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Microfinance Interventions and Impact Assessments on Enterprises Growth: Conceptual Model, Methodologies and Approaches

Severine S. A. Kessy

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Paper by:

Severine S. A. Kessy, University of Dar es Salaam, P. O. Box 35046, Dar es Salaam, Tanzania: E-mail: severinesk@udbs.udsm.ac.tz

Abstract

Microfinance institutions are considered to be a strategic tool for the poverty reduction in the developing countries. However, the methodological procedures to assess their impacts on the enterprise growth are scantly developed. This paper therefore intends to develop a conceptual and methodological framework for examining the impact of the microfinance interventions on the growth of Micro and Small Enterprises (MSEs) particularly for the developing countries. Following the theoretical discussions presented in this paper a conceptual framework is developed to show interrelated variables that should be assessed in examining the impact of microfinance intervention. From the framework, different methodologies are suggested in order to obtain accurate information that can explain the actual impact of the microfinance intervention.

1. Introduction

Impact assessment of the microfinance programmes started to be a concern since late 1980s (Mayoux, 2001). Assessments were of different types, commissioned by different agencies, with different objectives, and included both Donor-funded impact assessments as well as academic research, on both the poverty impact and empowerment, and non government organisation (NGO) internal evaluations. Interestingly, the impact assessment of the microfinance institutions (MFIs) as a management process was mainly associated with and driven by only donor agencies in the initial years (Afrane, 2002). However, as time went on, the impact of the microfinance intervention started to garner the interest of different stakeholders ranging from the policy makers, MFIs, to researchers and academicians.

In the late 1990s a number of impact assessment studies on the performance of microfinance projects were undertaken with the objectives of imparting knowledge to the microfinance practitioners, donors, academicians, and governments (Afrane, 2002). Different writers devoted their efforts in defining the impact assessment. Roche (1999) defined impact assessment as a systematic analysis of the long term significant changes - positive or negative, intended or not, brought about by a given action or a series of actions. This definition suggests that the results of an assessment can match or differ from the original objectives of the actions taken. Therefore, if the objective of a microfinance project is to provide loans to poor people in order to improve their standard of living, then the impact assessment study will reveal whether or not the standard of living of the targeted group has actually improved. Likewise, if the objective of the microfinance providers is to facilitate the growth of the enterprises, impact assessment will show whether or not the growth of these enterprises has been realised.

Barnes and Sebstad (2000) also defined impact assessment as a study to identify changes that result from a programme. Thus, the impact assessment aims at establishing a plausible association between the changes experienced by the beneficiaries through the participation in the programme. It is a management mechanism aimed at measuring the effects of the projects on the intended beneficiaries (Afrane, 2002). With respect to credit intervention, impact assessment includes the effects of the project on the change in sales revenue, profit, assets level or the number of employees of an enterprise.

The above definitions provide a wider perspective of the impact assessment. It looks at the changes that result from a programme, whether positive or negative. The changes can be studied within the programme itself or on the beneficiaries. The positive changes will be observed within the programme if MFIs are self financed and are able to reach and provide the services to more people especially in remote areas. On the side of the clients, positive impact will be realised if the programme has changed the lives of their clients in a positive way. Similarly, the negative impact of microfinance means that either the microfinance providers and/or clients have not achieved the intended objectives of the provided services. Specifically, inability to realise the financial independence and wider outreach at the level of MFIs is considered to be negative impact within the service providers. Likewise, if there is no improvement in the standards of living at the level of the beneficiaries, then the impact is considered to be negative.

This paper used different theories which have never been used in the past by the existing impact assessment models to formulate the framework and approaches that can be used by the researchers to conduct the impact assessment. This paper is based on the recent mushrooming works of the researchers who are conducting the impact assessment at different levels, including enterprises, household and MFIs. The paper also provides knowledge on different ways in which the impact assessment can be conducted, especially when the focus is on the enterprises that received MFIs services.

