Social Impact of Microfinance

Measuring the social and developmental effects of commercial Microfinance

– the case of AfriCap

"Microfinance is one of the most powerful tools to address global poverty"
- World Economic Forum [1]

Executive Summary

This paper studies the assessment of social and developmental effects of Microfinance through the case of AfriCap, a Microfinance investing Private-Equity firm based in Mauritius/South Africa. The query investigated is whether and how AfriCap can measure the non-financial returns on it investments. We find that the field is in flux and that diverging trends in academic and industry practise seriously question the possibility for measuring actual impact of Microfinance operations on the ground in LDC countries. Complicating this fact is that the operational realities of many Microfinance operations do not work to facilitate impact assessment. In essence, our recommendation to AfriCap and the wider field is to take an active stand on the ambition versus cost trade off that condition the possibility to develop reliable impact assessment. We speculate that the field is in need of clearer leadership and ambition to bring academia, industry networks, multilaterals and individual MFI: s and SRIs together to solve the still beckoning question – Does, and how does Microfinance work to deliver positive social and developmental Impact?

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[1] Karnani, Aneel, "Microfinance misses its mark", Stanford Social Innovation Review, Summer 2007, (2007), p 36.

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Abbreviations

MF – Microfinance

LDC – Less Developed Country

SRI – Socially responsible Investor

SIA – Social Impact Assessment

SPM – Social Performance Measurement

MFI – Microfinance Institution

SEEP – Small Enterprise Education and promotion network

Introduction

In this section we begin by discussing the development of the field of Microfinance. After a brief historical background we discuss the relevance of Microfinance to the field of Economic Development and how the field is studied today. We go on to detail the origins of our inquiry of how Microfinance meets the world of Social Impact Assessment.

Background

This section describes the background of Microfinance and the more recent developments that have led to the trends we see today. We discuss the evolving structure of the industry and the evolution of Microfinance practice in general with a focus on reporting on social and developmental effects.

Microfinance in the 21st Century

The prospect of intermediating and facilitating financial services to catalyse economic activity among the poor of the world has generated a great deal of interest among policy makers and development practitioners as a strategy for poverty reduction. Microfinance (MF), the concept that defines bringing access to basic financial services, such as savings facilities, credits, money transfers, and insurance, has been suggested to facilitate effective and sustainable poverty alleviation. The practice has also been praised for the promising a potentially "sustainable"[2] way to spur growth in less developed countries (LDC: s).[3]

In an effort to promote a role for Microfinance in achieving the Millennium Development Goals (MDG), the United Nations declared 2005 as the "Year of Microcredit". One year later, the Nobel Peace Prize was given to Muhammad Yunus and his Microfinance bank, Grameen, in recognition of the pioneering achievements carried out since the 70s' to launch the field. Since then, there has been a surge in donations to what is considered one of the most important financial innovations in the last decades. MFI: s and related initiatives are receiving an increasing amount of grants from donors, aimed at capacity building, education and the like.[4]

Industry Diversification

The principals of MFI: s are diversifying. From the more classical savers associations started at grass-root level which have been prevalent for decades in the developing world, MFI: s have also been

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[2] Sustainability has many definitions but generally refers to a practice that internalizes the negative externalities it creates (general, environmental), is self funded (financial), solves more problems than it creates etc. (http://en.wikipedia.org/wiki/Sustainability#Economic_dimension).

[3] Year of Microcredit 2005, *Year of Microcredit 2005*, http://www.yearofmicrocredit.org/.

[4] Latifee, H I, "Financing Micro-finance Programs, International Workshop on Microfinance in Poverty Reduction and the Challenges for MFIs in Vietnam", Grameen Trust, (2003), http://www.grameentrust.org/Financing%20Microfinance%20May%202003,%20VitemanF.pdf, 6-10.

initiated by NGO's and private philanthropists. More recently, commercial and philanthropic "Social Venture Capital"[5] as well as purely commercial investors such as Private-Equity firms, local banking corporations and other institutional investors have increasingly been approaching the industry. Some seek the promise of social and developmental returns, whether per say or in combination with financial returns, others such as local banks see an operational mandate in Microfinance as a way of reaching new clientele.[6]

The profiles and operations of MFI: s are also diversifying. While some are entirely committed to serve the poorest segment of the populations, other have established themselves as targeting the whole segment of the population who do not qualify to benefit from regular banking services (as much as 75% in some developing countries). Others still find themselves travelling away from low income segments, moving upmarket on motives on profitability, eventually becoming more similar to regular retail banks.[7]

Further, the services provided are being diversified. From only delivering savings and credit facilities, some MFI: s are now engaged in a broad span of services including money transfer, health insurances, life insurances, money insurances. Some go beyond the realm of financial service and provide education (on health, financial matters, domestic violence and even basic hygiene) or advisory functions (for budding entrepreneur).[8]

The rise of two paradigms, aid and commerce

Historically, MFI: s have to a large extent been financed by aid and development financiers and through subsidised debt provided by international NGO's and donor associations. Some of the largest MFI: s existing today, including Grameen Bank have, at least initially, relied entirely on aid for their development. In 2002, as much as 93% of MFI: s were still relying on some sort of subsidy for their ongoing activities and most MFI: s operated in a cooperative and/or registered as an NGO. [9] The underlying rationale has been an ideological promotion of central mission of MFI: s as the improvement of the lives of their poor clients, their families and the surrounding communities. Priority has similarly lied in delivering loans at subsidized rates. Cost effectiveness and financial

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[5] Social Venture Fund is one name for types of investors that invest in social good. Be it a business that solves social problems as a primary objective or simply seeks to be socially and/or environmentally responsible. (http://en.wikipedia.org/wiki/Social_venture_capital).

[6] Köhn, Doris & Jainzik, Michael, "Sustainability in Microfinance — Visions and Versions for Exit by Development Finance Institutions", *(Berlin: Springer Berlin Heidelberg, 2006)*, 176.

[7] Lapenu C. *et al*, "The Role of Investors in Promoting Social Performance in Microfinance", *Microfinance Gateway: European Dialogue No. 1*, (2008), 5.

[8] Mikrofinanshuset, Mikrofinansdagen i Stockholm, *lecture held by Ingrid Munro*, 2008-10-23

[9] World Microfinance Forum Geneva, "Is it fair to do business with the poor? Promoting inclusive financial markets", *Report on the debate between Muhammad Yunus and Michael Chu*, 2008, 3.

sustainability has been generally considered only second in priority.[10] This ideology has been dominant in the development of modern Microfinance as principally a tool for aid and development rather than a viable business model with positive social and developmental externalities.

The last decade has seen an explosion in the number of Microfinance initiatives. Some MFI: s have come to gain little or no access to aid flows, others shun the heavy burden of requirements associated with aid flows and subsidies. Such MFI: s have either voluntary or by necessity opted for operating their business in a financially sustainable way – charging for their services in such a way as to remain financially sustainable. Other institutions, initially financed by aid, have grown to such levels as to be able to attract capital from capital markets. Although still in minority, a number of MFI: s have managed to become profitable and by banking standards a few have even reached a level of attractive returns.[11]

In parallel to the “aid oriented” movement, a competing paradigm has thus emerged. Drawing upon the criticism of the aid in development in general, critique of aid as a driver for MFI financing has also been increasingly questioned. Critics point to the fact that projects that are not able to sustain themselves are more fragile and likely to collapse once external financiers withdraw. Aid thus hinders the institutional development of the MFI: s, supposedly inducing the organization to rely on false security of secured aid flows instead of attracting external capital for its development. Given the fragmentation of the aid sector supporting Microfinance there is also criticism of aid in Microfinance at the industry level. Mass distribution of financial services to poor populations has also been argued to be possible only through the engagement of private capital.[12]

This second paradigm argues institutional sustainability as the principal goal for MFI: s. Instead of focusing on loans and borrowers those MFI: s that focus on building institutions that prevail in open-market competition and can attract capital on international capital markets. This is referred to as financial self sufficiency (FSS).[13] Essentially this movement goes under the designation “commercial Microfinance”.

Investors, from aid to equity

A wide array of investors now engages in the Microfinance industry globally. Pure philanthropists and venture capital firms alike have started to see Microfinance as a worthwhile prospect for

[10] Ibid, 5.
[11] Ibid, 6.
[12] Lapenu, “The Role of Investors in Promoting Social Performance in Microfinance”, 7.
[13] Africap Sweden, Mikrofinans I Afrika, Ekonomiska och politiska förutsättningar, http://www.africap.se/MF.htm.

investment.[14] Private investors are increasingly entering the MF capital market, some as 'retail investors' with small amounts. Others, institutional, dispose of bigger amounts. Whether aiming at financial returns, the building of FSS-institutions (as described above) or more classical social return achievements, such actors almost without exception regard MF investments as a special asset class of socially responsible investment. They do not only aim at return on investment, but they also like to see some (preferably demonstrated) social return on their investment.[15]

Concluding, we note that the Microfinance as an industry is in a moving target. The ambitions are great, the hype around the field is a fact but the future is uncertain as to what form of Microfinance will prevail, that of business or that of an aid based tool for poverty alleviation.

Microfinance and Development

This section positions Microfinance in the world of economic development and poverty reduction. We ask ourselves, how is Microfinance supposed to contribute to development? We also discuss the particularities of commercial MFI: s in this regard and the industry's initiatives towards reporting on social and development effects.

Basic suppositions

Microfinance is in essence the practice of providing opportunities to financial services to poor who would otherwise not have such access. The beneficial effects of having access to such services theoretically include income smoothing, opportunities for investment, saving and in some case insurance against unfortunate events effecting the socioeconomic situation of an individual or a household. These effects are achieved through such simple means a providing opportunity for saving, lending and insurance. Further, Microfinance has been attributed indirect social effects on gender equality (through enabling women to increased economic activity), health (through better food provision of income, special support for hygiene investment etc.) On a community wide and systemic level, Microfinance is envisioned to increase overall economic activity, providing more opportunities and fuelling a positive spiral out of poverty and towards long term sustainability of the community.[16]

The particular case of commercial Microfinance

As with the world outside of Microfinance, the idea of connecting the provision of or responsibility for social good with business or financial interests tends to spark debate over what interests will come to dominate that activity and the effects on relevant stakeholders. In the case of commercial Microfinance, we are looking at an organization, a corporate entity, that trades as an investable

[14]Lapenu, "The Role of Investors in Promoting Social Performance in Microfinance", 12.
[15]Ibid., 7.
[16] Armendariz, Beatriz, Morduch, Jonathan, "The economics of microfinance", *(New Delhi: Prentice Hall, 2005)*, 200

asset, delivering financial returns to investors and simultaneously responsible for the provision of financial services to a generally disenfranchised, weak customer segment (poor individuals and entrepreneurs), in LDC's. Naturally, voices have been raised against this proposition. Anecdotal evidence in support of such concern is there; in 2007 the Mexican MFI Compartamos made the headlines for making substantial returns while allegedly charging extortionate interest rates to poor clients.[17]

The possibly negative prospects of commercial Microfinance are chiefly high interest rates. It is true that interest rates are generally higher in micro- than retail finance. There is however economic theory in support of this. Seeing as poor clients start out at a relatively lower level, they have the otherwise unusual prospect of perhaps doubling or quadrupling their income through something as simple as getting a loan to drill a well or purchase a sewing machine. At the same time, lending out small amounts results in higher transaction expenditures. The risks and costs taken by MFI: s to serve these clients could therefore be compensated with high interest rates without being prohibitive to the clients. There are however sordid examples of loan sharks dressed up in MFI clothing, charging truly extortionate rates. In any case, over-indebtedness is a potential problem that would arguably work in the exact opposite direction of the positive effects of Microfinance. While most commercial MFI: s are certainly not likely to act as loan sharks, the question of how much money they can reasonably make on poor people and how good of a deal the clients get is a given debate.[18] On an aggregate level some say the noted push for financial sustainability and high marginal cost in low end (poor) segments will tend to force institutions to go upmarket to serve more profitable clients. This potentially causes a ”mission drift”, eroding the social value created.[19] Yet, others give examples of firms doing the exact opposite and reaching financial sustainability.[20]

Research into effects of Microfinance

This basic theory of the beneficial workings of Microfinance is generally agreed upon. When it comes to monitoring and testing these effects in reality however, the industry and research community are still undecided and in lack of rigorous proof.[21] The questions of how, where and why still lie unanswered. In spite of the extensive research activity on the area The United Nations Development Program (UNDP) writes: ”The lack of data makes it impossible to answer even the aggregate question

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[17] Lapenu, "The Role of Investors in Promoting Social Performance in Microfinance*"*, 7.
[18] Rosenberg *et al*, "The New Moneylenders: Are the Poor Being Exploited by High Microcredit Interest Rates?" *CGAP Occasional papers*, February 2009, (2009), 5
[19] Peck Christen, Robert, "Commercialization and Mission Drift: The Transformation of Microfinance in Latin America", *CGAP Occasional papers*, January 2001, (2001), 13-18
[20] M. Datar *et al*, "In Microfinance, Clients Must Come First", *Stanford Social Innovation Review*, Winter 2008, (2008), http://www.ssireview.org/articles/entry/in_microfinance_clients_must_come_first, 4
[21] Armendariz, "The Economics of Microfinance"*,* 199.

of who has access to what and what is the quality of that access?”[22] The main information gaps lie in outreach, product offering, customer needs and funding flows.[23] It goes without saying that uncertainty over how and under what conditions Microfinance is a positive force for development makes it difficult to answer questions over how the model should develop, who should drive that development, what regulations are necessary, what practices need to be institutionalized and so on.

