinance initiative used in reducing poverty. This in part seems to (not uncommonly) indicate a semantic issue, whereby the two terms are used interchangeably, often with an implied assumption of poverty alleviation. This has implications for measuring the effectiveness of the initiative. Although, as outlined above, poverty alleviation is the goal of microfinance, and is indeed identified as such within most evaluations, poverty alleviation and MED should be recognised as separately identifiable initiatives. This might be done by: differentiating between those projects that are part of a larger social and economic development program and those that are specifically business orientated; taking into consideration the poverty levels of target clients; or considering the kinds of financial and non-financial services provided. The evaluations highlighted that although identifying poverty alleviation and MED initiatives as having related but different goals might guide project planning and implementation, the line between the two is not always so distinct. Some projects considered ‘MED’ had an obvious developmental poverty alleviation approach in practice, while poverty alleviation seemed in some cases to be aimed at the somewhat less-poor, indicating a MED focus.

While recognising the simplicity of categorising these two approaches, Matin & Halder (2004) emphasise that both promotional and protectional strategies are far from dichotomous, and are in fact closely linked. A change in either the promotional or protectional needs of the poor is likely to impact on the other and the availability of microfinance, for poverty alleviation and for micro enterprise, is essential. Microfinance initiatives must correspond
with the clear resolution of what is to be considered ‘effective’ programming within a given context. CIDA (1999) divides the consequent programmatic responses possibilities into three intervention types:

I. the development of client-led services,
II. determining the correct methodologies (in relation to both institutional models and financial products).
III. assessment of poverty, institutions and impacts.

As the primary focus of this chapter is the measurement of poverty, institutions and impacts, what follows is a brief overview of the first interventions, followed by a discussion of what poverty and impacts assessments.

**Product Development and Targeting**

Often the reasons for self-selection (that is, non-application for, or removing oneself from, microfinance services) and negative impacts of microfinance on the poor have more to do with the kinds of financial services on offer than the inability of the poor to meet the conditions of loans (Dunford, 2000b). Consequently, this instigated a shift from services that are product driven to those that are market driven (Brand, 1998). Building on a more nuanced understanding of the needs of the poor, a demand-side view of providing financial services helps MFIs move towards both reaching the poorest of the poor and working towards financial sustainability. Both sustainability and poverty-focused practitioners have agreed that a focus on products and markets is required (Dunford, 2000b; Dunn, 2002; Cohen, 2002).

Market forces, by their very nature, operate in a way that favours the less-poor. In an economic system that seeks to maximize profit and efficiency, a move towards ever more profitable clients is inevitable. Client-led product development dependant on competition and market forces therefore runs the risk of this profit maximisation by MFIs pushing the poorest to the margins. By contrast, a poverty-focused approach recognises that only those strategies specifically aimed at the vulnerable within the community (the ‘market’ of a poverty-focused lender) have the capacity to reach them. There is much evidence that significant poverty outreach to the poorest is only achieved by those organisations that actively seek to identify and target the poor (Simanowitz, 2003; Khandker, 2005).

Both the financial and development perspectives understand that client-led product development, adequately targeted, can provide a way of both attracting the poor while increasing efficiency. A client-led focus suggests a compromise and a way forward for a diverse range of institutions to maximise their comparative advantage.

**Institutional Diversity**

Both the institutionalist and welfarist frameworks place different emphasis on the institutional apparatus. Funders with a poverty focus are required to execute a delicate balancing act, and NGOs such as WVA must arrive at policy decisions based on the careful consideration of the questions for donors in Box 1. Knowledge of where an MFI (and donor)
Good Practice in Microfinance

posits itself on the ‘commercialization – development spectrum’ is crucial to understanding the success of programs and of the relevance of specific good practices (Ohanyan, 1999). Due to the varied array of services and target groups within a development context, institutional diversity is required to strengthen the microfinance sector. To this end, achieving the range of microfinance and micro enterprise services required to reach any given client types will depend on an amalgam of the institutional model and financial/non-financial methodologies used. This need for institutional diversity suggests that the simple replication of a single ‘best practice’ model is not adequate (Zeller, 2001; Dunford, 2002) and that financial sustainability as a measure of effectiveness is not sufficient. Table 1 outlines the main forms of institutional organisations along the microfinance spectrum.