2. Schools and objectives of the impact assessment

The impact assessment studies fall within two schools of thought. For convenience, these two schools of thought are termed as the intended beneficiary school and the intermediary school of thought (Hulme, 2000). The intended beneficiary school sites the traditional project cycle approach and is derived from the view that the impact of the aid-funded projects on the poor people needs to be measured and attributed in order to justify the intervention (Johnson, 1998). Accordingly, this approach sees financial services (especially credit) as a service that can be instrumental in improving the livelihood opportunities through a combination of raising incomes, reducing vulnerability or alleviating oppressive debt relations. It mainly assesses the extent to which the users have benefited from the project in terms of the observed changes in their lives, growth of their enterprises and overall economic changes. According to Hulme (2000) the impact

assessment on the users assume that the intervention will change the behaviour and practice in such ways that lead to the achievement (or raise the probability of achievement) of the desired outcomes. In contrary to these assumptions, there are different studies that argue that microfinance is not very successful at creating prosperous small businesses in the long run.[1]

The intermediary school of thought focuses purely on the beginning of the chain and in particular on changes in the MFI and its operations. The school concerns itself with the health of the financial organisation in terms of its sustainability (both operational and financial) and judges the social benefit of this intervention in terms of its outreach to a number of poor people and their poverty profile (Johnson, 1998). Different criteria can be used to gauge the performance of MFIs. However, the commonly used indicators are outreach, clients' poverty level, loan repayment rate, financial sustainability and efficiency in terms of the controlling administrative costs.

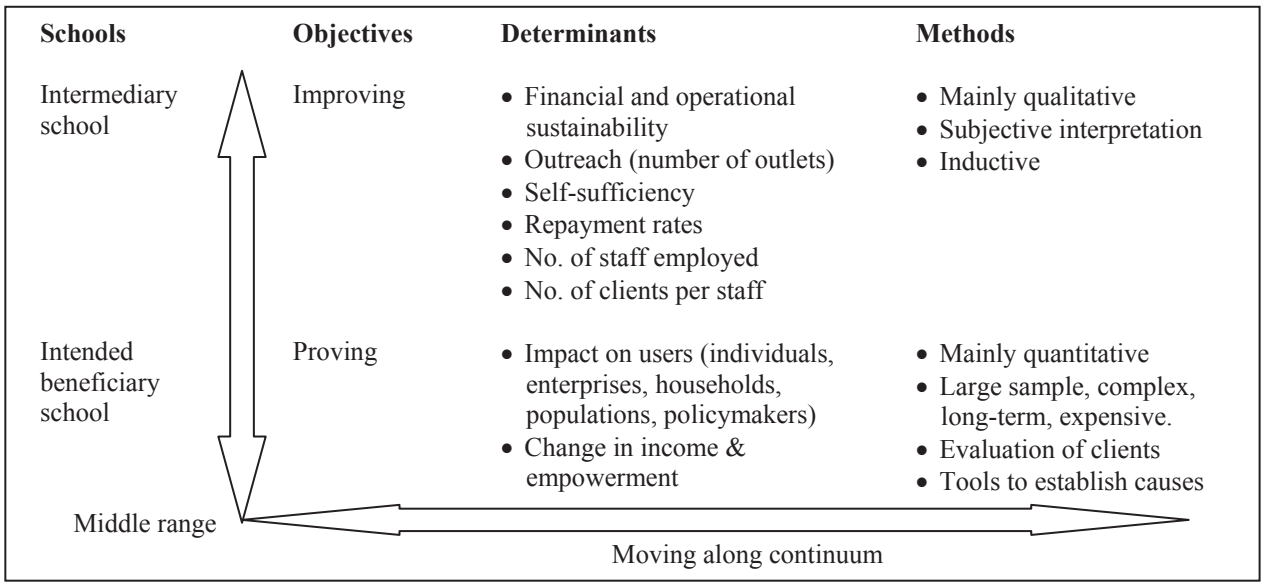
In line with the two schools of thought, the objectives of conducting impact assessment in microfinance are divided on a continuum, ranging between proving the impact and improving the impact approaches (Tandrup, 2002 and Manroth, 2001). These two approaches exist in a spectrum along which donors, practitioners and researchers can locate themselves depending on their needs and interests at a particular time (Johnson, 1998). The continuum forms an opportunity for the individuals interested in the impact assessment to disposition themselves. The disposition of individuals depends on the objective of conducting the study and also on the end users of the results of the impact study. The end users include donors, MFIs, programme managers, policy makers, researchers and public at large. For example, the donors in particular are frequently looking for evidences where the impact observations can be attributed to the participation in the microfinance program with a high degree of confidence (Manroth, 2001). This may differ from the interest of MFIs where the important consideration is to convince the donors that the programme is doing well so that donors can provide more financial supports to the MFIs operations.