This impression from the research community is reaffirmed from the industry itself. The fact is that Microfinance has long lived on an implicit assumption of its merits, relying on positive anecdotes.[24] ”The achievement of a social mission […] is too often assumed to be an automatic process”.[25] Given the overall positive publicity awarded the industry in later years this is hardly surprising. Yet, it is not so that the industry has completely avoided assessing and measuring impact on that note. There does exist however, serious adverse perceptions of the opportunities for doing so. There is a notion of a trade-off between what one can measure and the practicalities of making that part and parcel of everyday MFI business. Several authors indicate that proving causality and isolating the mechanisms whereby Microfinance has its impact, is difficult and very costly at least bordering on practically impossible at worst.[26] ”Experience demonstrates there are direct trade-offs between precision and practicality and between proving and improving impact”, writes the SEEP network in a conceptual note.[27] Given that the research community, as referred to above, finds it difficult to study Microfinance, it is not surprising that MFI: s themselves express the same difficulties. In fact this trade-off seems to be so prevalent that the industry is turning away from proving impact to studying the operations of MFI: s from different angles. ”If we cannot prove, then let us improve” – USAID.[28]

Summarizing, we find that the proposition that Microfinance contributes to development is widely held. We note that the theories of what mechanisms are at work are widely accepted. However, we also recognize that we still lack rigorous proof of that theory; how Microfinance works on the ground,

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[22] United Nations Capital Development Fund, “Microfinance and the Millennium Development Goals - A reader’s guide to the Millennium Project Reports and other UN documents”, October 2005, (2005), http://www.yearofmicrocredit.org/docs/mdgdoc_MN.pdf, 9

[23] Hashemi, Syed, Toward a Social Performance Bottom Line in Microfinance, CGAP briefs, November 2007, (2007).

[24] M. Datar *et al*, “In Microfinance, Clients Must Come First”, 33-35.

[25] The SEEP Network, “Social Performance Progress Brief”, Vol:1 No 2, (December 2006), http://www.lamicrofinance.org/files/21972_file_ProgBrief2_1_.pdf, 1-4

[26] Nef consulting, “Measuring value: a guide to Social Return on Investment (SROI)”, Second Edition, (2008), 25.

[27] The SEEP Network, Conceptual Note on Social Performance, October 2006, http://collab2.cgap.org//gm/document-1.9.25762/31589_file_Conceptual_Note_on_Social_Performance.pdf, 3

[28] USAID, Tools for measuring social performance of MFI: s, Microfinance Learning and Innovations After Hours Seminar Series, 2008, ppt. presentation by Gary Woller.

why and what circumstances govern its impact on development. It also seems that the industry is unwilling to advance this area, referring to cost-effectiveness trade-offs.

Our Inquiry

In this section we draw from the background to crystallize the problem we seek to address with this paper. We also go into the assignment and organization that mandated this paper and the firm that is the object of our case study. Finally, we define the specific research question that will guide our further work.

Problematization

Through our background we have found a large and growing interest into the potential of Microfinance to contribute to social and economic development in especially LDC: s and for low income segments. The industry has diversified into a plethora of activities, actors and organizational models. Clear is that the entry of commercial investment into the industry brings particular potential and gives new cause for concern at the same time. In the light of this seemingly accelerating development of the industry, the questions of the nature of how Microfinance works, should work, be governed and developed further, becomes increasingly important. Any attempt to maximize the potential both in terms of commercial investment and social and developmental return places demand on our understanding of the field. The current lack of clarity in this matter leaves the industry in flux; neither academic nor practitioners themselves have any decisive answer on the finer points of the workings of Microfinance. The pace of development is relentless however, and we argue this gives cause for urgency in getting to bottom with the problem at hand.

Our case: AfriCap

The topic of this project has been articulated together with one of the principal actors in the Microfinance arena, AfriCap Microfinance Investment Company (AfriCap), a Private-Equity fund, pursuing financial and social returns focusing on the Microfinance industry in Africa. Established in 2001, AfriCap is a Mauritian based investment company operating out of Johannesburg and investing solely in Microfinance and related industries throughout Africa. AfriCap currently has 10 equity investments across as many countries and maintains the role of active minority investor by providing governance, management advice. In 2007 AfriCap closed a second round of funding; raising its capital to $42 million and reconstituting as a permanent capital investment company - AfriCap Microfinance Investment Company, the largest Private-Equity investment company operating on the African continent. [29]

[29] AfriCap Microfinance Investment Company, About us, http://www.africapfund.com/pages/.

AfriCap's shareholders, several prominent development institutions among them, value the company's social impact. To date however, regarding social impact reporting, AfriCap has only published a series of documents establishing its vision and ethical standards for investing as well as some figures concerning different aspects of its outreach (see the section "AfriCap's investees - the practitioner perspective"). AfriCap has never publicized any external publications or thorough assessments on the social impact of its investments.

Like many organizations incorporating a social mission into their statutes, AfriCap struggles with the desire to transparently report on its social- as well as financial returns. Many stakeholders have an interest in this reporting. It has implications for the reporting of companies AfriCap holds investments in, for AfriCap's investors, but also for the wider Microfinance and social investment communities in advancing the transparency of the sector and the methods of reporting.

We have agreed to assist AfriCap in understanding the development of the field and study the potential for suggesting a framework designed to measure, report on, and communicate the social return of its investments. This is the purpose of our study. We seek to articulate concrete recommendations for AfriCap. At the same time however, we aim to draw conclusions for the industry and field in general, giving advice for practitioners, industry investors and academics alike. We hope to be able to shed some light on alternate routes forward for the field.

Our query

Given the range of stakeholders relevant to AfriCap that have an interest in its operation we have several perspectives to take into account. We need to be able to give recommendations to AfriCap but we also want to contribute to the field in general. Translating AfriCap's task to us into a research question we have thus landed in:

"How could AfriCap reliably measure and report on the social impact/performance of its MFI operations, taking into account, industry practice, investor's preferences and constraints faced by MFI practitioners?"

Summarizing, we find disturbing contradictions in the public hype and perception of Microfinance and the fundamental uncertainty among academic and industry professionals over the real workings and effects of Microfinance in a development context. The purpose of this paper will be to address these tensions from the vantage point of the particular case of the operations of AfriCap, making recommendations to the management of AfriCap and drawing conclusions for the field in general.

Methodology

This section discusses the nature of our investigation, its disposition, ambitions and limitations. We begin by formalizing the dimensions we need to address to answer our research question, the empirical investigation needed to build our analysis, how that analysis will be disposed and finally, the reservations and delineations that condition our research, findings and conclusions.

Operationalization of research question

Below, we break down our research question to allow for practical investigation. We discuss the approach to relevant economic theory and the avenues of empirical investigation, how they contribute to the subsequent analysis and what methods are used in collecting material.

To gain a comprehensive perspective on the opportunities and constraints for measuring impact we need to cover a number of bases both theoretically and empirically. We have chosen to take our departure in AfriCap's stakeholders, the parties having an interest into the social and developmental effects of its investments. These have been previously mentioned as investors, practitioners (MFI investees) and the general industry. We further discuss our choice of stakeholders under the topic "Reservations, Ambitions and Limitations".

Theoretical Background

In order to fully understand the conditions for measuring social and developmental effects we will begin with the economic theory underlying such assessment. This will help us to understand the conditions of an "ideal" scenario; what conceptual opportunities and constraints govern the field of impact assessment. This basic theory, which largely deals with methodology of social- and economic research design, provides a backdrop of reasoning about the ambitions, opportunities and constraints of the various stakeholders. The method of the theoretical investigation will be one of descriptive inference with the goal of distilling an analytical apparatus of criteria against which to judge the other perspectives. The materials used are principally Armendàriz de Aghion's & Morduch's "Economic of Microfinance"[30], a work specifically directed at our field of interest. This is complemented by King et al.'s "Designing Social Inquiry"[31] for a general perspective on social research methodology. Both works are seminal and should give a good foundation for discussing relevant theory and research methodology.[32]

[30] Armendariz, Beatriz, Morduch, Jonathan, "The economics of microfinance", *(New Delhi: Prentice Hall, 2005).*
[31] King *et al*, "Designing Social Inquiry", *(Princeton: Princeton University Press, 1994).*
[32] As both those two works have accessed a central position for the discussion carried out in the corresponding section we will not make additional footnote references.

Industry Practice

Our first stakeholder perspective will address industry practice and trends in the field. This is in order to gain an industry barometer of how ambitious AfriCap's strategy can and perhaps should be. We describe the industry trends in impact assessment and the underlying forces driving those trends that may be worth taking into consideration. We also discuss the existing plethora of approaches and frameworks available to paint a general picture of what is being practised. The conclusions of this section are considerations in terms of opportunities and limitations of how the industry goes about impact assessment. We seek to discuss the most progressive frameworks available. The method of this section will also be one of descriptive inference, ending up in a few central criteria to be assessed from an industry perspective. The material used is a wide range of industry reports and academic work in the field, taken principally from recognized academic journals or leading industry networks responsible for pioneering industry development.

The Investor Perspective

Our second stakeholder perspective describes and discusses an empirical investigation into the preferences of AfriCap's investors pertaining to impact assessment as a part of their work with the investees. Seeing as AfriCap's own reporting is necessarily designed to the demands and preferences of its investors, this is an important point to cover, particularly if AfriCap is to articulate and implement a lasting framework to be accepted by those investors. This investigation also seeks to judge any particular circumstances particular to AfriCap that should influence our analysis and recommendations, -for the firm, but also for the industry and field in general. The method of choice is once again description, aiming to distil concrete criteria of opportunities and limitations in impact assessment from an investor perspective. This research has been carried out over several months during fall/winter of 2008/2009 by means of qualitative interviews and surveys with AfriCap's principal investors[33]. We chose interviews as our means due to the "live" character of our investigation. We want to make sure the investors perspective is adequately covered and not left to a mere theoretical or indirect treatment. It is not likely that we would be able to handle each investor's preferences to depth in that case. We thus take into account the particular constellation of investors specific to AfriCap, which can be contrasted with the trends and conditions of the industry in general.

[33] The list of investors is presented under the section "AfriCaps investors", 30

The investors of AfriCap were all submitted with a survey, followed up by an interview in some cases. Of the thirteen current investors of AfriCap, we contacted twelve[34]. 8 of the respondents answered our survey or agreed to a telephone interview.

Practitioners (MFI) Perspective

The third and last stakeholder perspective takes a very practical view, describing important aspects for consideration of AfriCap and its MFI-investees on the ground in various African countries. Their point of view makes for a particular counterweight to the theoretical perspective, contrasting it with the realities of MFI business. The practitioner's perspective has particular bearing on considerations of practical implementation of any recommendations ultimately given. The method is consistent as descriptive and producing key criteria and considerations supporting and limiting the scope for our final recommendations. This research has also been conducted by qualitative interviews and surveys during fall/winter of 2008/2009, directed at AfriCap and a selection of MFI: s. Some material draws upon one of the author's personal experience with the MFI: s in question, on location in Africa.

Summarizing, our investigation seeks to explore theoretical, industry, investor and practitioner perspectives of Microfinance to determine the nature of opportunities and limitations that condition any inquiry into the developmental effects of Microfinance. This means thorough both theoretical and practical investigation.

Disposition of Analysis

This section details the disposition of our analysis and how we seek to reach a plausible answer to our research question using the theoretical and empirical material collected as per above.

As suggested we seek to juxtapose theoretical, industry, investor and practitioner perspectives to explore and analyse the opportunities and limitations governing the scope for articulating a tailor-made framework for impact assessment for AfriCap. We seek to distil area constructive common ground, making out a least common denominator of qualitative restrictions and opportunities of the perspectives investigated. This denominator makes the scope for what can and should be recommended to AfriCap in thinking about their framework and ambitions in articulating it.

We will present the opportunities and limitations as distilled from our four principal perspectives. We dill then proceed to discuss the relationships between these to give a more comprehensive and homogenous picture of the factors conditioning the pursuit of measuring social and development returns to an organization such as AfriCap.

[34] One of the organization's contribution represent less than 0,2% ownership and is of a non-permanent nature, which prompted us to disregard that organization.

Making our recommendations we take into account the conditions given above. However, recognizing the industry and the field is in flux we will not only consider a static picture of how impact can be assessed today but how the field could look tomorrow and what attitudes AfriCap and peers can take towards this picture.

Concluding, our analysis will seek common least denominators between our theoretical and empirical (industry, investor and practitioner) perspectives in order to build conclusions and recommendations for how such denominators could be leveraged in AfriCap's operation and the field of Microfinance in general.

Reservations, ambitions and limitations

Below, we make necessary reservations over the ambitions of our investigation. We discuss the empirical conditions present, claims to general conclusions for the wider field of Microfinance and purposeful limitations made a well as the integrity of material produced and referenced.

Analytical perspectives left out

With regards to our analysis it is heavily dependent on the four perspectives we have chosen to include. One may question the fact that MFI clients, the ultimate recipients of social and developmental impact, have been left out. This will not be so however as we feel their perspective is adequately covered a theoretical perspective complemented with the practical experiences client interaction on part of the MFI practitioners. Similarly, we have not included an analysis of other possibly important stakeholders such as the state and local government as well as the development-/social impact enterprising- communities at large. Given AfriCap's focus on the impact on clients we have chosen to leave out such wider reaching mechanisms. Also, we have avoided particular emphasis on an environmental sustainability perspective. We have during our research discovered impact assessment as a field complicated enough in its own right. Invoking our initial mandate we have hence resolved to leave any particular emphasis on environmental sustainability analysis.

AfriCap as a case

One may discuss the suitability of AfriCap as the case of choice for this investigation. Indeed the choice is influence by the fact that we, the authors, have a prior relationship with AfriCap, particularly through David Lossmann's employment with one of AfriCap's principal investors, Nordic Microcap. That said, AfriCap is one of the largest Private-Equity firms active on the African continent and the holding cannot easily be argued to be too focused to constitute a barrier for generalizations. We are of course limiting ourselves to the African context in some sense. However, the theoretical, industry and investor perspectives draw from other geographical areas and MFI operations across the world. We hence argue the somewhat arbitrary and subjective choice of AfriCap does not as such compromise the general validity of our analysis.