Table 1: Types of institutions

<table>
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<th>i) Formal</th>
<th>ii) Semi-formal</th>
<th>iii) Informal</th>
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<tr>
<td>• Microbanks with individual financial contracts (often development banks both public and private)</td>
<td>• The cooperative model (including credit unions and financial services associations)</td>
<td>• Moneylenders</td>
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<tr>
<td>• savings banks and postal savings banks</td>
<td>• Village banks</td>
<td>• Self help groups</td>
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<tr>
<td>• commercial banks</td>
<td>• Non Governmental Organisations (NGOs)</td>
<td>• Rotating Savings and Credit Associations (ROSCAs)</td>
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<td></td>
<td>• Self-help groups</td>
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<td>• Solidarity groups</td>
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Different institutional models will vary in the extent to which they can affect the goals of financial sustainability, outreach to the poor and social impact. The diversity of socio-economic contexts, along with different forms of political, social and economic development, requires various institutional types, to adapt to local contexts. Finally, the comparative advantage of different institutional types increases the capacity to reach specific socio-economic groups across regional, socio-economic and cultural contexts (Zeller, 2001). Regardless of the institutional type, issues of sustainability cannot be ignored. Whether a key to effective outreach and sustainability, or the ‘directional goal’ of a poverty-focused lender, there is a great deal of pressure on MFIs to operate in a way that maximises their potential to support the provision of its own services. Conventional ‘best practice’ literature prescribes that to achieve full financial sustainability, (the institutional measure of effectiveness), MFIs must reduce operational costs, increase staff productivity, achieve a large scale, and charge ‘appropriate’ (often high) interest rates (Woller and Schreiner, 2002). However, the capacity

5 There are three broad levels of financial sustainability ranging from subsidy dependence through operational self-sufficiency (OSS) to full financial self-sufficiency (FSS) (Christen et al, 1995). Subsidy dependence refers to an MFI that is unable to cover any of its costs and is reliant on donor funding. MFIs that reach OSS are able to cover all non-financial and administrative costs but rely on donor subsidies for financial costs, while MFIs that have achieved FSS are able to cover all costs, both non-financial and financial, without the need for donor funds. Evidence suggests however that very few MFIs reach FSS, especially in the semi-formal sector and considering
of an organisation to achieve financial sustainability can be heavily affected by such factors as the economic and geographical environment, institutional commitment, management and leadership, performance incentives and effective targeting.

Unlike formal banks, the service delivery models used by microfinance organisations are very expensive due to the large volume of small loans provided, the need to accurately identify clients and the costs of monitoring and evaluation. However, it is considered possible for all competently run NGOs to reach operational self-sustainability (Christen, Rhyne & Vogel, 1995). This being the case, in the quest for sustainability NGOs have tended to be weak in the area of financial management (Johnson and Rogaly, 1997). This inefficiency puts pressure on institutions of every hue and undermines both the quest for sustainability and the ability to achieve development goals.

**Box 3: WVA evaluations and sustainability**

In those evaluations reviewed that considered institutional performance, operational and financial sustainability might be considered a ‘directional goal’, considering that all were sustainability focused but none had achieved that goal. By nominating sustainability as a directional goal, MFIs are pledging to increase efficiency levels, maintain healthy portfolios and expand outreach while recognising that a poverty-focus may limit the capacity of the organisation to reach full financial sustainability. Nevertheless, operational sustainability goals are achievable by poverty-focused lenders as was evidenced by the ‘Microfinance for the Poor’ project implemented by World Vision Cambodia, which surpassed its goal of 75% operational sustainability by attaining 80%, therefore placing itself in a position to achieve operational sustainability in the near future due to strong institutional practices.

**MICROFINANCE AND MICRO ENTERPRISE SERVICES**

**Financial Services**

It is widely recognised that credit alone does not provide for the needs of the informal sector (CGAP, 2004b; CIDA, 1999). The combination of production, consumption and insurance needs in informal sector households means that there is a high level of fungibility associated with loans. The lack of services for consumption and income smoothing means that credit is often diverted from productive means to these uses and consequently the number of coping strategies is reduced (Nourse, 2001). While MFIs are increasingly adding insurance and remittances to their palette of services, credit and savings remain the dominant financial products.

Issues of loan size and interest rates provide two of the most divisive issues in the microfinance debate. It is at this juncture that the most financial pressure is put to bear, and the toughest decisions required to be made, as to the mission of the institution being considered. Cost-recovery at any price must be considered only in light of the degree of the poverty-focus of specific organisations. Loan size will often depend on whether the loans are the developmental goals set out by many NGOs (Morduch, 2000; Mathie, 2002). Indeed, if forced to stand alone few credit programs, if any, would survive (Snow & Buss, 2001).
given for productive or consumptive purposes. While larger loans may be justified for microenterprise development and cross-subsidising clients within a mixed program (and will have more positive effect on the potential for growth and sustainability) smaller loans for consumption will provide for the specific needs of the poorest. However, in an industry of high transaction costs, the latter is often unpalatable for MFIs aiming for sustainability and deemed ‘ineffective’. Effectiveness within the context of the poverty-sustainability debate often therefore revolves around the willingness of MFIs to either charge interest rates high enough to cover at least their operational costs or to, for all intents and purposes, subsidise the interest rates of clients.