[1] http://www.guardian.co.uk/global-development/poverty-matters/2011/mar/09/microfinance-neoliberal-fairytale

Impact assessment with a pure proving objective targets an audience consisting of the donors, the policy makers and the academicians with the aim of proving that the interventions have a positive impact to justify future investment (Sebstad, 1998 and Manroth, 2001). In this regard the assessors are considered to be independent actors whose studies are not initiated or influenced within the microfinance programme. The studies with this objective measure the impact of the intervention as accurate as possible and therefore require large scale, complex, long term and expensive studies that pass a test of scientific validity (Manroth, 2001). Impact assessment with the pure objectives of improving the impact focuses mainly on understanding the impact process and suggesting how the programmes can become responsive to the clients' demands and needs to help the microfinance schemes to improve their programmes (Tandrup, 2002 and Hulme, 1997). They are mainly initiated within the programme with an intention of the assisting microfinance providers in improving their services.

From this discussion, the proving impact and improving impact can be associated with the intermediary school and the intended beneficiary school respectively. The mentioned determinants in Figure 1 are defined as key variables that are studied in the impact assessment. The variables are categorised into two groups which are within MFIs as service providers and the clients as recipient of services. Studies under the intermediary school which are associated with the improving impact approach explore variables like financial and operational sustainability, outreach (number of outlets and branches), self-sufficiency in terms of self dependence against the donor dependence, repayment rates, number of staff employed and the number of clients served per employee. Studies under the intended beneficiary school which are associated with the proving impact approach focus on the impact on users (individuals, enterprises, households, populations, policymakers and community at large), to assess the change in income and empowerment of service beneficiaries. Although the focus has been on the intermediary school and the intended beneficiary school, in some cases impact assessment within the schools is done (middle range) which combines both the proving and improving approaches.

Figure 1: Objectives of the impact analysis and schools of thought



Source: Diagram prepared by the author by synthesising from the literature

From Figure 1, the researchers interested in conducting the impact assessment can opt for the intermediary school of thought or the intended beneficiary school of thought. Likewise the objectives of conducting the impact assessment are divided on a continuum, ranging from proving impact to improving impact approaches. Although different methods and approaches can be developed for both the schools, this paper is focused on the growth of MSEs supported by MFIs. The focus in this group is based on the existing difficulties in developing approaches to study the impact at all levels. In this regard, the developed model and methodologies focus on the intended beneficiary school proving the impact approach in assessing the impact of microfinance services. During the 1990s many scholars like Hulme (1997), Sebstad et al (1995), Mosley (1997), and Gaile and Foster (1996) devoted their efforts in identifying and developing appropriate methods of the impact assessment. Given the development of the impact assessment methodologies, a number of impact assessment studies were conducted in the late 1990s and early 2000s[2]. Focusing on the measurement indicators and the extent of the transformations in their lives and businesses of the project beneficiaries, these impact assessment studies attempted to provide the effects of the microfinance programme interventions.

[2] See for example Mosley, 2001, Manroth, 2001, Afrane, 2002, Mayoux, 2001, etc.

The conventional model ascertains that the services provided by the MFIs help the client to modify her/his enterprise activities which in turn lead to increased or decreased enterprise income (Hulme, 1997; 2000). The change in enterprise income causes changes in the household income which in turn leads to greater or lesser household economic security. The modified level of household economic security leads to changes in the morbidity and mortality of the household members, in educational and skill levels and in future economic and social opportunities (Hulme, 2000). The model also suggests that the received services will modify the outcomes of recipient, i.e. change in assets, human resources, sales revenue, profit, return on investment and number of businesses etc., which lead to the overall control of resources. At the end, the model shows a difference between the outcomes of those enterprises receiving in contrast to those not receiving the MFI services.