Limitations regarding the practitioner perspective

As practitioners, we have chosen to focus on AfriCap and its investees. The reason for this is the wealth of information AfriCap possesses regarding its investments in microfinance, and the general perspectives on the operations of microfinance institutions the company can provide us with. We have also made a qualitative delimitation regarding the investees of the AfriCap portfolio, not studying all organisations but making a particular in-depth study of two of the investees involving several interviews at different levels. Those two investees are Women's World Banking Ghana and Socremo Banco de Microfinancas in Mozambique. The two were chosen on cause of their particularly good record of producing information on their operations for investors. Our findings have as well been contrasted to larger studies carried out within this field and the results should therefore be reasonably comprehensive.

Using interviews and surveys

With the investor and practitioner perspective we have as mentioned employed interviews and surveys as the empirical methods of choice. We deem this combination as necessary to gain a more intimate understanding of those actors, especially with the view of making valid recommendations to AfriCap. The format of interview is highly subjective in character however and merits some discussion on that note. We have used our preliminary theoretical and other research to articulate questions for investors and the MFI: s. In some cases we would have been able to go back and reformulate questions for a more accurate result. This has not been practically possible however due to the busy and high profile actors we have dealt with in the case of investors, and communication difficulties regarding MFI practitioners.

Applying an economic perspective

This paper is written for the field of international economics and as such has limitations on the perspectives we may apply. This has a particular consequence in limiting the ambition we can take to address our research question in full. As the fields of Impact Assessment and Social Performance Management largely draw from disciplines of financial analysis, accounting, operational management and governance, we face trade-offs in analysing proposed frameworks solely against an theoretical backdrop of economic/econometric research design. These trade-offs necessarily feed through in making comprehensive strategic recommendations to AfriCap. We have therefore taken the somewhat unusual approach of incorporating variables and dimension adhering from these other disciplines. However, this is done citing previous research and taking existing comprehensive assessments of, for example managerial process aspects, at face value. The core and bulk of our analysis shall remain however around dimensions of economic research methodology and impact of proposed frameworks.

Generalizations

Several areas of generalizations should be possible from our investigation. Certainly the discussions of the economic aspects of measuring impact have a wide application. Investor considerations should have a relatively wide resonance among socially responsible investors in general and MFI investors in particular. The practical dimension obviously stems largely from the context of MFI operations. However, as we shall see, the practical aspects of measuring impact have more general applications and validity as well.

Concluding our reservations we have good hope to make a constructive contribution not only to the operations of AfriCap but to the field of Microfinance at large.

Theory

Below we begin our inquiry with a description and discussion of the theory relevant for our question and the underlying methodologies that drive the field today. In this we seek to establish basic framework necessary to make sense of the assessment of developmental effects of Microfinance and how such investigations are carried out at present.

The issue of measuring the impact of Microfinance on particularly clients but also other stakeholders belong in the realm of microeconomic and econometric research design. The social good that Microfinance purportedly provides is quite similar to the effects of development and aid programs in LDCs. If we are to make a judgement over the opportunities of a particular framework or method to reliably measure impact, we must first detail what we mean by impact and how it can ideally be observed and measured. The following thus accounts for the economic theory behind the impact of Microfinance with the aim of producing some criteria for what makes impact measurable.

Impact as Externalities

The impact of Microfinance takes us into the realm of externalities. For what we seek to ascertain is not the practice of lending itself but what effects it has for the individual, the household and the community at large. Mapped against the so called Impact Value Chain[35] popular in this field; Lending is the activity of Microfinance, the services effectively provided and used (in terms of loans extended and repaid) are the outputs of those activities, the effects observed in the lives of individuals and

[35] Nef consulting, “Measuring value: a guide to Social Return on Investment (SROI)”, 20.

households are the outcomes of Microfinance (but also many other factors), impact then is whatever portion of those outcomes that are directly attributable to the activities of a particular MFI or the particular existence of access to credit. Outcomes that researchers have studied include business profits for client entrepreneurs, the provision of nutrition in households, schooling for children, trends of fertility and use of contraception, household asset holdings, income diversification, social empowerment and social consciousness and many more. Outcomes differ of course, ”some customers will thrive, some remain unaffected and some may slip backwards – Bolivian BancoSol estimated 25 percent of customers to show spectacular gains, 60-65 percent stayed about the same, and 10-15 percent went bankrupt”. The general idea is hence that ”if positive and negative externalities were quantified with metrics that were tracked over time and used to compare impact across companies, entrepreneurs, managers and investors could design, manage and fund companies to maximize both financial and social return”.[36] It seems simple enough, yet practitioners complain;”there are considerable resource and technical demands in demonstrating causality and statistically valid control groups”.[37]

The challenge of counterfactuals

From the point of view of statistical methodology the ultimate proof is in a so called counterfactual, being able to ask and answer - Would the same outcome have happened without the presence of the Microfinance activity in question? This is of course a hypothetical as we can hardly determine what would have happened in a parallel universe, we cannot roll back history and press replay just to try something out, at least not in the complex, hard to control world of development economics and Microfinance. The world will not play our science lab, in fact it does not do much to help at all. At the core of the impact assessment problem reside the subjects we work with and the environment that surround them (or the units of analysis and the statistical noise in data to put it econometrically). There are too many variables affecting the effects we look to observe to easily discern any individual mechanism between cause and effect. One may think of the concept of communicating vessels. If someone pours Microcredit into someone’s cup of resources, that credit mixes with all other resources in that cup (income in general, other credits from other MFI: s etc.). When that individual later does what we hope and displays increased income, healthier children or what you will, what is to say if, and in that case, what part of that increase was specifically due to the addition of Microcredit?

[36] Lingane, A and Olsen S, “Guidelines for social return on investment”, *California Management Review*, Vol 46:3, (2004), 117
[37] The SEEP Network, “Conceptual Note on Social Performance”, 8

Econometrics has developed an arsenal of techniques to address these types of problems. Intelligent ways of strategically selecting variables, isolating effects, using instrumental variables and randomizing sampling are used to try and discern cause and effect. If we are really lucky, circumstances can possibly help us, perhaps providing a natural experiment not unlike those arranged purposefully in science laboratories. Unfortunately, Microfinance proves a particularly evil subject of analysis as we shall illustrate with some examples of problems we face in trying to prove causality.

Measurement problems

Measurement problems are quite generally issues with data, such as: enough data to analyse, detailed enough data to discern a particular unit of analysis, parallel data for several units of analysis, the right type of data (binomial, serial, continuous) and so on. Generally, having a lot of detailed data is helpful and anything else starts causing problems. Financial markets for example provide more data than we have economists to analyse, micro-entrepreneurs in remote villages in Zambia do not. Even if you do have heaps of data however, various issues remain. In general the strategy to address such problems in the pursuit of counterfactual evidence has been the employment of treatment and control groups. The idea being that if you can compare two groups, essentially similar, and have only one group "treated" with Microfinance then one should be able to analyse the relative effect, just like drugs are assessed in clinical testing. It is not as easy as it sounds however, to find two groups that stand up to our requirements.

Multiple Causality

Multiple causality or "noise" is the presence of many correlating variables, implying interaction effects among them, naturally making it more difficult to discern any particular relationship. Some units of analysis are noisier than others. Choosing to measure household effects over enterprise has its consequences. Initially, Microfinance can cause an income effect, spurring demand for consumption and leisure, simultaneously running a microenterprise may cause substitution effects, counteracting the income effect. The opportunity to earn money makes other activities relatively more costly, so children may become less attractive. Children may also be needed to stay home to take on more chores while parents take the opportunity to work, potentially forsaking their schooling. The MFI: s own activities can cause noise problems. Non-finance activities like family planning sessions or other education initiatives makes it hard to separate out the effect of access to credit for example. Furthermore, if a client is a member of several MFI: s the noise caused may be impossible to decipher. Generally, multiple causality puts demands on more data. If long time series contain periods when particular variables are necessarily less active, their particular influence can be discerned against that of other variables. This implies more data in general and more variation in data specifically. This is not always a practical possibility.

Selection bias

Even before data is actually collected there are issues that arise around what variables to measure, what particular or random population of units of analysis and even what level of aggregation is appropriate. Researchers employ various techniques of strategic or randomized selection to try addressing these factors.

Self Selection

One issue is self-selection, that the units of analysis in what is perceived to be a random sample in fact are systematically different from the general population. There are suggestions that MFI-clients can have advantages over non-clients even before participating in an MFI program, some individuals could hence be predisposed to take advantage of Microfinance. Comparing the progress of clients and non-clients would be comparing "apples and oranges". A&M cite one paper that finds non-clients blaming lack of confidence in their ability to pay back loans or religious reasons interfering with group activities mixing genders. Another paper simply finds clients were wealthier on average than non-clients even before they initiated their participation in the MFI program. Yet another paper cited by A&M finds lack of control for election bias of these types can force "overestimating the effect of participation by up to 100%". Differences in base levels of variables between units of analysis can be mitigated using a difference-in-difference approach that looks at the relative changes instead of the changes in absolute level of a variable.

Attrition bias

The difference-in-difference approach is not unproblematic. It causes another problem its central assumption that differences observed between control and treatment groups are systematic in some way. "A capable entrepreneur may for example, have not only higher base income but higher inherent growth in income as well". In this way a systematic error will occur in measurement over time, called an attrition bias. Using panel data to compare newer and older MFI client suffers from similar problems. Even if such characteristics do not vary with time and the subjects selected four years on would the same who got selected four years ago, for example, attrition bias can still arise due to dropouts. Systematic dropouts are quite conceivable, such as individuals doing badly dropping out to disproportionate degrees, or wealthy borrowers consistently leaving to take advantage of retail financing instead. This would change the characteristics of the population over time. Similarly, comparing good survivors with untested new entrants also causes attrition bias. Related to the concept of attrition bias are spill over effects, causing similar problems if say, the effect of Microfinance on clients have effects in the rest of their community, livening the economy etc.

Units of analysis

One way of getting away from interaction effects is to change the unit of analysis, changing the question to study village- rather than individual- or household level for example. If the villages can be assumed to have the same characteristics one may be able to eliminate many of the measurement problems. If village characteristics are not constant over time we may be back to attrition bias however. A particularly clever approach is cited by A&M in a study that made use of inherently beneficial characteristics of a particular MFI program that identified potential customers at one point in time, but made them wait for the service one year. The researcher was thus able to credibly identify relevant "new" clients to compare with existing clients, still assuming of course, there were no systematic differences between the groups that had arisen in the time having passes since the first became clients. Ironically he found no significant effects of Microfinance. This case offers a very rare natural experiment and may be difficult to engineer from the point of view of a researcher.

Instrumental variables

A particularly popular approach to deal with multiple mechanisms of causality is trying to find another variable that can be used to isolate the effect two other variables have on each other. The instrumental variable should be correlated with the independent or explanatory variable in question but only affect the dependent variable through that independent variable. So if one for example could find a variable explaining the level of credit given that does not have anything else to do with the suggested outcomes, then one could create a proxy variable for the explanatory variable, free from any interaction or other effect interfering with its relation to the dependent variable. This would also help to address issues of endogenous causation where the dependent variable influences the independent variables (essentially making them less than independent). Finding good candidates for instrumental variables is hard work however and alternatives are not always plentiful in the practical setting. Instrumental variables depend however on the assumption of no real relationship between the proxy and the dependent variable. If there is some unknown intermediary variable linking them the technique loses its power.

Omitted variables

Picking the wrong variables to explain an effect can cause problems. Omitting important variables completely can have serious consequences. Yet including irrelevant variable has its negatives as well. But in what circumstance does one ever really know exactly what variables are relevant? In studying Microfinance the issue of unobservable characteristics represents this problem. Characteristics of the individual that are powerful explanatory variables, such as entrepreneurial character, may be very hard to identify and near impossible to measure, certainly not practical. A&M argue that as long as we can't get to the bottom of these intrinsic of the Microfinance environment, "robust evaluations seem elusive".

Theoretical considerations for our analysis

It is decidedly difficult to attempt any evaluation of real isolated impact from Microfinance. In the presence of fortunate natural experiments we may be able to come to more decisive conclusions. Without costly, thorough investigation the prospect of an answer to how Microfinance does well or bad seems to evade us at this point. The context of evaluating impact as part of a going MFI concern does certainly not make the task any easier. A&M offer one constructive suggestion however. If MFI: s can be convinced to participate in designing their operations and outreach as to manufacture beneficial circumstances for rigorous evaluation, an answer could be reached quicker. For the sake of assessing frameworks out there, as is a part of this paper, we now have a battery of arguments against which to test any framework proposing to study real impact. In closing the prospect of making rigorous impact assessment a continuous routine of MFI operation seems slim. Maybe this is not necessary however if the research and MFI communities can come together in designing schemes for how to tweak existing operations for controlled experiments, answering the most important questions of MFI impact. As A&M suggest –" Having one very reliable evaluation is more valuable than having a hundred flawed ones."

Issues we look out for from a econometric standpoint in studying social impact are:

- Measurement problems
- Selection problems
- Multiple causality
- Units of Analysis
- Omitted variables

- Collectively making up a criteria for;"the general potential for assessing a counterfactual hypothesis", implying potential for drawing real conclusions over impact.

Concluding our theoretical investigation, we find there is strong theoretical support for the relevance of measuring developmental effects of Microfinance. We also find that, what may appear a simple theoretical background is complicated in ambitions of effective research design. We conclude there are several theoretical limitations that condition this pursuit. Further recognizing that this refers to academic research raises concern over the potential for cost-effective investigations being carried out *by non academic industry agents themselves, a central condition is that information must be collected at the individual and household levels to say anything about impact on those levels.*

Industry Practice

In the following we will seek to depict and discuss the ambitions and initiatives that drive the Microfinance industry's collective activities to study, report and act on developmental effects of Microfinance.