However, unacceptably high interest rates can increase the debt burden of the poor. An important decision for donors therefore is as to whether or not ‘smart subsidies’ should be implemented to assist struggling MFIs. While institutionalist best practice argues against the subsidising of these interest rates by donors, due to the fact that unsustainable interest rates can flood the market with uncompetitive loans and pollute the market (Flaming et al., 2005), it has been found that it is possible to provide very small loan sizes and become financially self-sufficient. (Churchill 2000). While this debate continues, a much needed emphasis is being placed on the use of savings as a way of providing for the variety of needs within the informal sector, especially those of the poorest who are risk-adverse when it comes to taking on the burden of debt. Indeed, it has been argued that the core role of microfinance services is in assisting the poor in turning their savings into larger lump sums (Matin et al., 2002). As informal saving (such as in livestock, grain, pawnbrokers, RoSCAs and at home) is limited, very risky and often has high costs associated with it, for the poor, savings are an integral part of risk management strategies against vulnerability. This being the case, there still remains a lack of savings institutions relative to those offering credit (Pretes, 2002).

Savings can be either compulsory or voluntary, and this too is a contentious issue. Compulsory saving is often a part of the semi-formal microfinance models; NGOs often use these as a form of collateral and to stabilise portfolios (Brau & Woller, 2002). However, compulsory savings may not always suit the needs of clients who require easy access to their cash, as the depositor does not often control them. Voluntary products (in the form of demand deposits, time deposits, equity (self help groups, credit unions)) are favoured by institutionalists as they overcome the problems of access and may suit the fluctuating needs of the poor. The effectiveness of savings can therefore be measured in how savings assist the poor with both their promotional and protective strategies, and can also measure the health of an MFI institution.

Non-Financial Services

Debate on the effective delivery of microfinance services also revolves around whether or not non-financial services (such as business development training, literacy, education, health) should be provided along with financial services. The institutionalist perspective supports a ‘minimalist’ approach that provides financial services only, thus reducing costs and improving the potential for sustainability. Welfarists support an integrated approach that links financial services to social services. The choice between integrated and minimalist programmes can prove difficult for MFIs as the former has the most impact on the poorer or
disadvantaged clients, while the latter has the capacity for reaching greater numbers of clients.

Minimalist v Integrated

The ‘minimalist’ model of microfinance delivery maintains that only financial services should be offered by MFIs. Accordingly, business development services, health, literacy and education and human rights training should be either left to the private sector or implemented through parallel programs (Robinson, 1998). It is argued that the integration of programs greatly increases financial costs and consequently limits the capacity of an organisation to attain sustainability, and furthermore that credit components within integrated development programs distort markets and undermine sustainable institutions (Flaming et al., 2005). However, the welfarist perspective recognises the ‘integration’ of financial services with non-financial services as an important way of increasing impact both for individuals and communities and in assisting borrowers to best utilise their loans. Without the appropriate training and knowledge many borrowers may not be able to make productive use of their loans. This perspective is driven by recognition of the interdependency between income, health and education and the fact that credit alone is not sufficient to meet development goals (Smith, 2002).

WVA programmes in South America and Mongolia have had positive impacts due to the incorporation of credit with training. Freedom from Hunger’s ‘Credit with Education’ campaign represents another notable example. Dunford (2001) cites many cases where providing education with credit has resulted in positive outcomes in children’s diet and nutritional status, women’s empowerment, immunization, diarrhoea treatment and maternal health status. From this perspective, measuring effectiveness solely through a sustainability lens undermines those MFIs and NGOs willing to maintain a poverty focus by undervaluing the impacts of providing non-financial services.

POVERTY AND IMPACT ASSESSMENT – MEASURING EFFECTIVENESS WITH WHAT?

‘If there is no system in place to support improvement in social performance, the MFI’s social mission may be lost in the sole pursuit of financial targets’ (Pawlak & Matul, 2004: 2).