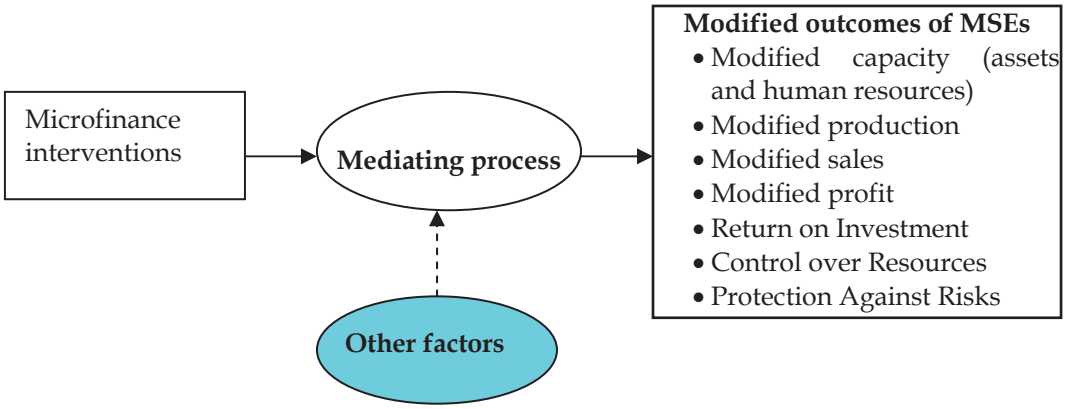
Although the conventional model of the impact was considered as an achievement, it however reflects only one way causal relationship, which might not be the case in reality. It assumes that the received loan will be used as the working capital and therefore will lead to the growth of enterprises. This might not be the case as it is established that fungibility[3] is a common problem in microfinance practices (Gaile and Foster, 1996 and Chijoriga and Olomi, 2004). From the model, the received services are expected to change the behaviour of the recipients in such way that, they will increase the outcomes of their enterprises. However, the outcomes of an enterprise can be influenced by different factors, including the behaviour and practices of the beneficiaries mentioned by the model, although the model sees them to be in favour of the outcomes of the supported enterprises. In such a case, the assumption that the intervention will change the human behaviours and practices in ways that lead to the achievement (or raise the probability of achievement) of desired outcomes (Hulme, 2000), may sometimes not hold water due to different factors including the motivational characteristics of the business owners. Therefore it can be concluded that the intervention is not a panacea for the MSEs' growth. This creates a need to develop a conceptual framework which should firstly focus on whether the microfinance intervention leads to the growth of MSEs and thereafter assess the impact of interventions.

[3] Fungibility implies when the loan is transferred from a borrower to someone else or when the loan is not used in the planned way (Hulme, 2000)

3. The construction of a new conceptual framework

Although many studies have found a positive impact between the microfinance services and MSEs' growth as depicted in Figure 2 (Woller and Parsons, 2002; Hulme, 2000, Johnson, 1998; Afrane, 2002; Karlan, 2001; and Limon, 2001), the services received may have no impact to the growth of supported MSEs. The potentiality of these services therefore cannot be taken for granted that the access to the services like credit and training automatically lead to the growth of MSEs. It might be that the received services have been invested to unintended activities which may have no contribution towards the growth of MSEs. Also the investment might go to industry which has no growth prospects or the owner might not prefer to own a growing business. It is from these perspectives we believe that other factors can as well explain the growth of supported enterprises. In such a case the assessment on whether the services received cause the growth of MSEs, creates a point of departure to this study.

Figure 2: Relationship between microfinance and MSEs' growth



Source: Prepared by the author

In the process of writing this paper we have selected the theories that can explain how the business environment and availability of resources can influence the growth of MSEs. This assisted to come up with more specific suggestions to develop the theoretical model for assessing the relationship between MFI services and the growth of MSEs. In order to explain how the business environment affects the growth of MSEs, biological theory was used. The theory argues that any given environment may support a number of alternative organisational forms that grow and die at different rates, depending on the environmental conditions (O'Gorman, 2001).

The subscribers of the biological view believe that the existence and growth of the firms depend on whether these firms are favoured by the environment or not. In this case, the developed conceptual framework has divided business environment into two parts; favourable and unfavourable environments. The former encompasses MSEs with the adequate resources and the latter comprises MSEs with the inadequate resources. The favourable environment is referred to the availability of capital and business skills that help the owners of MSEs to run their businesses smoothly. Literature argues that most of the MSEs especially in the developing countries are limited in capital availability and business skills (Satta, 2003 and Trulsson, 2002).

MSEs experiencing MFI interventions are considered to be favoured by the environment because they can accumulate the required resources for growth. Therefore, the enterprises with no interventions will have limited growth possibilities. The availability of credit for example, may create a good environment for MSEs to operate smoothly because they will build the ability of financing different activities of businesses within a competitive business environment. From this perspective it is believed that without the microfinance interventions most of the MSEs in the developing countries would not be able to explore the available opportunities for growth. The MFIs would therefore create a favourable environment that can enable the MSEs to grow if they can take advantage of the available opportunities. MSEs with adequate resources may experience growth possibilities; however it has been assumed and also supported by the literature that it is very rare to find MSEs with the adequate resources in the developing countries (Trulsson, 2002; ESRF, 1996 and UDEC, 2002).

Although the availability of the resources creates a favourable environment for MSEs' growth, the resources based view considers only strategic resources[4] (Barney, 1991 and Saffu and Manu, 2004). This view therefore describes how business owners build their businesses from the strategic resources and capabilities that they currently possess or can acquire (Dollinger, 1999 and Saffu and Manu, 2004). While capital can be obtained through internal or external financing, business skills can be obtained through training.