Trends and tendencies

MFI: s, reporting and industry trends

As the reader may have guessed, there is a lack of consensus over the issues of assessing social and developmental effects of Microfinance; many suggestions, much anecdotal and inconclusive research but little evidence for the one or the other.[38] Nonetheless, the demand for reporting has increased over the past years. For commercial MFI: s this entails financial reporting but increasingly also reporting on social impact as the non-profit sector has taken a shine to this practice, quite generally outside of Microfinance as well, in the wake of increasing competition for philanthropic funds.[39] For commercial MFI: s this means not just worrying that a researcher is going to find their operations socially inefficient, but they now need to figure out how to combine increasing demands for information from both investors and the wider community along the dimension of financial and social reporting. This is further complicated by a lack of industry consensus over reporting in both dimensions. As with the general non-profit community, different investors have different ideas of how impact should be measured and so commercial MFI: s are facing the same spectre of catering to differing reporting requirements.[40] SRI investors are a diverse group with different social objectives and different investment strategies with different philosophies on social to financial return relationships.[41] Another problem particularly facing commercial MFI: s are the differing time horizons of financial investors and social impact generation. For example, Will a Private-Equity investor stay long enough to observe real social impact of their investment?[42]

[38] Armendariz, "The economics of microfinance", 4.
[39] Nef consulting, "Measuring value: a guide to Social Return on Investment (SROI)", 3.
[40] The Rockefeller Foundation & The Goldman Sachs Foundation, "Social Impact Assessment - A Discussion Among Grantmakers", March 2003, (2003), 5.
[41] The SEEP Network Social Performance Working Group, "Social Performance Map", April 2008, (2008), 236.
[42] The Rockefeller Foundation & The Goldman Sachs Foundation, "Social Impact Assessment - A Discussion Among Grantmakers", 14.

Trends towards reporting are continuing. The Microfinance Information eXchange now supplies comprehensive financial and some social indicators for over 700 MFI: s internationally.[43] The European Dialogue on Microfinance forecasts that double bottom line (social and financial) reporting will become standards in the entire Microfinance industry.[44] They further suggest that the commencement of social rating of MFI: s will serve to fill the same function a risk rating in conventional equity markets, providing a dimension for segmentation along social return and risk as well as the financial side of things.[45] Currently there are action networks of MFI: s and Microfinance sector interest organizations working to articulate a common basic reporting framework for social performance. The Small Enterprise Education and Promotion Network (SEEP) and the consultative group to assist the poor (CGAP), central actors in this context convey confidence such indicators can soon become standard metrics reported through for example MIX market.[46] Commercial MFI: s are facing added pressure from indications that their target group of Socially Responsible Investors (SRIs) consider the lack of social performance reporting more serious barrier to entry into the market than the risk/return dimension, the general lack of reporting simultaneously constituting a serious obstacle for investor due diligence.[47]

In the Pursuit of Impact

In the realm of Microfinance, the push for accountability and transparency has yielded demand for reporting in various dimensions. It all started however in the inquiry into the developmental effects of Microfinance. The wide social value proposition mentioned needed to be tested in practice, what was the real nature of the impact on individuals and communities of Microfinance? Simply put, measuring impact is about ”truth in advertising”.[48] It may surprise the reader to know that the staggering amount of money and attention put into Microfinance is still based on thoroughly inconclusive evidence of its effects. The wealth academic and practitioner research has yet to deliver qualified evidence of the positive effects of Microfinance.[49] There is widespread anecdotal evidence of positive and impressive effects but little real statistical evidence.[50]

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[43] Lapenu, “The Role of Investors in Promoting Social Performance in Microfinance”, 3.
[44] Ibid., 20.
[45] Ibid., 21.
[46] Ibid., 104.
[47] Social Performance Map, The SEEP Network Social Performance Working Group, 2008, p. 36.
[48] Hashemi, S., Line & Anand, M., “Tracking the Double Bottom, An update on recent initiatives in social performance”, Microfinance Gateway, September 2008, http://www.Microfinancegateway.org/content/article/detail/41965.
[49] Armendariz, *The economics of microfinance,* 4.
[50] Measuring impact in practice, Reflections and Recommendations from Coastal Enterprises, Inc’s Experience, CEI, February 2006, http://www.ceimaine.org/images/stories/pdf/measurement.pdf.

The lack of evidence is certainly not due to lack of effort, particularly from the academic community. As we shall later learn however, the study of Microfinance doe suffer from both theoretical and practical issues that even the best researchers find problematic to get around.

The practitioners play their role as well. The fact is that Microfinance ha long lived on an implicit assumption of its merits, resting on anecdotes. Even as practitioners themselves have started to try and look at the impact they are making this is complicated by most of them not having a particular defined idea of how their operation enacts change and positive effect. This makes it infinitely difficult to compare their activities and their effects to the goals of the company, quite simply because there often are no properly defined goals.[51] In the cases where there is a mission looming in the background it is seldom an MFI that has internalized it through deliberate strategy.

Nevertheless the problems of investigating impact, the costs of pursuing household and individual level surveys,[52] particularly from the MFI perspective, perhaps even more so a commercial MFI, has led them to retreat and look elsewhere for ways to satisfy the growing demand for transparency and accountability. Even from the investors fuelling that demand, surveys have indicated social outcomes measurement score rather low for SRIs investing into Microfinance. The SEEP network suggests this could be due to the SRIs being aware of the difficulties of supplying such measures.[53]

Development of the Social Performance Paradigm

The trajectory away from impact analysis has been driven my MFI: s and MIVs alike. ”If we cannot prove, then let us improve” - USAID[54] While investors still concern themselves about impact, collaboration over frameworks for increasing accountability and transparency has decidedly shifted towards improving operation and management of MFI: s.[55] To some extent one could argue the industry is hence reverting to an assumption of positive impact from Microfinance and that making sure MFI: s are minding the issues of outreach and impact are deemed sufficient. What was until recently called SIA – Social Impact Assessment has transformed into SPM – Social Performance Management, seen as looking at the whole process of Microfinance that realize its social mission and puts it into practice.[56] From Assessment to Management hence, from one off evaluations and studies to continuous tracking and supervision, does not sound too bad. The Social Performance movement is in full swing, several networks having been formed to champion the cause and many actors, MFI: s,

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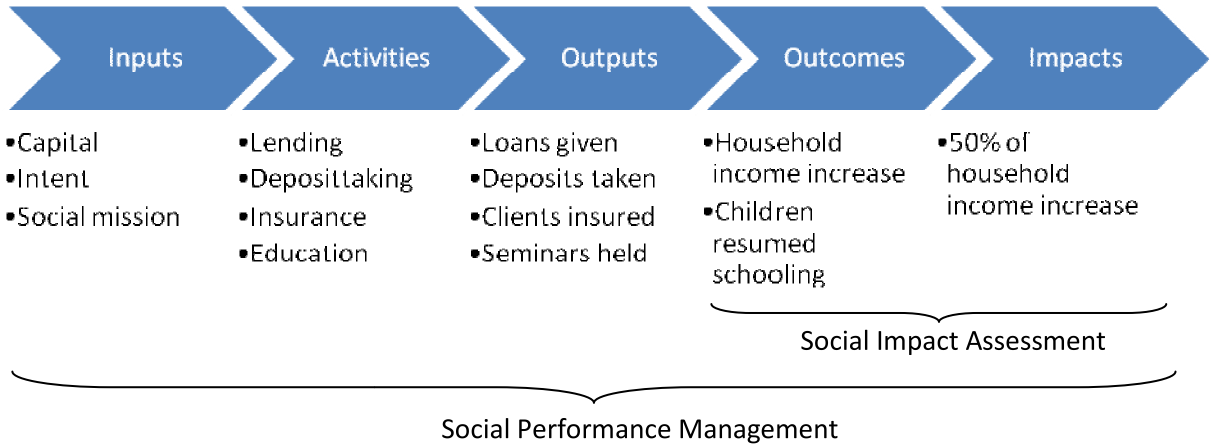
[51] Datar, “In Microfinance, Clients Must Come First”, 18
[52] Hashemi, Syed, “Toward a Social Performance Bottom Line in Microfinance”, 2007
[53] The SEEP Network Social Performance Working Group, “Social Performance Map”, 224.
[54] USAID, “Tools for measuring social performance of MFI: s, Microfinance Learning and Innovations After Hours Seminar Series”
[55] The SEEP Network, “Conceptual Note on Social Performance”, 3
[56] Lapenu, “The Role of Investors in Promoting Social Performance in Microfinance”, 5

investors and other stakeholders joining in. The movement is still in flux however and has yet to produce consensus over frameworks, but the debate is lively and diverse, as we shall see.[57]

SIA, SPM and the Impact Value Chain

In trying to understand how previous techniques and frameworks developed under the Social Impact Assessment paradigm (SIA) compare to those of the newer concept Social Performance Management, it is useful to refer to the so called Impact Value Chain (IVC) that is frequently referred in both newer and older literature. The IVC map the process through which the inputs are channelled through the activities of the organization, producing some form of output, conceivably leading to particular outcomes, the impact of which implies the outcomes specifically caused by the initiative in question.[58]



While impact assessment only deals with deciphering impacts from outcomes, SPM includes the whole value chain, from hard- (recourses, capital) and soft (intent, social mission) inputs to those impacts intended, including all the processes and activities in between.

Mapping out the Frameworks

In painting a picture of the frameworks currently in circulation and practice for measuring/assessing social performance and its individual components we use the SEEP framework for classification. This allows us to discern what frameworks we should look at in terms of potential for measuring impact but also helps us with evaluation of non-impact aspects beyond the scope of this analysis. Also, beyond the scope of SEEP: s classifications are a number of frameworks that adhere from the world outside of Microfinance working with social impact. We have drawn from influential surveys of such frameworks (Goldman Sachs Foundation & Rockefeller Foundation – Social Impact Assessment

[57] The SEEP Network Social Performance Working Group, Social Performance Map, 9.
[58] Nef consulting, *Measuring value: a guide to Social Return on Investment (SROI),* 20-25

Paper, and in particular Rockefeller Foundation - Double Bottom Line Project[59]) to assemble a list of potentially useful frameworks. While the comprehensive classification is of less interest here we have included it in Appendix 1. Below we focus on those frameworks asserted as or claiming to address assessing impact somehow.

CGAP/FORD/ Grameen - Progress out of Poverty index[60]

The PPI supposedly offers a quick approach for judging poverty level. This is done through a simple ten question client survey, designed with country particularities in mind. Based on prior country specific statistical analysis on poverty levels the survey act as a score card that can be used go gauge statistical likelihood of poverty in the individual case. While judging poverty levels is potentially useful it falls short of accounting for the various methodological considerations we have stressed in our theory section. The PPI may do alright in estimating outcomes (in terms of transition in and out of poverty) but falls short of addressing causality and any counterfactual scenario. Hence, it does not really touch upon impact.

SEEP Network - AIMS Tool[61]

A framework of five tools designed to look at the result dimension of the SPM process; an “impact survey” administered to treatment and control groups, a “client exit survey” to clients leaving the program, interviews on “use of loans, profits and savings”, group focus discussions over “client satisfaction” and interviews studying “client empowerment”. Several of these touch upon the subject of impact. We see little however in the way of novel approaches to address methodological issues however. Surveys and interview done with clients without control groups offer little conclusion from a perspective of appropriation, what the sources of outcomes are (i.e. discerning causality and hence impact). The attempt made at use of control groups are simple variations on a problematic standard setting discussed in the theory section and open for the full range of potential practical problems and methodological errors.

MicroSave Tools[62]

MicroSave offers a series of tools (21 in fact) for a range of practical aspects of microfinance, from branding and operational procedures to process mapping and quantitative research. The only tools that come close to touching upon impact are “internal audit and controls for MFIs” and “Quantitative

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[59] Clark et al, “Double bottom line project report: Assessing social impact in double bottom line ventures methods catalog”, The Rockefeller Foundation, http://www.riseproject.org/DBL_Methods_Catalog.pdf; The Rockefeller Foundation & The Goldman Sachs Foundation, “Social Impact Assessment - A Discussion Among Grantmakers”, March 2003, (2003). As both those two works have a central position for the discussion carried out in this section we will not make additional footnote references.

[60] Progress out of poverty, What is the PPI, http://www.progressoutofpoverty.org.

[61] The SEEP Network Social Performance Working Group, “Social Performance Map”, 153.

[62] MicroSave, Toolkits, http://www.microsave.org/toolkits.asp?ID=14.

research". The prior mostly covers risk analysis however and the latter is more directed are market research than impact assessment. Hence we find no aspect of the MicroSave toolkit that comes close to addressing issues of measuring impact.

Balanced Scorecard

The balanced scorecard, as developed by Jed Emerson and applied by double bottom line ventures such a New Profit Inc. propose financial, customer, business process and learning and growth outcomes. The tool depends on pre-designated outcomes however and is hence more of a diagnostic tool with set metrics. Also the model does little in the way of isolating actual impact but stays at outcomes.

AtKisson Compass Assessment of Social Impacts

The AtKisson model is designed to allow diagnosing of "community sustainability" as related to a specific venture or project. The framework touches upon fine key areas, N (nature/environmental), Society (community, involvement), E (Economy, financials, effects and influence), W (well being – quality of life) and Synergy (links between the four and networks). As a diagnostic method it can like PPI provide a productive way to study outcomes. Comparatively it lacks the backing of prior research on the variables in question to help assess the relevant effects. In terms of repeated study of impact the AtKisson Compass still invites the typical problems.

Ongoing Assessment of Social Impacts

OASIS as developed and employed by the RED Foundation offers technical solutions and methodology for continuous tracking and periodical review of outcomes and performance data as measured through a series of data. This can help to create substantial quantities of valuable data but falls short of incorporating the methods we would like to see to isolate impact and be able to say something substantial about the effect incurred by a particular venture.

Social Return on Investment[63]

SROI is a framework that takes the whole impact value chain into account albeit focusing on outcomes. The model is essentially a cost benefit analysis tailored to quantify and monetize social outcomes, assigning them a dollar value so as to determine the monetized social return to money invested. The method has strengths' in suggesting applying proxies for variables from established research. However the SROI does not get better than such research in establishing a counterfactual scenario in order to isolate specific channels of impact. As we know, this research on MFIs will not help SROI go all the way. While the model does make a rigorous definition of impact it leaves it to the

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[63] Nef consulting, "Measuring value: a guide to Social Return on Investment (SROI)", 20-25.

practitioner to develop proper metrics and the actual reliability, while this may work in other activities, addressing microfinance needs more effort.