Poverty assessments and impact assessments are the key tools for measuring the effectiveness of MFIs and microfinance programming. Maintaining the financial transparency and efficiency of any MFI requires assessment that focuses on the core goals of the organisation and assists practitioners improving their capacity to tailor products to the needs of the clients. Assessment tools also provide ways of targeting the poor; transparently measuring the effective depth of outreach of MFIs; measuring the impacts of services; and assisting donors interested in poverty alleviation in effectively allocating resources. Additionally, there is an increasing realisation amongst both donors and practitioners that to
improve their financial bottom line they need to pay more attention to their social performance in regards to both targeting and impacts. Monitoring the social performance of programmes is therefore one of the primary ways of effectively achieving financial goals (Copestake et al., 2005).

‘Best practice’ in measuring the effectiveness of MFIs is often determined by institutional assessments based on two indicators, those of outreach (both depth and breadth) and financial sustainability (Yaron 1994). Depth of outreach in this instance is usually measured by loan size and breadth of outreach by the numbers of clients, while financial sustainability is usually gauged by measure such as the Subsidy Dependence Index (SDI). This methodology has been criticized for being unconcerned about social impact and for its failure to take it into account social issues (Dunford, 2000; Woller & Schreiner, 2002). Consequently, a gap still remains between the developmental and the financial, whereby a poverty perspective prioritises measuring social impacts, while an institutional perspective prioritises the issue of sustainability.

Although best practice guidelines for measuring institutional performance have become relatively sophisticated, the evaluations of the social impacts on microfinance have failed to keep pace. However, questions of socio-economic impacts of microfinance as a development tool are crucial for donors when considering the multiplicity of alternate uses for funding open to donors (Khandker, 2005). Poverty assessments and impact assessments play just as important a role in determining the health of a poverty-focused lender. Funders must ensure that MFIs have a rigorous assessment process in place that adequately reflects the mission of the organisation.

Just as there is a range of institutional settings, client bases and delivery systems, a diversity of poverty and impact assessment methodologies requires careful consideration in selecting those that are most relevant to the required task. These can be placed on a continuum from simpler to more complex methodologies, the uses of which are dependent on the requirements of what is being measured (Dunn 2002). The former are low-cost and generate information through which programs can respond to internal inconsistencies or needs, while the latter are the long and expensive impact assessments that make extensive use of scientific data that are most interesting to donors. It is beyond the scope of this chapter to discuss the relative method of branded impact assessment techniques. However, it is essential to take into account the broad concepts surrounding, poverty assessment, impact assessment and client monitoring, and that their use has a rationale that covers the core objectives of both practitioners and donors.

Box 4: The social impacts of microfinance – the Zimbabwe example

A 2005 evaluation of Pundutso, an MFI in Zimbabwe found one of its strengths to be the fact it differs from other MFIs in the regions that aim to maximise profits through the charging exorbitant interest rates. Pundutso was found not to be profit driven, and consequently maintained a strong development focus. The focus on alleviating poverty in the target communities through the provision of finance for micro projects, in a way that offers the most affordable loan repayment conditions that will always attract clients, resulted in a wide array of positive social impacts. By providing the community members with an opportunity to become businesspersons, the MFI contributed to the personal development and growth of the community members and enabled communities to acquire business skills that they previously
did not possess. Furthermore, most of the clients indicated that operating a business had improved their social standing in the communities. They were more likely to be voted into development and political committees than when they did not run a business. Clients reported that they had realised visible business growth as a result of the Pundutso loans. The use of loans and their profits were found to be diverse and have varied social impacts.

- The profits from the businesses were used for business expansion or to invest in business assets such as refrigerators, knitting machines, erection of shop shelves and flea market stands.
- Importantly, some clients used the Pundutso loans as bridging finance against the backdrop of hyperinflation where their available resources were not adequate to meet increased restocking costs.
- The clients were able to pay school fees without any difficulties and some could afford to send children to boarding school.
- It was reported that the quality and quantity of the nutrition improved.
- Clients' families could afford to have three full meals a day.
- Beneficiaries used some of the income to purchase agricultural inputs. The use of these inputs resulted in increased yields and greater food security.
- The living conditions for clients improved as existing houses were extended and new ones constructed. Some of the households were electrified and furnished.
- Proceeds from the businesses enabled the poor people in rural areas to afford medical care cost. Business incomes have enabled clients to cope with the burden of caring for the sick and extra dependents as a result of HIV/AIDS.
- At community level, the business enterprises created employment opportunities.
- This reduced the prevalence of prostitution and theft.
- The setting up of groups created opportunities for communities to set up burial societies and club