[4] In the conceptual framework, strategic resources are capital and business skills.

However, it is difficult for MSEs in the developing countries to finance their businesses internally.

Access to credit is therefore considered to be a source of financial resources and is expected to enable the owners of MSEs to raise the capital which in turn may be used to purchase more assets, operating materials and financing the daily activities of an enterprise. It allows the MSEs' owner to replenish inventory, to settle for day-to-day operations of a business including payroll, to invest in the profitable opportunities and take discount benefits when purchasing in large quantities. Adequate financing also enables enterprises to provide goods and services at the right time and therefore be able to attract more customers. Moreover, with enough capital the owners will have an opportunity to expand and exploit the available opportunities in the industry. Thus credit may be considered to be an important tool for the MSEs' owners to acquire the working and investment capital which in turn can lead to increased business income, capital and ability to employ more people.

However, improper use of the received loan limits the growth possibilities of an enterprise. This involves the use of money in activities that are not related to the business, e.g. paying school fees, purchasing other items like clothes, etc. The practice of using received money in different activities, which is termed as fungibility can be linked to human motivation view which explains the effects of business owners' behaviour towards the performance of enterprises. The human motivation view sees growth as resulting from personal needs of the owner-managers and these needs are socially generated, socially sustained and socially changed (Shane et al, 2003). The behaviour to use received loan to unintended activities is highly influenced by the mission and targets of the business owners. Also, in line with the resource based theory which accentuates that resource deployment strategies create a competitive advantage for a firm and hence growth (Saffu and Manu, 2004), i.e. non-fungibility of the received loan creates a better chance for MSEs to grow. From this view it can be argued that those enterprises which utilise all of the loans in their businesses may have higher prospects of growth than those diverting the loans.

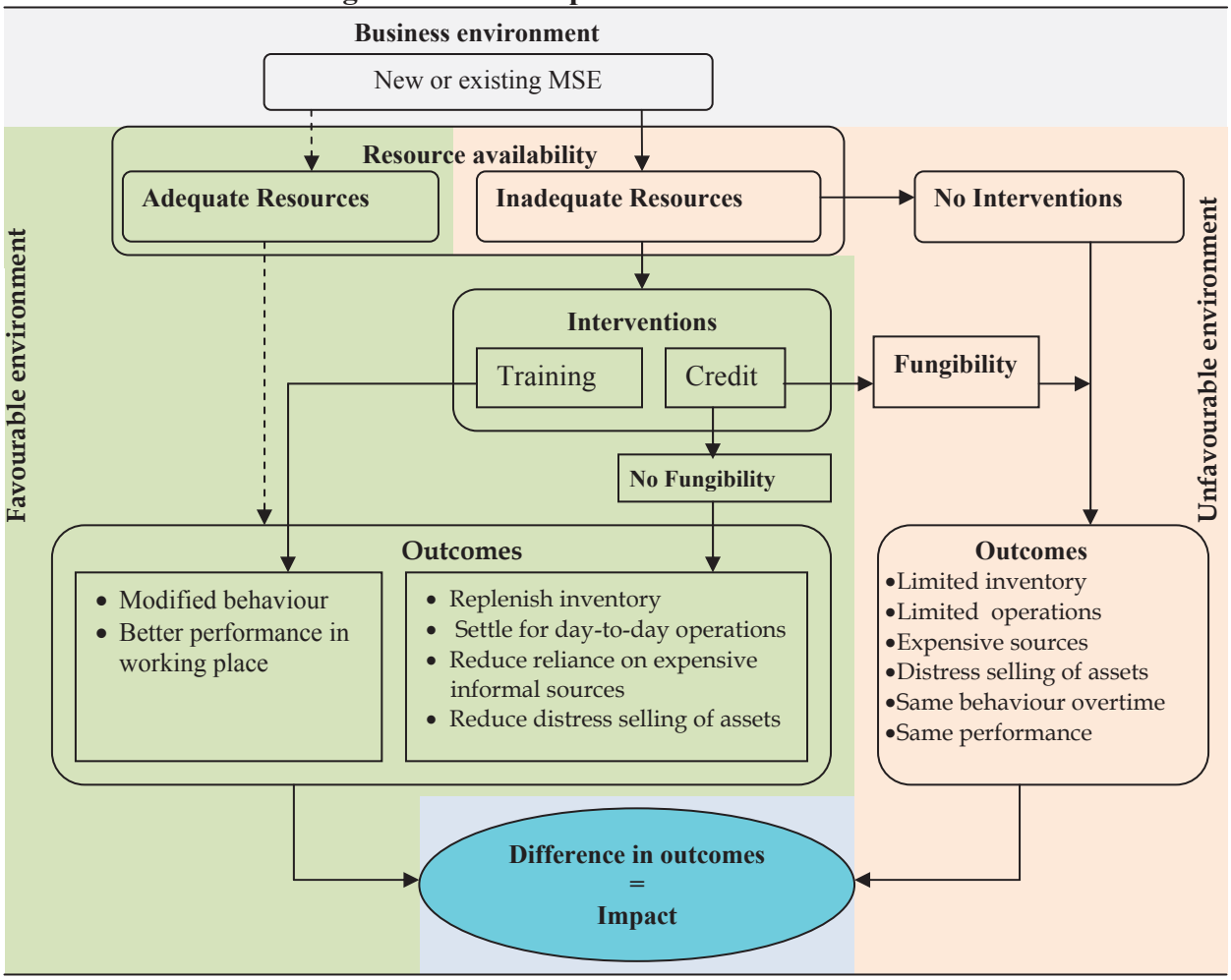
Training on the other hand, enables the recipient to explore business opportunities including access to the market, developing new and marketable products, adopting new