Benefit Cost Analysis

A cost benefit analysis in its own right offers a wider scope than SROI for example. However it falls short in directions for research design and hence arguably does not do better than any conventional serious research.

Poverty and Social Impact Analysis (PSIA)[64]

This approach, devised by the World Bank is less of a formalized framework than a process for articulating such a framework of impact assessment in a given project. As such it does not address the particular methodological difficulties faced in assessing impact of microfinance and falls far short of a viable approach in our case.

Summarizing our study of industry practice we find a wealth of engagement over some time into the investigation of developmental effects, practice and management of Microfinance. Worryingly, we note a trend away from Social Impact Assessment (assessing developmental effects) towards a more general and perhaps less ambitious notion of Social Performance Management. This concern is confirmed when reviewing the list of frameworks being purported today. For anyone seeking to adopt an existing or develop a new framework there are a few considerations however. With the field in development there will be a pressure for industry conformity, attempts to consolidate work on SIA and SPM are visible while their trajectories less so. Also, an increased demand for disclosure on part of investors suggests staying inactive on impact assessment may result in being penalized in the capital markets.

AfriCap and their investors

In this section, we will investigate the ambitions and preferences on part of MFI-investors regarding reporting on social and developmental effects and the relevance of such information to their investment process. The material presented draws form interviews and surveys of large MFI-investors. We look at AfriCap's investors but also assess the universality of our findings by comparing with a survey previously made with similar investors on a wider basis.

[64] World Bank, Poverty and Social Impact analysis, http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/EXTPSIA/0,,menuPK:490139~pagePK:149018~piPK:149093~theSitePK:490130,00.html.

General organizational information

This section presents AfriCaps different investors, their background, and vision as stated by mission documents. This is carried out in order to better reflect ambitions and preferences against their institutional nature

AfriCap is currently capitalized at a level of 42 MUSD, and has 12 investors. For reasons of discretion we do not to publish the breakdown between investors.

- Accion International
- Calmeadow
- European Investment Bank (EIB)
- Netherlands Development Finance Company (FMO)
- Hivos-Triodos Fund
- International Finance Corporation (IFC)
- Nordic Microcap Investment
- Gray Ghost Fund
- Norfund
- SwedFund
- FinFund
- Blue Orchard Finance

Institutional nature From an institutional nature point of view, AfriCap has a wide variety of investors. From the purely governmental Development Finance Institutions (DFI: s) on one side, to entirely private companies such as Nordic Microcap on the other end of the spectrum.

Six of the organizations are operating as private companies or non-governmental organizations (NGOs), the other half are either fully owned by governments (the case of Norfund, Swedfund, the FMO and FinFund) or supranational governmental organizations (the IFC and the EIB).

The funding of the investors is also diverse. Obviously, none of the governmental or supranational organizations compete for funds. Amongst the private actors and NGOs only the company Nordic Microcap fully competes for funds on open financial markets. The others partly compete on open markets.

This section establishes that the AfriCap investors constitute a heterogeneous group. There is however an under representation of private companies and companies that operating according to market mechanisms.

Investor ambitions

This section establishes how the organizations themselves work with social impact. This research is carried out as a first step in order to understand the potential and limitations emerging from the investor perspective

Internal assessments and publications

The level of assessment and reporting reveals large disparities between the different organizations. A large majority of the respondents produce internal Social Impact Assessments at some level and with some regularity. In fact, only one of the investors declares not doing such assessments systematically at the time of the survey, being in the process of establishing such practices however.

Upon closer inspection however, we found a majority of the respondents to produce assessments mainly as part of the due diligence process. A minority of investors declare making a post-exit social assessment of their investments at exit. However, none of the answers provided can be said to reliably measure a social impact. Rather, those investigations are part of a screening checking against typical expectations for the organizations investments.

A representative example of the investor's attitude towards such reporting is given by Swedfund: "as an integral part of an investment, we carry out an assessment both prior to the investment being made and at exit. The pre-investment assessment is presented to the board of directors [...] for deciding on whether the investment should be undertaken or not. Afterwards, an assessment on both financial and social results in carried out and presented to the board. This information is however not part of our annual external publications."[65]

External publications

We found reports mentioning microfinance and social impact (we allowed a broad definition in this case) for three of the respondents being the IFC, FMO and EIB.

A thorough inspection of the three organization's reports reveals the following common patterns:

- All three companies reports are part of larger, organization wide reports
- The reports puts the emphasis on expected impacts and the organization's activities
- Results are displayed with emphasis on financial measures and capital committed and contain no specific metrics that can be attributed to social impact

[65] Curman, Lovisa, Swedfund [interview 2008-10-26]

Analytics and use of frameworks

In this section we compared the respondent's use of frameworks with the list of frameworks presented p 26-29 as well as in the appendix 1). We asked the respondents to identify whether

1. They are using one or several of those frameworks

If not:

2. I they have to some extent let themselves be inspired by those frameworks in their own assessments or activities

If not:

3. If they are aware some of those frameworks, but have for some reason not made use of these themselves.

The reference found was the following:

Two of the respondents answered positively to question 1; Accion and Triodos declaring making use of their own assessment tool.

None answered positively on the second question.

On the third question the Grameen PPI as well as the management tool created by CERISE were raised as frameworks known to the investors.

Main challenges

We engaged the respondents in a discussion as to the main difficulties they saw for AfriCap establishing a uniform framework. We allowed the discussion to result in an assessment on the different concerns raised by the investors and classified those by order of times mentioned.

The respondents gave a wide variety of answers as to the typical difficulties residing in a proper social impact study. Those can be summarized as follows:

- "Finding the right metrics" clearly came out as a major concern for investors.
- Closely following was the issue of resources and cost.
- As a third topic of concern was the issue of "positioning the assessment correctly" with regard to the cause and consequences of the financial institution's operations.
- A fourth topic of concern stood out as the accuracy and verifiability of the information provided.
- Lastly, was the concern of how to use and process the information provided (internally).

Our investigation reveals that AfriCap's investors have very different approaches and perspectives on their social missions and how those verify their operations. We note the current level of information assessment to be generally low and the awareness of existing frameworks to be low as well. The main challenges in establishing a social impact framework as identified by the investors are the issue related to metrics, cost, theoretical issues of measurability and finally how this assessment can be used and interpreted by the investors themselves.

Investor preferences

This section seeks to understand the preferences of investors regarding a social impact tool. We investigate those preferences both in relation to the companies' missions, the frequency by which they would like assessments to be carried out and as part of general preferences for metrics and formats. This research is carried out as the second step in order to understand the potential and limitations emerging from the investor perspective

Missions and visions[66]

The role of microfinance as an activity was found to play very different roles for AfriCap's investors. For five of the respondents microfinance is central to their investment strategies. The other respondents carry out many different activities as well. However, it is important to mention that all respondents are organizations operate with a purely financial perspective.

The totality of organizations investing in AfriCap contains missions and vision statements that make reference to ambitions stretching further than financial returns. The least common denominator for the organizations missions is to provide capital and new opportunities to less developed countries.

Other measures than pure impact related

The social mission of the investee institution clearly stood out, as all respondents answered this to be of major concern to them. Social mission was defined differently by the investors as some put the emphasis on mission documents while others looked at the intention of management. A related topic of concern pointed by a few of the respondents was the quality of the management as well as of the board in relating with those issues, however being a point of interest primarily in the due diligence process (which would thus fall outside the scope of our study).

A majority of AfriCap's investors believe that the financial viability of the target MFI: s is the first consideration as to understanding the success of the investment, not only financially but as well

[66] The observation was carried out both by interviews and by a systematic browsing of the different organizations web pages or submitted mission documents when available.

socially. In fact, seven out of the eight investors who answered to our survey pointed profitability as the main activity related measure of social success.

Some of the respondents however chose to clarify that financial viability is not the most important measure in itself; rather it is the guarantee that the organization will be able to deliver a social impact over a foreseeable future. One of the investors declared: “We are not investing in charity. Our investment targets are supposed to run with a profit and it is through creating a profitable business atmosphere that companies can provide a positive societal impact”.[67]

A vast majority of AfriCap’s investor see the number of client served as an important measure, other answers that came up were number of savings accounts, number of loans account, that the MFI succeeds in providing other services than purely financial ones, the outreach in terms of geography notably as well as reaching the ones most in need.

All of the respondents value improvements of the client’s business, as some point out, this is a major visible driver towards development.

A few of the respondents want to reach even further looking at the client’s environment (family, extended family or even community). Looking at aspects of the MFI: s activities indirectly linked with its core activities were favoured by some – those include Health (including HIV/AIDS) for the client and his/her family, education (for both the client and his/her family) as well as level of housing.

Social impact specifically

Three respondents pointed out fields of interest concerning impact specifically. The first field of interest raised concerns of finding a framework for monetizing the individual impact for clients, including time and money saved, improved security and income as well as related factors. The second suggestion given concerned the welfare impact on society. This included welfare improvements in GDP, health, tax collection, education, gender equality. The suggestion raised by the respondent did not include a monetization, but rather a general score. A third suggestion raised by two of those respondents concerned a wider impact assessment including a triple bottom line perspective. This implied adding an environmental dimension to the analysis. Both wanted to look for different ways of assessing the organization’s impact on different emissions both as a part of the organization’s activities and as well as part of the client’s activities. Triodos, having established a Microfinance version of the Global Reporting Index are interested in seeing whether the activities of

[67] van der Ven, Joke, Triodos [interview 2008-10-20].

both the MFI as well as its clients could be valued according to a carbon neutral ambition.[68] As we noted in the methodology, environmental impact however falls outside the scope of our thesis.

Preferences in reporting and frequency

We asked the respondents on how often they would need thorough information produced from AfriCap either for their own consultation or as an inclusive part of their own reports. A majority of the respondents wish to see AfriCap's social assessment on an annual basis. One of the respondents indicated the wish to see social return reports more frequently, preferably quarterly.

The main reason underlying the desire for a certain periodicity seemed to be the will to assess such studies on an annual basis together with all other operations.

Summarizing, we found all of the investors' mission and vision to contain ethical and social concerns for the impact of their investments. However, a closer investigation into the preferences of investors reveals very few asserted metrics that can actually be linked to social impact. The investors' main area of interest resides with measures of financial sustainability and output.

Discussion and conclusions

AfriCap's investors represent a heterogeneous group. However, they share the similarity of all being operated according to high ethical standards. The majority of AfriCap's investors are governmental or semi-governmental institutions who are not competing for funds on the open financial markets. The respondents can thus be said to be part of a particular category of investors overall.

We were not surprised to learn that the question of reports revealed that the majority of organizations except one had investigated the social impact of their investments. What was striking however, especially given the governmental nature and ties of the majority of investors (which should imply resources to investigate further on such matters), was the lack of ambition on impact assessment.

Only three of the respondents publish external reports where social impact plays a significant part. However, the actual topics discussed under that banner are sky of addressing real social impact assessment as discussed in the theory section.

[68] Wikipedia, Carbon Neutral, http://en.wikipedia.org/wiki/Carbon_neutral [accessed 2009-05-10]

Only two of the investors have established their own frameworks. The other respondents proved to be relatively unaware of the debate over and frameworks established by the market. We were puzzled to see some of the respondents referring to established frameworks, without making use of them. We can only interpret this finding as showing a certain lack of engagement on the subject.

The most striking finding was the strong confidence in metrics based on profitability as having bearing on social impact. Although some of the investors justified this answer through the notion of institutional sustainability, we may suggest those answers could partly be attributed to the lack of deeper insight into the notion of social impact.

The investors indicate their desire to see a report constructed by AfriCap to be provided at least yearly. Regarding its content, the investors indicated a variety of measure indicating various perspectives and expectations. With view of the value chain model, "Outcomes" and "Impact" clearly stood out as particular measure of interest, producing the highest amount of different metrics-suggestions amongst the respondents. Measures corresponding to inputs, outputs and activity generated less metrics and seemed less targeted by the investors. The metrics cited furthermore had a character of sanity check rather than evaluation in depth.

Contrasting our findings with a similar survey

In order to connect our findings with the overall debate we wish to contrast our findings with one of the most comprehensible surveys conducted on similar premises. During spring 2007, the SEEP surveyed social investors in Microfinance about their practices, perceptions, and preferences regarding social performance indicators. The survey contained 41 respondents representing some of the largest MFI investors. Three of the investors involved in this survey were also involved in our.[69]

The SEEP found investors in Microfinance to "constitute a heterogeneous group that possess diverse social missions and use diverse investment strategies." The survey also found a "myriad of fashions" in which the result of the social missions was assessed. Just as in our survey a predominance of traditional financial performance indicators among the social performance indicators was found. The more commercially oriented investors saw their commitment to Microfinance as evidence in itself of social impact. A majority of respondents further cited practical difficulties involved with deepening their social reporting to include more rigorous outreach and impact indicators. However the SEEP survey revealed investors which had come further in there process of developing social performance, a majority actively engaged in assessments – however with measures mostly relating to output

[69] The SEEP Network Social Performance Working Group, Social performance map, 226

metrics and financial of semi-financial nature. A minority actually conducted assessment of impact relating to poverty issues, yet at a level which we find to be unsatisfying to theoretical demands. Overall, the findings from our sample thus correlates well with the conclusions we can draw from the SEEP survey.

Concluding the investor perspective we find diverse ambitions to study and act on developmental effects of MFI: s. While there are those who purport strong interest toward such inquiries the opinions differ on how thorough such investigation needs to be. Concerns over cost-effectiveness are a primary source of hesitation to develop ambitious programs to assess developmental effects of Microfinance.