**Poverty Assessment**

Poverty assessment is used to measure the poverty of clients prior to or in the early stages of receiving a loan, in an attempt to ensure effective targeting. This enhances effectiveness by targeting poor clients while providing important baseline data for impact assessments and monitoring. It is an important tool in assisting organisations to maximize their coverage of poor clients, while preventing slippage towards non-poor clients and contributing to better-informed operational decisions. Doing poverty assessment properly has obvious implications for a poverty-lender whose mission is to have a measurable effect on the social and economic conditions of borrowers. Accurate assessments ensure that the poor join microfinance programs, stay in them (and are not pushed out by others), and helps to create an efficient, and cost-effective institution that is shaped by the needs of the poorest (Simanowitz et al.2000). While targeting the poorest is critical to the ultimate goal of poverty reduction, if a programme is not able to undertake this activity in a cost-effective manner the potential for achieving sustainability might be greatly reduced or even eliminated.

According to Hatch & Frederick (1998), poverty assessment is an essential tool for answering two key questions: (1) Is a potential client poor enough to qualify for a loan or other services from our program? and (2) at the time the client entered the programme, did she represent a very poor, poor, or non-poor family? They identified and investigated four categories of poverty targeting tool along a ‘simple-complex’ continuum; these being non-
measurement techniques (such as the use of selection criteria, loan size proxy and peer group self-selection); rapid assessment methods that rank households (visual indicators such as housing quality, participatory wealth ranking); 'integrative' techniques that cover a range of indicators using simple techniques and short interviews (simple but using a broad range of variables) and economic variable measures that require household visits and use questionnaires mainly focusing on economic issues (such as income, assets and net worth). Hatch and Frederick found that economic variable measures and rapid assessment measurement tools were most effective in terms of ease of use and quality of information (while proving the most costly), and also that non-measurement techniques, though instructive, should only be paired with either of the more effective tools as they are not good stand alone instruments.

Non-measurement techniques include the use of selection criteria by the MFI (such as by gender, specific regions or villages, the landless etc.), loan size and peer-group self-selection. Although a selection criterion provides a solid foundation for poverty assessment, loan size has been widely recognised as an insufficient measure. Peer group self selection has the potential, especially if forming large numbers of groups, of organising along socio-economic lines (Ghatak, 2000). But as delivery mechanism, they have been found to improve welfare and repayment rates as well as reduce interest rates (de Aghion & Gollier, 2000; Ghatak 2000).

Rapid-assessment techniques aim to utilise local knowledge and visual indicators that reduces the reliance on time-consuming methods such as individual interviews. These include Participatory Wealth Ranking (PWR) and various housing indexes that use housing conditions as a gauge of relative poverty. PWR is a participatory method whereby focus groups of local community members rank all community households against wealth rankings consistent with community ideas and perceptions of poverty. It is therefore most effective in circumstance where there is a strong community (Simanowitz et. al., 2000). The results are triangulated for consistency, requiring the facilitation of an outside expert. As well as sensitising staff, it enables the institution to get a firm grasp on perceptions of poverty within the community. However, it has been recommended that this be linked with another poverty assessment instrument (Hatch & Fredericks, 1998). A combination of PWR and a checklist tool was found to be extremely effective within BRAC’s CFPR/TUP Programme in Bangladesh (Matin & Halder, 2004).

Examples of housing indexes are the Cashpor Housing Index (CHI), which was developed by CASHPOR, a network of MFIs in the Asia-Pacific and an index developed by Amanah Ikhtiar Malasia (AIM) in Malaysia. In both cases, region specific housing conditions are formulated into a checklist and are used as a proxy for poverty. The CHI is linked with a net worth test that seeks to verify the eligibility of clients of targeted houses. A strong relationship between the visual indicators and poverty must be established. Both the PWR and CHR and the have been synthesised within the Microcredit Campaign’s Poverty Measurement Tool Kit which was found by one CGAP study to be both reliable and cheap (Daley-Harris, 2005).
Economic and integrative tools can include a broad range of poverty and/or economic variables investigated via a simple interview process. These are often referred to as ‘checklist tools’ and use indicators based on income and expenditure, economic status, social indicators and other general indicators of a wider poverty focus (Simanowitz et al., 2000). These are not favoured by institutionalists due to the relatively high costs of implementation, which they claim threatens to undermine the capacity of an MFI to operate sustainably. A market-orientated perspective would argue that non-measurement techniques, which cost little and are more aligned to vagaries of the market, are the most appropriate targeting tools. The above analysis draws out however that a more explicitly poverty-focused approach is needed for those donors and practitioners with a definite social mission.