technologies and meeting the challenges of the ever changing business environment. It is therefore believed that the people who have received business training will have more capability to manage their enterprises and hence receive more positive results than those without business training. Along the same line of thinking, training modifies the behaviour of MSEs' owners, which in turn leads to better performance at work place. This creates the possibilities of their enterprises to grow more than those owned by people without business skills. Additionally, it is expected that training will change the behaviour of MSEs' owners and thereafter impact on the enterprise growth. It is expected that the mediating processes (economic, physical, political environment, etc.) are more or less similar for all enterprises and therefore are not very strong in influencing the differences in the enterprises growth. In this regard the outcomes are mainly dependent on the resources owned by the MSEs, both human and nonhuman.

3.1. Difference in outcomes

The impact of the microfinance services can be assessed by examining if there is any difference in enterprises' outcomes by considering the period before and after receiving the services and also by using a control group to avoid exogenous factors. The control group comprises of the enterprises which have not received MFI services. This comparison enables the assessment of other factors than microfinance intervention that can contribute to the MSEs' growth. Based on the empirical findings on the impact assessment, which emerged with mixed findings (Woller and Parsons, 2002; Afrane, 2002; Karlan, 2001; and Limon, 2001) on the impact of the microfinance services, the conceptual framework follows the assumption that MFIs intervention may or may not lead to positive results for the MSEs. Apart from the impact on MSEs' growth, microfinance services are expected to have an impact on the owner and the community at large. This kind of impact is based on the argument that the growth of MSEs results into an increase of MSEs' owners' wealth and the overall standard of living. Profits generated from the MSEs' activities enable the owner to cover his/her living expenditures. On the other hand, the employed people also benefit because they can meet their daily requirements through the salaries and other compensation attributes they receive. This creates a possibility of a trickledown effect of the income generated as a result of the microfinance intervention. It is from this perspective that the MFIs are claimed to enhance the income earning capacity which improves the living standard of the poor people (Mosley, 2001 and ADB, 2000).

Figure 3: Conceptual model



Source: Prepared by the author by synthesising from the literature

4. Methods and approaches of impact assessments to MSEs

The approaches to and the methods of microfinance impact assessment are diverse (Khalily, 2004). They vary from the descriptive to the econometric analysis and from limited use to extensive use of econometric techniques. The econometric approaches may require rigorous assumptions about the behaviours of the units of assessments to obtain control mechanism and parameter estimates (Barnes and Sebstad, 2000). Proper impact assessments thus employ methods that are appropriate to the key questions, and the degree and extent of precision needed. The choice of the methods to use for the impact assessment depends on whether the methods can establish the existing relationship

between the changes that occur on activities of MSEs and participations in microfinance programmes.

In conducting the impact assessment studies, we recommend the use of both quantitative and qualitative methods. Quantitative methods for example, can address the questions related to what, whom, where, how many, and how much the MFI clients have been benefited. These types of data which are normally collected in large quantity by the survey technique can be used to show who has benefited from interventions, the level of beneficiaries' assets, revenue, number of employees, profitability, return on investment etc. The survey technique proposed also allows the collection of diversity of information on how the interventions and other factors can influence the growth of the enterprises. The diversity of information makes it possible to apply research results to the population beyond the individuals involved in the study.