AfriCap's investees - the practitioner perspective

This section seeks to shed light on the perspective of the practitioner. Emphasis is put on the practical limitations of implementing MFI- programs and what factors drive practitioner efforts made in the area of impact assessment. After exploring the level of information currently assessed by AfriCap and its investees we will look at the potential for further assessment of information with a social character.

The current status of information collection at the level of the MFI: s

In order to conduct a discussion on potential and limitations from the practitioner perspective, this section explores the day-to-day conditions prevailing at the level of the investees. This also constitutes the basis for understanding the potential and limitations for information collection at the level of AfriCap.

Our investigation revealed that the investees collect and process information mainly for three different purposes.

- The ongoing requirements of daily activities as well as internal planning,
- In order to fulfil the requirement of investors and shareholders
- In order to satisfy the requirement of local governmental institutions.

Information stakeholder - the ongoing requirements of daily activities

Regarding the essential stakeholder-, client- or client groups, the major issue is to find ways to deal with the lacks in predictability and security – that would otherwise be prevalent when dealing with client that possess collaterals. Solution and combination of methods vary between institutions and between countries but share the similarities of a systematic gathering of information regarding the client stock.

These organizations share the similarity of extensive information gathering, that rival with the established banks. This information has proved to be extensive both at the level of interaction with clients as well as at the level of branch offices, regional offices and for the organizations as a whole.

Many of these institutions have proved to be at the forefront of technological development, mostly as a way to deal with what would otherwise be excessively high costs per transaction. Technological solutions include advanced information technology, mobile solutions, wireless card processing devices and extended services carried out through mobile phones. Such systems allow Microfinance institutions to systematically compute operational and financial information and the information to be automatically processed in high quality reports. Seven of the AfriCap MFI: s have already invested in such systems.

Regarding client information, the type of information collected at the level of the MFI: s shows similarities. All the MFI: s in the AfriCap portfolio collect information under the following labels:

Client level

- Address (domicile)
- Age
- Marital status
- Business type(s) and level of income
- Savings and Loan size
- Purpose of lending

Information is typically collected at five different stages: registration, transaction, lending, re-paying and termination. The example below shows the institution-client interactions of Women's world Banking Ghana during those five stages:

REGISTRATION	TRANSACTION	LENDING	RE-PAYING	TERMINATION
Verification of identification Card (Valid Passport, Driver's license, etc.) Two passport size photograph. Confirmation of Residential & Postal	Deposit: Customer fills in his or her deposit slip and makes deposit at the banking hall or makes deposit at his or her convenience with field staff using the Point of	Depending on the type of credit facility, compulsory savings of between 4 to 8 weeks making up about 25% of the total credit a client is requested.	Regular repayment between three to nine months. Repayments are carried out weekly or semi-weekly.	Closure letter stating reasons for the termination of an account is presented by the customer to the customer service

Address (With Utility Bill) Initial Deposit of an amount determined by the Women's World Banking Ghana from time to time Filling of a Know your client (KYC) form including age, profession, business type and income level. Customer is issued with deposit and withdrawal booklet for Savings Account Holders	Sale terminals (wireless card processing devices).		In case of any disturbance a dialogue is initiated with the loan taker.	dusk before the account is closed upon the branch managers authorization. Accounts might also be terminated for credit customers after unsatisfactory re-payment, following a dialogue

The majority of the organizations shared the information collection structure of Women's World Banking. However different findings were found at three levels - the technical level of how information collection is carried out, the level of information verification and its further use.

Technical level:

About one third of the AfriCap investees are using paper as the main media for information collection. The use of a saving and lending booklet as the main source of information is not rare. Thus, the information, however useful it is to the local loans officer (which is as well the main stakeholder to this information) it must be processed before computed in data statistics.

Level of verification:

The MFI: s prove to conduct different levels of information verification regarding the client's address, age, marital status, business type(s) and level of income as well as purpose of lending. Generally the organization carry out information verification on a high level, exceeding information verification conducted in western countries. Vital information, such as the client's address and business type is without exception verified by loans officer and often include a personal visit by the later. Other related information not vital for the quality related evaluations of the clients is less systematically conducted by some institutions, sometimes only resulting in paper verifications or simple forms filling by the client.

Further use:

This was the area were the largest disparities were found, which will be explained further throughout the section. The organizations prove to make very different use of the information collected at the client level. Currently, the majority of organizations use the information described above mainly for local assessment - such as the loans officer continuously evaluating the aptitude of the clients to successfully interact with the organization. A large fraction of the organizations use this information for internal assessments and planning, such as when the management team of the organization evaluates the performance of local branches. The most developed MFI: s however, use this information to construct thorough statistics which is also the basis for extensive reports communicated externally to investors – such information then includes:

Institutional level

- Rural/Urban outreach
- Gender
- Average age
- Average loan size
- Type of loans solicited
- Type of services use

Government institutions and central bank requirements

Less than a decade ago, the Microfinance industry in Africa was subject to little legislation and requirements from central authorities. However, as of recently an effort has been initiated by many African countries to reform the legislative structure of their financial markets as well as to consolidate those. As part of this process, small financial institutions have been subject to increased legal requirements, notably from the central banks.

In many African countries, financial institutions regardless of size, capital structure and client target are required to provide their central bank with extensive information in order to receive a license of permit. The information requirements are mostly administrative and financial by nature and generally include the following:

- Capital Structure as well
- Information regarding the shareholders
- Profits and predictions
- Client structure

Besides direct information requirements, in an effort to consolidate the financial markets which have traditionally been judged as too disseminated by local legislators, the majority of central banks have also required minimum levels of capital structure and client base, which have contributed to put other implicit information gathering requirements on the financial institutions.

Investors and shareholders

The MFI: s of the AfriCap portfolio are typically owned by local shareholders, board members and related as well as by local individuals and investors. The main concern of these seems to be the

profitability of the institution. None of the MFI: s have at any time been required by investors nor shareholders to construct reports under the label of social impact assessments.
The main focus of the investors has been profitability, stability and expansion. Some of the MFI: s have more philanthropic oriented owners – and their main focus of interest seem to have been the level of outreach as well as employments created.

Regarding AfriCap specifically, the company is constantly looking to consolidate its handling of information when it comes to its portfolio. AfriCap has constructed a list of items which should typically be reported to the company from the investees on at least a quarterly basis. At this stage, AfriCap has been able to insure all those figures to be regularly communicated by the investees - although one of AfriCap's analysts points out the sometimes tedious task of collecting the information, involving several phone calls per institution[70]. Below is a list of information items collected and processed by AfriCap:

- Unrealized internal rate of return (IRR)
- Net income after tax
- Net loans
- Total assets
- Total equity
- Deposits (amount)

  Return on assets (ROA)

- Return on equity (ROE)
- Number of borrowers
- Number of savers / current accounts
- Number of loans with repayment delayed > 30 days

  Operating expenses / Gross portfolio

As of today, AfriCap also reports on their results with metrics detached from purely financial performances. Portfolio reports to investors currently contain a section labelled "social impact". Metrics compounded for the totality of the investments are found under this section as well as their progression since inception.

The following metrics are to be found:

Number of Depositors / Number of Borrowers

AfriCap assesses the total number of savers in the institutions. Wagane Diouf, CEO of AfriCap claims this is the central measure in AfriCap's achievements. "Outreach to population left unserved by the established banks is what AfriCap is all about"[71]

[70] Kloppenberg, Jay, AfriCap Microfinance Investment Ltd. [multiple mail and telephone conversations].
[71] Diouf, Wagane, AfriCap Microfinance Investment Ltd. [interview 2009-04-25].

AfriCap makes a very clear distinction between borrowers and depositors and sees this as two different yet interrelated achievements – Regarding borrowers - ”Granting loans to large numbers of micro-entrepreneurs creates additional employment, increases education and empowers women. This stimulates economic activity.” Regarding depositors - ”Portfolio companies often provide the only available opportunity for poor people to save their money and therefore increase the capital available in the economy.” [72]

Number of Women (Borrower, savers)

It is the ambition of AfriCap to communicate this metric in its reports in the very near future. This metric has not yet systematically assessed as too many of the institutions have not communicated this information to AfriCap. This metric is deemed very relevant to the overall mission of AfriCap ”Women are typically more vulnerable and poorer than men – reaching out to more women can thus be seen as an achievement on itself.”[73]

Number of direct job created (Total headcount of employees in the institutions)

This metric is currently assessed as the total addition of all employees contained in the investee organizations. The motivation for this metric can be read in an AfriCap report: ”Direct employment stimulates economy and the bulk of MFI employees typically come from low economic classes.”[74]

The information above is gathered for the purpose of AfriCap's analysis and displayed to investors. Obviously, the information does not relate to pure impact analysis and is rather showing some key figures relating to the compounded output of the AfriCap MFI: s. If anything, this efforts points toward the increasing need of developing the reflections on social impact more thoroughly.

At the level of the MFI: s, the answer is currently even more straight forward. As of today, none of the institutions of the AfriCap portfolio currently collect nor assess information targeting solely the establishment of a rigorous in-house social impact assessment framework.

Summarizing, this section describes the type and extent of information currently required and assessed by the MFI: s. Stakeholders such as investors and governmental institutions have contributed to a high level of financial information being assessed by the MFI: s. Operational needs and security mechanisms have contributed to a high level of client related information being assessed although of varying quality and accessibility. Little focus has yet been put on social impact related information, and none of the MFI: s themselves work with social impact assessments on their own. We also note

[72] Houritzene, Hubert, AfriCap Microfinance Investment Ltd. [multiple mail and telephone conversations].
[73] Ibid.
[74] Ibid.

that AfriCap, although showing proof of efforts, lacks a thorough investigation into the issues of social impact.

Reflections on the potential for further information collection

As the section above has failed to provide us with clear cut answers regarding social impact information, we now turn to the potential for such assessments.

The level of development of the typical AfriCap MFI

The Microfinance industry has reached a level where the disparities between MFI: s, their level of profitability and development are very large. There are also great disparities region-wide and the development of the industry in Africa is lagging behind institutions in Asia and South-America.
AfriCap invests in a very particular class of Microfinance organizations. At the investment phase the typical AfriCap investee is a small to medium-sized financial institution which is either profitable or in the process of becoming so. The investee has serious expansion plans and the management is of a very high quality, often endowed with experience from working in financial institutions in the U.S or Europe. Their main focus currently is to expand, modernize and become important players on their local markets. The MFI: s are serving populations that have been deemed to be unprofitable by the established, traditional banks and are doing that with limited resources.[75]

”It is important to understand that these organizations are under development in an atmosphere that has few resemblances with western like financial institutions”, says Hubert Hourizene, Investment Officer at AfriCap. ”The collection of information in our investees cannot (yet) be compared with the process that have been established in the largest MFI's procedures and expectations are different – in many countries it is only recently that MFI have started to stand under the active supervision of the central bank or in other ways are regulated by national laws.”[76]

Heterogeneity

AfriCaps investees have reached very different levels of development. In the AfriCap portfolio are both pure start-ups, organizations in the middle of a process of thorough transformation and re-shaping of its activities, organizations in an early stage of expansion and finally those organizations which have reached stable profitability and are expanding.

This heterogeneity of the AfriCap investees shows the complexity in assessing the potential of collecting further information for all investees unanimously.

[75] Ibid.
[76] Ibid.

Committing resources to social assessments

With the exception of the largest and most mature MFI institutions, the general stance in the Microfinance community has been that assessments of the social impact of an MFI is something that should be carried out by investors or academics, rather than the MFI itself. The reason for this has often been pointed out as lack of time and resource of the MFI: s.

Socremo Banco de Microfinancas Mozambique stands out as one of the most developed institutions in the AfriCap portfolio. Yet according to their CEO, Rui Seybert, the institution doesn't have any resources which could be committed to reflections on social impact assessments. The institutions expansion plans and the day to day operations are already committing the different departments at a level over-capacity. Any reflection on the social impact of a healthy institution must be found in the financial figures of the bank, or in information related to the day to day activities. Mr. Seybert further ads that he believes it is harmful to the day to day activities of an institution to dwell into questions of pure social impact "To set up a separate social impact assessment is a waste of time".

Mr. Houritzene confirms the declaration of Mr. Seybert. Most of the MFI: s are fully committed to enhance and expand their operations – producing the financial information requested by AfriCap and other investors is already burdensome for the investees.[77]

The AfriCap team has to commit substantial resource to make the least developed of their investees produce enough information for their own in-house assessments. It seems at this stage that the AfriCap team could not without difficulty request further information from their investees, especially not information of a character that has previously not been collected. Adding to this, as the case of Socremo illustrates; pure impact studies is also viewed with suspicion by some of the investees which implies that pure social impact information requested by the AfriCap team would not be welcomed.

The issue of priorities remains central for AfriCap. Not only for the obvious reason that as a Private-Equity firm, AfriCap is under the intense pressure of running with a profit – another commitment of AfriCap is to show the "investability" of the African Microfinance industry as an attractive market. The running costs of the company are approximately already fairly high committing more funds to pure evaluation would be an expensive trade-off and might deteriorate the finances of the fund.

[77] Seybert, Rui, Socremo. Banco de Microfinancas Mozambique. [Multiple mail conversations]. Contact – mail : rui.seybert@socremo.com.

AfriCap cannot expect their MFI: s to supply them with extensive studies at their own time and expense, we have also reached the conclusion that the AfriCap team is not in a position at this stage to independently elaborate on such studies.

However, the AfriCap team declares that there is currently great interest in this field for advancing the level of research on social impact. AfriCap has been approached by both academics and consultancy firms offering their services at little or no cost – the aim has been to build on the concept of social impact. AfriCap has at different occasions initiated cooperation with both the USAID and an external South African management consulting firm, although neither of these cooperations has yet reached any tangible results.

The use of unprocessed information

As shown above, many MFI: s are already collecting substantial amount of information of a non-financial nature as part of their interactions with clients. The vast majority of the MFI: s in the AfriCap portfolio conduct thorough information collection regarding their client. Information is generally collected every time the client pays a visit to his MFI and thanks to modern technique, more and more available in professional databases from which compilations and social analysis's are available although seldom conducted by the MFI due to lack of time and resources.