Targeting using poverty assessment is crucial in building poverty-focused MFIs. While they are more effective in eliminating poverty and targeting women more effectively, they can contribute to sustainability by increasing efficiency, accountability and transparency by improving client matching and decreasing arrears (Simanowitz et al., 2000). Organisations that specifically target the poor are more successful at reaching them and without poverty targeting microfinance services this cannot be achieved (Simanowitz, 2003). Consequently, MFIs that wish to operate as poverty-lenders must choose appropriate tools from those available for effective targeting. The challenge is in finding poverty assessment and targeting tools that are both inexpensive and accurate for the needs of particular MFIs.

Project Evaluation

In measuring the effectiveness of microfinance projects, maintaining a poverty-focus does not only concern measuring how poor clients are prior to or during a loan period, but also whether loans have indeed contributed to positive impacts. In seeking to achieve this, important distinctions should be made between impact assessments, seen as primarily a tool for donors, and client monitoring, a continuous tool aimed at increasing the knowledge of an MFI during its life. Table 2 contrasts the two forms of assessments. Sound practice suggests that both forms of assessments should inform donors and practitioners.

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6 The ‘ten seed technique’ developed by Dr. Ravi Jayakaran of World Vision China as a modified PLA tool is a simple and inspired tool for information collection used during impact assessment (Jayakaran, 2002).
Table 3: Impact assessment and client monitoring contrasted

<table>
<thead>
<tr>
<th></th>
<th>Impact assessment</th>
<th>Client monitoring</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Who for?</strong></td>
<td>Donors</td>
<td>Staff, board, donors, investors</td>
</tr>
<tr>
<td><strong>Why?</strong></td>
<td>Account for and guide the use of public funds</td>
<td>To inform strategic planning</td>
</tr>
<tr>
<td><strong>When?</strong></td>
<td>To fit funding cycles</td>
<td>Continuous</td>
</tr>
<tr>
<td><strong>What?</strong></td>
<td>Rigorous estimates of impact on “typical” clients</td>
<td>Profiles of diverse categories of clients and how services affect them</td>
</tr>
<tr>
<td><strong>Who by?</strong></td>
<td>Academic researchers</td>
<td>Staff and local consultants</td>
</tr>
<tr>
<td><strong>How?</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Criteria</strong></td>
<td>Cost-effectiveness less important than rigour</td>
<td>Reliability important, but cost-effectiveness is critical</td>
</tr>
<tr>
<td><strong>Funding</strong></td>
<td>Donors, separate contracts</td>
<td>Internal, integral to the organisation</td>
</tr>
<tr>
<td><strong>Data</strong></td>
<td>Sample surveys and detailed case studies</td>
<td>Routine forms, quota sample surveys, focus groups, exit surveys</td>
</tr>
<tr>
<td><strong>Analysis</strong></td>
<td>Statistical analysis or expert interpretation of qualitative data</td>
<td>Continuously confirm or question received wisdom of the organisation</td>
</tr>
</tbody>
</table>

(Copestake, 2001:4)

Impact Assessment

The literature throws up a wide array of microfinance impact assessments ranging from those that find both economic and social impacts, to those that find impacts only for the non-poor, to those who find negative impacts (Hulme, 2000). Indeed, an extensive review impact studies by Brae and Woller (2004) found that the findings varied considerably between each study and were contextually specific. As suggested in Table 2, impact assessments are donor-led and are intended to provide information on the allocation of resources and the performance of MFIs that are being supported. Impact assessments play an important role in assuring donors that public funds are being spent responsibly while fulfilling the mission of the organisation. A number of NGOs and donor have developed assessment tools that have become industry standards and are widely regarded as sound practice for assessment.7

The twin objectives of effective measurement are to ‘prove’ and ‘improve’ interventions (Hulme 2000). The former refers to accurately measuring the impacts of a given program, while the latter seeks to understand the processes of intervention that have led to these impacts so that they might be improved upon (for example, informing client-led product development). However, more emphasis is generally placed on ‘proving’ impact rather than

7 Foremost amongst these is the SEEP/AIMS tools that were developed by USAID and the Small Enterprise Education and Promotion (SEEP) Network, of which World Vision International is a member, while CGAP has established intermediate impact tool called the ‘Poverty Assessment Tool’. MicroSave Africa, supported by DFID and the UNDP, is regarded as having developed industry standards in participatory methods (Wright & Copestake, 2003).
‘improving’ interventions. Consequently, impact assessments are in danger of losing relevance to both practitioners and donors if they are not part of a continuous feedback loop that incorporates lessons learned back into the institutional framework and fails to adequately inform future project direction and donor decision-making (McCord, 2002). One practitioner of a large Asian MFI is quoted as saying ‘...impact assessment studies keep donors happy...we don’t use them very much’ (in Hulme, 2000: 80). This kind of circumstance undermines the importance of accurate impact assessments.