On the other hand, the qualitative methods for the microfinance impact analysis assist the researchers in understanding the causal process behind the observed impact through quantitative methods. The quantitative method assumes that the causality is one way and therefore the microfinance interventions will bring positive impact to their clients. However, mediating processes (specific characteristics of the MSEs' owner and that of economic, physical, political environment, etc.) may as well influence the growth of the MSEs. The argument of one way causality therefore may not be valid. Qualitative method frequently uses less-measurable indicators to measure the impact of microfinance by allowing open discussion with the project beneficiaries. Through open discussions it is possible to establish whether there is a leakage or not of loan money into non-productive activities or unrelated investments.

The combination of these methods goes hand in hand with methods of microfinance researchers, who have increasingly turned towards the so called *'middle-range'* approach which combined quantitative and qualitative elements of the impact assessment with the aim of establishing 'plausible association' of the observed impact of the microfinance (Manroth, 2001). The combination of the two methods is also expected to produce results that can accurately explain the growth of MSEs as a result of microfinance intervention.

4.1. Indicators of the MSEs' growth

The analysis of the enterprises growth can be done using a range of different growth indicators (Sebstad et al, 1995). These growth indicators are distinguished from one another in terms of the relative importance of both – enterprise related factors (e.g. resources such as: financial, personnel, systems, and business) and owner related factors (Mitra, 2002). Each indicator can stand alone as a measure of growth. However, when the indicators are combined they can reveal the extent of growth in more detail (Liedholm, 2002). For example, while change in employees may be favoured because of its easiness and accurateness to remember by the owners of enterprises, the indicator may fail to show the other side of growth that can be measured in terms of change in sales or assets. The use of more than one indicator can therefore accurately measure the overall growth of an enterprise.

Also in the developing countries, the growth of an enterprise does not mean positive change in these indicators only, but it is also expected to contribute to poverty reduction. Thus, the increase in employment rate as a result of growing enterprises will result in the distribution of income to many people, some of whom were initially not part of that distribution. This will increase their revenue and hence create more capacity in meeting the families' expenditures like food, education and health expenses. With the same reasoning, the increase in income will enable the poor people to overcome hunger and other nutritious problems, illiteracy, lack of access to basic necessities such as safe drinking water and health services, plus social isolation and exploitation. According to Hulme et al (2001), these are the characteristics of the poor people. The increase in the assets level also enables an enterprise to produce more output which can reach the market in a more sustainable way. This will increase the supply of goods and services in large quantities and at a reasonable price.

In measuring the growth of enterprises, change in income, assets level, the number of employees and number of businesses owned can be considered as indicators of the enterprise's growth. The choice of these indicators is based on the fact that, change in the income, assets level, number of employees and number of businesses owned have shown aptness in measuring the growth (McPherson, 1996; Mead and Liedholm, 1998; Mosley,

2001 and Kessy and Urio, 2006). The use of more than one indicator is also taken to minimise the weaknesses of each indicator like the lumpy nature of employment, which appears to increase with a lag after a sizeable growth in real sales or assets (Liedholm, 2002). The increase in income, number of employees, assets level and number of businesses owned would mean positive changes towards the growth of an enterprise.

5. Difficulties of assessing the impact of microfinance services

The assessment of the impacts of microfinance projects is fraught with a number of problems (Afrane, 2002, Mosley, 1997 and Khalily, 2004). These problems include (i) the difficulty of estimating the counterfactual situation in order to compare with the factual conditions of the target group, and (ii) the difficulty of attributing any change that is found in the circumstances of the beneficiaries specifically to the programme interventions. Although different authors (e.g. Mosley, 1997; Manroth, 2001; Afrane, 2002; Johnson and Rogaly, 1997 and Gaile and Foster, 1996) explicate these difficulties, Hulme (2000) precisely describes them as follows:

i. Difficulties in finding a location at which the control group's economic, physical and social environment matches that of the treatment group,
ii. The treatment group systematically possessing an 'invisible' attribute which the control group lacks (most commonly identified as entrepreneurial drive and ability),
iii. Receiving any form of intervention that might result in a short-term positive response from the treatment group,
iv. The control group becoming contaminated by contact with the treatment group, and
v. The fungibility of the treatment group (e.g. when a loan is transferred from a borrower to someone else or when the loan is not used in the planned way).