An example is given from the Microfinance institution Socremo, "In order to assess a loan the credit officer pursues a very thorough investigation of each new client. Not only do we build a balance sheet and income statement and cash flow sheet for each client but we also collect data on the socio and cultural background of each client".[78]

Information which is either for internal use at the local level, or part of legal requirements have often been collected in such a way as to be hard to quantify into statistics. Regarding the *address of the clients* for the case of Socremo, the information is collected, notably as a part of a legal requirement from central authorities and it is digitalised, but databases contains no automatic filter to order these addresses by region or similar. Another example regarding the i*ncome level of the clients* and *the client's purpose of lending*, this information is as well thoroughly collected and verified by loans officer, but as the main use have been the local branches, the information remains computed in written form and not digitalised.[79]

[78] Seybert, Rui, Socremo - Banco de Microfinancas Mozambique. [Multiple mail conversations].
[79] Ibid.

Summarizing, assessing the potential for further information assessment is rendered difficult by several factors. The main concern of the MFI: s seem to be expansion and financial sustainability. Furthermore, both at the level of AfriCap as well as of the level of the MFI: s there is a concern for the lack of time and resources which makes further reflections of social impact difficult. This is further exacerbated by a certain scepticism for social impact, as it is see as interfering with the core operations of the MFI: s. The two main positive findings for further assessments is the high level of information already gathered by the MFI: s as well as the possibility of calling on external resources in order to dig deeper into these issues.

Discussion and conclusions

The MFI: s of the AfriCap portfolio were found to gather information for three main stakeholders: the requirements of daily operational activities, in order to fulfil governmental requirements, as well as in order to satisfy the shareholders.

The gathering and processing of financial information can be considered thorough given the resources and technology available on the ground. The main reason behind this observation seems to be the pressure exercised by local governments as well as by the shareholders. Furthermore, mainly as a way of dealing with the uncertainties of operating with a client base that lacks collaterals, the MFI: s keep regular contact with their client's, some as often as daily. In this process, the MFI: s also gather thorough information on their clients. However, this information remains largely unprocessed thus unavailable for studies carried out on a larger scale.

None of the MFI carry out any sort of assessment targeting their social performance specifically. The MFI: s seem to be under the impression that the provision of financial services to low income populations is in itself a proof of a social impact. That is, once you show profitability and a steady rise in the client stock other measures are less relevant. Some of the MFI: s also raised the concern that social performance tracking and monitoring is unproductive and focuses away from core activities. AfriCap has made an obvious attempt in assessing social impact data. Currently, the data is however only of an output character and acts only as a complement to financial data.

The MFI: s of the AfriCap portfolio are struggling with necessary rapid expansions in their client base, keeping their costs low and the levels of their services high. Many are still in an early phase of development and seem to be unable to commit considerable resources to additional information tracking. This finding might however be questionable as the information of financial nature is of high quality.

The findings above seem rather to be a product of the fact that overall it has not up to now been required of MFI: s to report on the social impact of their operations. Instead, whenever it has been in the interest of an investor to understand the social impact of its investments it has also been its task to undertake such an assessment and not the MFI: s. In this context, an encouraging finding is the interest expressed by external parties to support AfriCap both in expertise as well as financially in its task of social impact assessment.

Contrasting our findings with a similar survey

During Spring 2007, the Social Investor Subcommittee of the Social Performance conducted a thorough investigation into the level of interest in social reporting from the perspective of the MFI: s. The survey involved 229 respondents from all over the world.[80]

The survey revealed interest in general context indicators, outreach to business and underdeveloped areas, outreach to women, social responsibility toward employees, and social responsibility toward clients. On the other hand, measures concerning impact in the lives of clients and households and change in local communities received less interest. Indicators measuring actual social outcomes tended to score lowest, which the SEEPs comments: "reflecting, no doubt, the respondents' recognition of the difficulties associated with collecting and reporting client- and household-level outcome data". The SEEP further measured indicators both against general interest and measurement feasibility. The correlation between the two was very high.

Thus, the results of this survey contrasts somewhat to ours. While we found mostly no interest for measuring social indicators at the level of the AfriCap MFI: s, a majority of the respondents of the SEEP survey express interest to a certain degree. We suggest two main explanations for these findings:

- Firstly, the survey conducted by the SEEP emphasized general interest in indicators, whereas we mainly targeted the issue of resources and feasibility.
- Secondly, as we have stated in the introduction, African MFI: s are generally less developed and smaller than elsewhere. The institutions of the AfriCap portfolio are also very commercially oriented in contrast to the majority of MFI: s. This implies a required focus on core activities and less flexibility to reflect on social performance issues.

[80] The SEEP Network Social Performance Working Group, "Social Performance Map", 224.

However, the interest resonates mainly around figures that are activity and output related. Measures of impact are on the other hand avoided, which the SEEP also attributes to the difficulties in measurement. The high correlation between interest and feasibility stated above can also be interpreted as a general lack of engagement.

Analysis

The following analysis will move to clarify how the above investigated dimensions of developmental effects of Microfinance relate to each other; conditioning ambitions, efforts and activities that drive the practice of the field and the potential for advancement. We begin by juxtaposing theory, industry practice, investor ambitions and practitioner perspective's with each other.[81] *We then seek to synthesize the common ground of these perspectives into least common denominators, attempting to establish the scope for development of recommendations.*

Synthesising – In search of common ground

	Theory	Practice	Investor ambitions
Practice	• (-) Poor match between frameworks and social impact concerns. • (-) Industry seems to capitulate to the difficulties of cost-effectively measuring Social Impact. • (+) Some collective industry initiative to forward the field, both in SIA and SPM.		
Investor ambitions	• (+/-) Interest in outcome and impact but lack of ambition and follow through. • (-) Lack of insight into the conditions for measuring impact. • (-) Assumptions that microfinance has passed the test in general.	• (+/-) Need for an easily implemented, quantifiable framework. • (+) -Lack of vested interests into the field creates flexibility. • (+) Increased pressure on transparency and accountability from investors.	
Practitioner	• (-) Main focus activity and output. • (+/-) Much information produced but with lacking availability and financial focus. • (-) Current level of research does	• (-) Generally little research actually conducted on social impact. • (+) External expertise and funding may be available.	• (+/-)Investor main information stakeholder • (-) Little contact between MFI: s and investors in the AfriCap scenario.

[81] Note that only the three latter are presented as separate perspectives, the theoretical view is incorporated in each of these and does not necessitate a separate section.

	not provide easy answers to theoretical issues. • (-) Expensive for practitioners to pick up the torch of academic inquiry. • (+/-)Developing research design could imply modifying MFI operations to create better information for research – problematic from cost and operational perspective on part of MFI: s. • (-) Need to collect info on individual and household level.		• (-) MFI: s have many masters to report to. • (-) Core operations vs. impact measurement.

Investors

Investors do show a clear interest into impact assessment. The corresponding ambition to engage and follow through in practice is decidedly less evolved as mapped against the demands set by theory for such engagement to be productive. The lack of engagement is less surprising when we discover the investors are not all too well oriented in the sophistications of impact assessment. This can seem understandable. It is quite surprising and disappointing however, to see how assumptions of positive impact of Microfinance in general have taken hold among even advanced institutional and socially specialized investors.

The investors crave a reasonably simple conclusive framework to quantify and operationalize impact in MFI investments. Effective adoption requires collective effort on part of the industry however. The lack of engagement can be seen in a positive light as implying less of vested interests into particular frameworks or methods. The pressure is on however, from the side of capital markets, to provide more transparency in connection with social value creation and social return on investment, this can be a positive driving force on both investors and MFI: s in the end.

Investors have a special relationship with MFI: s and influence how they conduct their business. However, the investors are wary of demanding too much of the MFI: s, they are primarily interested in having the MFI: s run functional and sustainable operations and only secondly what social return they yield. In the case of AfriCap there is very limited contact and communication on these issues between investor and MFI: s so the scope for AfriCap being overly engaged is small at this point.

The MFI: s have traditionally focused more on activities and outputs rather than outcomes and impact as mapped by the impact value chain. A fair bit of good quality information is actually created but not always readily accessible and primarily focused towards financials and aggregate client data. The current level of investigation does not provide scope for addressing issues of impact on individual and household levels as sought by the theoretical perspective. While the potential for producing the necessary information is there it may be too much to design MFI: s to be the driving agent of impact assessment. MFI: s are particularly apprehensive of trading off operational quality to increased impact assessment, a fear widely and vocally expressed. The theoretical possibility to redesign MFI operations to fit with productive research design adds to this argument.

Industry

Our assessment of the industry trends clearly shows intent and interest in investigating social impact. Despite the attention and activity in the field conclusively productive frameworks and methods are elusive as judged against a theoretical backdrop. Sadly, the industry seems to have taken this for a fact and subjected to retreat back in the impact value chain past impact and outcomes to looking at issues of process and the management of MFI: s. Nevertheless the momentum of collective initiative must be seen as a positive and important, if not driving movement in the field.

It is clear that collective industry efforts are driven by investors these days, whereas impact assessment used to belong to academics. The push for practical and quantitative frameworks necessarily plays the investors hand. This might not have been negative if it had not been for the apparent retreat of the industry from impact assessment in demand of more practical (even if less valuable) pursuits. Seen as the industry efforts are still not consolidated there is yet ample room for influencing the current environment. The underlying force driving reporting is also still of pure intent, that of increased accountability and transparency of industry agents. A particular focus lacking on part of industry initiatives are close ties with practitioners in the field. This gap may need to be bridged to further important aspects of the field.

MFI: s

While investigations into social impact necessarily must involve the MFIs, the driving forces in the field are found with industry wide initiatives spurred by some institutional investors in particular. Given the intermediation of MFIs and these industry initiatives by the investor level there is a risk that MFI interests are not first on the agenda. This can be dangerous as MFI buy in is intimately necessary to ensure proper implementation of any frameworks promoted. The lack of resources on part of MFI: s can possibly be mitigated by the industry's and related third party interest into the development of the field of impact assessment. As mentioned previously, consultancies have for example offered subsidized services to help investors and MFI: s in the field.

Whatever MFI: s do the incentive is governed by investors. Existing financials and aggregate client data is produced for investors and the impact assessment that are attempted are made on demand by individual investors. The lack of consensus over frameworks has MFI: s attending to many different investor assessment frameworks, increasing the workload beyond the already cumbersome financial and operational reporting. It is not surprising that the chief concern of MFI: s is the risk that impact assessment interferes with running operations. The important relationship to investors in this context is problematic from the perspective of investors generally as they have particularly scarce interaction and information exchange with their investees.

Looking for least common denominators

The principal limitation to impact assessment from a theoretical viewpoint is one of accuracy and cost-effectiveness. Reliable impact assessment many seem elusive but is hardly impossible. It will require substantial effort however, whether on part of individual or collective efforts.

The principal limitation on part of investors is that of ambition. Investors are key to collective industry efforts and MFI responsiveness towards impact assessment. If investors are not decisive in their ambition towards really measuring impact it is not likely to be done. The interest is there, as we have seen, yet there is a lack of competence contributing to a degree of ignorance towards the complexities of impact assessment and the efforts necessary.

The chief limitation from an industry viewpoint is the current trajectory away from impact assessment and towards process management. On the positive side real collective action is obviously possible, if only a more fruitful direction could be articulated.

The limitation on part of MFI practitioners is obviously resources and the trade-off between running and developing current operations versus a strong engagement into impact assessment. The lack of clarity from investors and industry further dilutes the incentive. On the up, the MFI: s do have a tradition of collecting individual and household information, vital for impact assessment. Their future efforts are governed by the incentives posed by investors.

From this analysis we see that there is clear opportunity for moving towards real impact assessment. Industry efforts, investors and academic researchers however need to collaborate with MFIs in a collective effort to cost effectively, once and for all develop a first generation of viable impact assessment tools. The principal limiting factor conditioning this development is seemingly the investors, their commitment to impact, their competence in the area and their ambition to take *responsibility for what the industry and MFI: s do toward the end of impact assessment. Towards the background of these conclusions we now turn to our practical recommendations to AfriCap and their industry peers.*

Making recommendations

The ambition of this study has been to investigate on the possibilities of creating a framework for capturing positive effects of Microfinance on its clients. This section articulates our recommendations for how industry practitioners can constructively move forward in face of the difficulties and flux facing the industry. The recommendations are structured according to two integrated scenarios catering to different levels of ambitions and temporal perspectives over the issue.

Our low cost scenario

As has become evident through our investigation cost-effectiveness is the main hurdle for practitioners in seeking to implement social impact assessment frameworks. The ambition of this study has been to fashion in a practical social assessment framework. The low cost scenario will take into account all the current limitations and scarcities when elaborating on a functional framework.

This study has accounted for the many difficulties associated with the ambition of proving the social impact incurred by Microfinance. At this stage, and with the resources at hand, looking to propose what investors such as AfriCap could start doing tomorrow, we believe that a repositioning of the question, away from this academically strict original ambition, is the best way to move forward.

It is clear the efforts towards impact assessment are decidedly positivist in nature, meaning the efforts have pushed toward proving the existence of particular impact caused, as separated from other outcomes. Agents active within the field have accepted and perhaps even benefited disproportionately of the positive hype that has surrounded the practice, as leading to increased yet perhaps ill motivated flows of investments to the industry.

As we have discussed above, Microfinance also remains disputed and some of its critics question the very foundation of its claim of being beneficial to poor populations. The controversial emergence of commercial microfinance has repositioned the debate over social impact. Certain critics claim that such institutions might even be detrimental to clients, and examples such as the one of Compartamos have fuelled the debate.

Juxtaposed with our present problem this invites us to a different approach all together. Financial profit is a major goal for AfriCap and its investors, and the current state of research and information provision leaves little doubt as to whether the performance of the investees is satisfactory or not.