However, in ‘proving’ the impact of microfinance programmes the ‘attribution problem’, or the capacity of assessments to accurately determine whether or not it was membership of the program itself that resulted in the impact, provides a formidable challenge (Copestake, 2001). A loan will often not be a client’s only income source and the money received by clients is fungible. Consequently, whether impact can be proven and attributed is up for debate and the challenge for evaluators is to make impact assessments meaningful (Simanowitz, 2004). Some other problems identified with impact assessment are that; they are simply replicated without taking into consideration institutional or regional considerations; they often do not include those clients that have left an MFI; unintended consequences of microfinance programmes are not measured or are ignored; there is often no segmentation in impact studies (Patak & Matul, 2004). A review of impact assessment literature draws out some of the following suggestions for effective evaluations:

- Assessments should develop a conceptual framework that directly explains causality in relation to impacts;
- Assessments should be focused on a limited number of impact hypotheses that might be realistically measured;
- Consideration should be given as to what levels of impact are to be measured (individual, household, micro enterprise, community). The unit of assessment will have their own advantages and disadvantaged and must be relevant to the goals of the projects (Hulme, 2000);
- An effective impact assessment will combine quantitative and qualitative methods and will produce data that are both longitudinal and comparative in nature;
- Assessments should be comparative in nature. This includes being aware of limitations in regard to either regionally or internationally comparable data (Dunn, 2002);
- Client loan and/or savings performance should be disaggregated by poverty level (Simanowitz, 2002). Failure to do this has resulted in the figures for worldwide outreach documented by international initiatives being unreliable in relation the depth of outreach;
- Categories of impact should include economic poverty, the fulfilment of basic needs such as health care, clothing and housing, the reduction of risk and vulnerability (income smoothing, diversification of income sources, savings and assets, improved financial and business management skills, women’s empowerment, literacy and any other non-financial products, negative impacts of the program. (Simanowitz, 2002);
- Impact assessment should not only measure depth and breadth of outreach, but also scope (the number of products available), worth (in terms of costs and benefits to clients (Schreiner 2002).
Box 6: Cambodia and India – evaluating impact and institutions

The assessments considered for this paper are varied in their emphasis, methodologies, sources and conclusions. Vision Fund Cambodia (VFC) was evaluated using quantitative and participatory qualitative research techniques to measure project impact, client outreach and quality of services. The objectives of the evaluation were well defined with the intention of striking a balance between measuring both institutional and developmental impacts. These objectives were to: assess the project’s achievement of targets for based on key performance indicators; assess the MFI status (ownership and governance, leadership and management, organisational structure and systems), outreach (clients, services), financial performance (delinquency, PAR > 30 days, operational efficiency), strategic objective (vision, business plan); identify the facilitating and hindering factors and lessons learned; assess the community participation in the program; identify observable changes in the enterprise, individual, family and community as a result of project intervention; assess gender including gender roles and gender participation; and to assess the sustainability of the program.

A thorough review of the conceptual framework for evaluation was undertaken and included a review of project documents and reports, the collection of case study and focus groups discussion data, the formulation of recommendations and conclusions and feedback on the evaluation workshop. Importantly, VFC staff played a central role in the evaluation, as they did Kadamyampatty WCDP staff for evaluation of that project in India.

The Kadamyampatty WCDP highlighted the advantages of including local project staff in evaluation and thus contributing to a loop that feeds back important evaluation findings to the project. In this case, staff had the opportunity to learn from those outside the program as well as from self-help groups and communities; they obtained skills for client-monitoring and were able to clarify the strengths and weaknesses, opportunities of and threats to the project. Working together on the evaluation also facilitated a crucial forum within which staff was able to voice concerns and garner important insights due to community participation.

Client Monitoring

As impact assessment is generally regarded as being donor-led, it is frequently criticised for not directing feedback and recommendations back to practitioners (Simanowitz, 2004). Client-monitoring is therefore seen as a way of putting the focus on the institution by giving managers the tools to increase efficiency and improve decision-making. The method is the result of an understanding that donor-led evaluations are not adequate for meeting MFI or client needs. Regular client monitoring can give basic, regular information about a small number of proxy indicators for impact, which can in turn form the basis of industry-wide indicators. This can be achieved by an MFI that develops its existing internal monitoring or places more emphasis on the consolidation and analysis of client data (Copestake, 2001). The ultimate aim is in improving practitioner performance, and thus making funders better informed.