Normally, microfinance interventions take place alongside a whole array of social and economic environments that can influence the performance of the supported enterprises. Consequently, other events and changes occur while the intervention is taking place, and this may make it virtually difficult to single out the specific impact of credit programs (Johnson and Rogaly, 1997). Different writers have proposed solutions to these difficulties. For example Hulme (2000) argues that problems (i) and (iv) can be tackled by more careful selection of the control group. This applies particularly for controlling the

access to infrastructure (which has a key influence on input and output, prices as well as other variables) and ensuring that the control group is located far away from the treatment group in the sense that they cannot access the services received by the treatment group.

The assessors of MFIs intervention should narrow down the scope of their study and obtain suitable groups. This will enable the researchers to have the control group's economic, physical and social environment matching that of the treatment group. The use of "control and experiment groups" will allow the isolation and capture of project benefits (Afrane, 2002). Experimental, especially quasi-experimental designs analyse "uncontrollable" situations in an experiment-like fashion by using "control" populations and by using the statistical procedures on control variables in order to solve problems (i) and (iv) (Gaile and Foster, 1996). Quasi-experiments seek to compare the outcomes of an intervention with a simulation of what the outcomes would have been, had there been no intervention (Hulme, 2000). This approach can assist the researchers to control other exogenous factors that may be influenced by economic, social and political environments.

Moreover, it is argued that the selection of a control group needs to be done very carefully to eliminate the bias of being contaminated through the contact with the target group (Mosley, 1997 and Hulme, 2000). This can be achieved by selecting a control group which has not yet been contacted in terms of the received loan or money transfer from the target group to the control group. It is from this perspective that the technique is believed to eliminate the chances of getting a control group that has been influenced by the treatment group. In addition, every respondent in the control group can be firstly asked whether he/she had any relationship with the treatment group and if there was any relationship. Knowing this, the respondent should be excluded from the control group respondents to avoid biasing the results.

Problems (ii) and (iii) can also occur in the impact assessment studies because the target group (i.e. borrowers) often has a tendency to possess an attribute which is usually not controlled for (such as "entrepreneurial ability", or even the ability to remember). For example, entrepreneurial ability is commonly possessed by the MFIs clients because the MFIs target the entrepreneurs who are already in business. The selection itself provides an assurance that many of the MFIs clients are good entrepreneurs. These biases can be

countervailed by using accepted potential borrowers. Accepted borrowers who have not yet received the loans are presumably characterised as MFIs clients, and feel just as much a sense of belonging to the programme experiment as those who are already using loans. This is based on the fact that the potential borrowers are regarded to have entrepreneurial drives and abilities like the existing borrowers because they have passed the recruitment procedures of the MFIs. In this case, the potential borrowers have demonstrated acceptable performance like the existing borrowers and are thus accepted by the microfinance providers. This can remove the problem associated with a sanguine attitude of MFIs clients. Apart from using the borrowers to be, scientific procedures with justifications can be applied to get the control group's respondents with related attributes in order to minimise the bias.

Among the above limitations, fungibility is considered to be the most difficult to deal with in impact assessment studies (Afrane, 2002; Hulme, 2000 and Mosley, 1997). For example, a study conducted by Chijoriga and Olomi (2004) found that 73.3 percent of the surveyed borrowers invested all loan in their business while the rest did not. The reasons given by those who did not invest the entire loan to their businesses include: the loan sizes were larger than the business requirement, and the clients also saved the loan fund as a cash-cover for their loan repayments in order to protect themselves against non-repayment. It is from the observations of this nature, Gaile and Foster (1996) concluded that no study has successfully controlled the fungibility of resources between household and the assisted enterprise. However, to overcome the problem of fungibility, it is recommended that the case study materials should be used to crosscheck the actual loan used against planned loan (Mosley, 1997). Additionally, interview technique of administering questionnaires can assist in crosschecking the fungibility problem among the borrowers through probing the use of the received credit. The in-depth interview is also important in getting detailed information that can supplement the information collected through questionnaires.

6. Conclusions

Most of the previously mentioned writers on the impact assessment see microfinance services to have positive impact to the beneficiaries (Hulme, 1997; 2000; Manroth, 2001; Johnson, 1998 and Mosley, 2001). However, in reality it is very difficult for the

microfinance services to be the only basis for the positive changes. It is from this perspective that the framework has been developed in this paper, to study the actual impact assessment whether or not microfinance services trigger the positive changes for beneficiaries and also whether or not there is a difference between recipient of services and non-recipient of services. The methods and approaches proposed in this paper provide step wise procedures that would enable the researchers to measure the impact of intervention with a high degree of accuracy.

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