Attempts to rectify the failure to integrate social and financial indicators, and the fact that social monitoring is done in perfunctory manner, are being addressed by the Social Performance Monitoring (SPM) action research project being undertaken by Imp-Act. A study of four NGOs in Africa, Eastern Europe and South America found that effective social
performance measurement could be implemented cost effectively while cutting transaction costs and lowering exit rates (Imp-Act, 2004). For example, through a combination of focus group discussions, poverty status monitoring and exit monitoring, an MFI in Bosnia has achieved FSS while effectively targeting the poor (Imp-Act, 2004). Donors can contribute to SPM by encouraging and funding the development of individual MFI and MFI network specific mechanisms for client-monitoring, while assisting in the development for norms of SPM through international initiatives. Adequate client monitoring demands that:

- there must be a thorough understanding of the context, including a conceptual framework of how poverty is related to the indicators to be measured;
- the approach to be taken should be considered in relation to processes rather than events;
- indicators are developed from clearly defined objectives;
- client-monitoring must be context specific;
- no two programmes are the same and this should be reflected in the impact assessments;
- the more involvement staff has in assessing projects, the more likely they are to use the finding in a constructive way (Hyman & Dearden, 1998);
- social performance should be linked to the unique vision of each institution and donor, recognising that blanket assessments do not cover all circumstances or regions;
- clear understanding of the mission, goals, operational rationale and justification for the organization and the intervention should lead to the development of indicators, helping to establish a link between inputs and effects that are relevant to that specific program (of which poverty might only be one);
- understanding pathways of both intended and unintended consequences is key (Pawlak & Matul, 2004).

**Box 7. Monitoring exit clients**

The Cotopaxi Banca Mujer Program in Ecuador uses client exit surveys as a quantitative tool for clients who have left the programme. Surveying clients assists the organisation in understanding both why the client left the programme and what they believe the effect of them leaving was. Although used as a tool for the AIMS evaluation of the programme, it is also used as a permanent client-monitoring tool throughout the life of the project. The consequence of this is that the organisation can learn not just from successful client impacts, but also from those that have failed to impact to a successful degree upon clients.

**DISCUSSION**

This chapter aims to summarize a complex and diverse set of issues within the theme of microfinance and ‘measuring effectiveness’. It has undertaken to not only provide a brief review of some of the issues regarding measurement, but also the necessary task of defining
me of the not to be underestimated differences on just what ‘effective’ microfinance can
mean.

The working paper upon which this chapter is based undertook an extensive review of
one of the leading contributors to the field of microfinance in developing countries.
showing some of the differences on either side of the sustainability/poverty debate
highlights that maintaining a poverty focus on the poorest should never be an implicit goal,
but a deliberate act on the part of both practitioners and donors. Also, it revealed the great-
ness of product and institutional methodologies, evaluation types and funding options
undergone within the industry. These findings suggest that in this context a final
olution of the sustainability/poverty debate is unlikely. Nor, however, is it necessarily
irable. Blueprint ‘best practice’ methodologies for measuring effectiveness will stifle the
des of programming that recognises the need for diversity and impede the further
telopment of sound practice that covers the gamut of institutional possibilities.
ervaluing the contribution of microfinance services to the poorest of the poor by placing
them under the lens of sustainability will reveal only half the story.

Resolution of the debate, on a case by case basis, is highly dependent on the mission and
sequent poverty-focus of both lenders and donors. This in turn will then depend on the
ent to which they are able to adequately and thoroughly answer the question for donors
ed at the beginning of this paper, keeping in mind that a transformational development
pective based on sound practice should:

• recognise that a diversity of institutions and needs exist, requiring specific
interventions and policies;
• be foremost directed at reaching all poor groups while aiming for financial efficiency
and sustainability;
• recognise that financial sustainability and poverty outreach are not necessarily
ichotomous;
• consider the intrinsic value of financial services rather than simply poverty
 alleviation;
• appreciate that sustainability and poverty can be defined in different ways;
• be well-informed and directed subsidies have a place in the poverty-focused support
of MFIs;
• appreciate that measuring effectiveness is a combination of adequate poverty
targeting, informed impact assessments and thorough client monitoring based on
clearly defined objectives and goals.

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