If institutions are running with a profit and can produce information to suggest that clients are not getting poorer, this actually represents a theoretical achievement at this stage. This argument is admittedly a weak justification for Microfinance and retreating somewhat from our original ambition. However, showing that clients are not getting poorer invites scrutiny over measures used and their validity. Further, even if confidence is reached over such numbers there is no way of knowing if the effect of Microfinance in this context is positive, neutral or negative, we only know that clients are faring better overall.

The present situation offers a bias towards accepting a constructive positive role for Microfinance in general but little evidence to prove it, as well as a viable criticism against commercial Microfinance in particular. As the field of impact assessment and social performance management develops we believe active participation and action on this point will be rewarded over passivity and inaction. There is scope for an, if cynical, argument that even bad information would improve on a situation of no information. As mentioned, scholars crave increased information from MFI: s. Practitioners who set their operations to start getting accustomed to collecting individual and household data, will arguably be better positioned when the time comes for consolidated industry initiatives.

A particular concern is that very few MFI: s are actually studying and producing information on what happens to individuals and household over time, even though they probably could, no matter the opportunity to prove impact. More information would bring increased, albeit hardly optimal, transparency to the industry and with that accountability, and also better foundation for further research and industry initiatives on addressing impact assessment.

The argument of low-cost scenario thus takes a step back from the ambition pure impact analysis to look at the scope for any degree of evidence looking more at outcomes or even output, hence retreating along the Impact Value Chain.

Following this idea, the easiest question to answer is; knowing that the Microfinance institution is running with a profit; can we track the well being of the existing client stock? Can we prove the poverty status is better than negative or unchanged? (no matter causal effects and operative mechanisms)

We believe the conclusion for the assessment of each MFI could be of a binomial nature. That is if the investee is able to show enough evidence that the outcome of its operations are better than neutral towards the clients, we deem this MFI would then be validated as acting in accordance with its mission. There is of course a risk that MFIs and even investors would frown upon the prospect of having their operations viewed in a negative light, such an attitude should decidedly warrant suspicion on part of ultimate investors however. Measurement admittedly has consequences along the old adage “what gets measured, gets done”. If MFI: s know if their clients are doing well or not they have incentives to look on to why the one of the other may be the case, whether its related to Microfinance or other conditions surrounding the clients and their households. There is arguably scope for some resistance on part of MFIs to the production of metrics that can take negative values (in contrary to the rather positively skewed metrics in use today such as the number of clients, and the like). This makes the case for an active if not central role for investors in pushing the implementation of some degree of non-normative metrics.

Development of our low-cost recommendation

At this stage we would suggest the MFI: s could jointly formulate an inquiry which would investigate the well being of the existing clients.

As we have shown, the MFI: s share the characteristics of interacting regularly with their client base, and for most of the organization's this has resulted in fairly reliable and updated information databases. Custom designed information databases should help to process this information into comprehensive data.

This information could be updated almost every time the MFI interacts with the clients, which is as we have shown on numerous occasions. The incremental costs for such practice should be very low and the practice easily integrated in the current operations. The costs for AfriCap should as well be low and mainly consist of grouping the results of the different MFI: s.

Some of the information productive for such an assessment is available in the databases of the MFI. From the practitioners section we learned that all MFI: s currently assess their client’s level of income as well as their savings and loan size. In a near future it should also be possible for all MFI: s to monitor the average loan size. These metrics are important, while not decisive in understanding the economical situation of the clients.

However, we are aware that this information might not provide the practitioner with enough conclusive material to judge poverty and therefore recommend it should be complemented by variables creating a deeper analysis.

Many studies exists which have sought to isolate the most important denominators relating to poverty. The most common example is the Ford/Grameen’s Progress out of Poverty Index-framework (PPI). The PPI has elaborated on a set of ten basic questions, created though benchmarking[82] poverty

[82] Studies asking populations at risk of poverty how they themselves judge that someone is poor in their societal context.

in the local population, relating to an individual's housing, family status and furnishing/household resources as proxy variables relating to poverty. The answers to these questions are graded and a final score is then juxtaposed with national statistics[83] assessing the probability of an individual living in "absolute poverty" (subsisting on less than a dollar a day). Earlier, we rejected the PPI and similar frameworks for their inability to deal with true impact issues. However, with the new question we are trying the answer, the PPI makes a more useful proposition to help MFI: start looking at a wider range of individual and household metrics.

Discussion and conclusion

The investors of AfriCap have pushed financial sustainability as their main feature of interest, and other measures only second. We believe that the modest scenario we outlined above might represent an attractive option. If the MFI: s of the AfriCap portfolio can show financial profitability as well as information and suggestion that their operations are (hopefully) better than neutral towards the clients, this acts to justify the investments as responsible, a matter central in the mission statements of the majority of investors. If the information suggests the opposite it gives the MFIs reason to look more closely at their clients and what conditions govern their well being or lack thereof, even anecdotal explanations can be helpful, still providing more information that is produced today at the level of individuals and households. Furthermore, the results should be transparent and freely publicized. This should leave free space for investor's analysts, as well as researchers, to ponder over trends and aggregate results.

The low-cost frame work proposed hence caters to the needs and trends conditioning individual investors and MFI: s as well as the industry at large

Mapping the way for a high cost scenario

In the high-cost scenario, we push the process forward by suggesting under what conditions and suitable environment a thorough and complete social impact assessment system can be established.

Creating coordination and harmonization

One of the main conclusions of our study is that an accurate, verifiable and useful framework for impact assessment eludes the field at present. None of the surveyed frameworks seem to provide the level of detail and evidence even close to allow for robust conclusions over the workings of Microfinance on the ground. The deep impediments rest on the level of operations, research design and incentives for the activity in general. Even though some basic grass-root level information on clients, operations and outcomes is available, the level of detail is insufficient and it seems difficult

[83] Produced through national studies into local poverty levels relating to at-risk individuals own perceptions of poverty.

for the individual practitioner to address the research design issues that academics are grappling with. Finally, investors offer a level of ambition towards reliable impact assessment that leaves the industry wanting. The condition of an industry in flux over these issues in general cloud the incentives and ambitions both at MFI and investor levels. Not minding the difficulties inherent to impact assessment outlined in this paper, uncertainty of evolving industry consensus makes any individual initiatives dubious.

To illustrate the hardships of the situation for Microfinance and its practitioners one could think of the consequences if the same lack of consensus and harmony existed for financial and business accounting. However, the field of accounting has now reached a degree of harmonization which is certainly the reason why (besides legislation) a company today could not consider going without accounting of its financial performance. The field of environmental sustainability has also reached much farther, with frameworks such as the Global Reporting initiative[84] and the ISO-standards[85] have become accepted. Such reporting has become mandatory for many businesses.

As noted in the industry practice section, the European Dialogue on Microfinance forecasts that double bottom line (social and financial) reporting will become standards in the entire Microfinance industry. We believe that this declaration can only bring a productive conclusion if microfinance is involved in a similar process as the areas of finance and the environment. Thus, there is today a strong need for Microfinance to move further as well towards harmonization and consensus. The danger looms however, as illustrated by the rise of the Social Performance Management paradigm versus the Social Impact assessment ideal, that we may be on our way to a less than reliable set of standards surrounding social impact, as based on other metrics than impact assessment. This potentially has the risk of cementing industry consensus as conflicting with the original ambition of impact assessment which may become cumbersome to reverse at a later stage.

Our study has aimed at uniting the main perspectives present on the market for microfinance. However, our conclusion at this stage is that the field is in the need of far more coordinated efforts and research to bring it closer to the more ambitions ambition if reliable impact assessment. In order to reach a consensus and harmonize the different perspectives we believe there is a need for the emergence of an international body and a knowledge base of representatives from all four perspectives in order to elaborate and forcefully coordinate on these matters.

We note that there are already many institutions and organizations with the ambition of harmonising the debate over social impact. The works of several of these have been used in this thesis. However,

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[84] The Global Reporting Initiative, http://www.globalreporting.org/Home.
[85] International Organization for standardization, http://www.iso.org/iso/home.htm.

it seems that up to now, these organizations have collaborated away rather than towards impact assessment. We would suggest this is due to these initiatives being driven by investors that quite frankly, are not educated or ambitious enough in the field of impact assessment. Notable is also that this industry process has to a significant degree been developed in parallel rather than in collaboration with the developments in the academic field. Given the conditions that temper reliable social impact assessment it is clear that cooperation between academics and industry agents at all levels is imperative to forward the field. Independent consulting firms that have followed the developments have also made individual efforts to forward the field; these may likely have resources available that could benefit an industry wide effort. It is further clear that there is at best a sporadic influx of funding to more industry reaching initiatives, opening for collective action problems of who should pay for the sought developments.

Against this background we propose the furthering of an industry wide initiative, formalized as an industry organization responsible for forwarding the accounting and assessment of social impact. The organization should include representatives from academia, investors of different levels, practitioners and even independent organizations engaged in the field such as consultancies and the initiatives already present. The organization should initially be funded by multilateral efforts from agents such as the World Bank, IFC and the UN that have a substantial vested interest into the industry and its development from an aggregate perspective. Similarly DFIs (domestic financial institutions such as SwedFund) could participate in this initial round of financing. In the future, given the expected rise of commercial microfinance efforts should be made to share the costs of such industry wide efforts with these corporate, leaving the engagement of the multilaterals to cover for the non-profit segment of the industry.

The principal role of this entity should be to coordinate initiatives to experiment with research design and operations design of MFIs to ensure a speedy progression towards more reliable frameworks for measuring and assessing social impact as well as relevant managerial metrics as addressed by the social performance management paradigm. In a generalized sense, the organization should act to close the divides between Social Impact Assessment and Social Performance Management as well as those between industry agents and academia, and even further in between industry agents at different levels. Consolidation and coordination is the name of the game. As a valuable by-product this initiative should be able to advise and help LDC governments to fashion regulation around Microfinance to mitigate risks for the more morally dubious incarnations of this form of financial services.

Concluding recommendations

Summarizing, we have articulated two alternative avenues for constructive action for industry practitioners. Neither represent final solutions to our problem entirely but both offer the possibility to take an active stance on the issue of assessment of developmental effects of Microfinance, supporting industry efforts by either leading of following the current development.

Closing Discussion, Limitations and suggestions for further research

This section offers the authors personal reflections over this paper, the industry and the potential for further research.

For most of its history, Microfinance has been operated through small local associations or larger institutional initiatives with links to the NGO sector and the work of multilaterals. It is only recently that commercial Microfinance has developed into a serious competitor for non-profit microfinance. Its emergence has been far from uncontroversial and profits within this sector are still associated with suspicion at best, and usurpation at worst, this from a qualitative perspective, not mentioning the infancy of the industry's consideration from the perspective of international financial markets.

The debate over social responsibility is now well established in the private sector of many global industries, and this has contributed to show that responsibility and profitability, social as well as financial returns, do not have to work in mutual contradiction. However, this discussion does not seem to have fully reached the sector of commercial Microfinance, much we believe, because of the flagrant lack of ambition and serious interest on part of investors. If any industry, Microfinance promises incredible potential for demonstrating the power of double bottom line returns and in extension the prospect for furthering development through viable business, and serious profits no less. This is also what has contributed to make the discussion interesting for us and why we decided to take on the task. However, as has been repeatedly shown in this paper the theoretical barriers are many and difficult to bridge. The different stakeholders to this process have not yet coordinated their efforts and ambitions. We have thus treaded on a fine line during this study, trying to elaborate on the limited empirical substance that was available. Being a process of discovery in itself, the writing of this paper sadly falls short of a finished practical framework for AfriCap. The result is mainly recommendations for further research into this field and at least some practical guidelines we deem the only real options at this point.

One is invited to wonder if impact assessment will ever be a reality for Microfinance. On the positive side there is certainly some effort ongoing to develop the area. Also, if the model carries as much potential as proposed the effect should start to become self enforcing even in the form of anecdotal evidence. In the meantime we are in impact assessment limbo. On the other hand there is already much investment flowing into the industry with promise of ample increases over the coming years. As the Cornell Economics professor Aswan Azis likes to say there is the risk that "when the party is going in the markets, no one wants to be a party pooper." Is microfinance at risk of going down the same rout as the Aid movement in development, seeing immense popularity and inflows of resources only to produce, at best, dubious results over the efficiency of billions spent? We argue the time to act is now, before the industry naturally consolidates on the back of market forces (rather than industry wide normative initiative) on one perception or the other of how reporting should be done. The markets do not have a conscience, not until the end consumer and tax payers speak up, if they even knew how.

This question can easily become political or even moralistic. Just like Friedman's famous declaration: "the business of business is business" is becoming more and more out of fashion amongst the private sector generally, we believe that there will always be more to show in Microfinance than just profits. We also trust that a more rigorous tool for social impact assessment will contribute to confirm the benefits of Microfinance in the eyes of various investors, and therefore activate additional funds.

Finally, we think that accounting for social impact in a proper way can constitute a reward for those companies who operate in harsh environments or amongst the MFI: s who deliver services beyond financial ones. There is increasing evidence that multinationals that are able to interact with their various stakeholders in a responsible are rewarded with higher profits and lower business risks[86]. There is no reason why this should not become true for the Microfinance industry as well.

However, we also note that over a foreseeable future, it will remain a challenge for practitioners and the commercial Microfinance industry as a whole to balance the increasing need for reporting with the constraints of operating in challenging environments.

Lastly, we propose a call to action for all MFI investors to assess their position on impact versus performance management. We also make a call whether they are really prepared to let the industry go forward in attracting capital and expanding operations without proving the impact of Microfinance and more comprehensively understand its mechanisms and workings in delivering social good; a basic tenant we, the authors have faith in, but we still need to prove beyond reasonable doubt.

[86] Top 10 Myths about Sustainability, Michael D. Lemonick, Scientific American, march 2009 edition

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Appendix 1 – List of frameworks

			PROCESS DIMENSIONS										**RESULTS DIMENISION**		
			SPM - Mission Clarity	SPM - Systems alignment	SPM - decision making	SR-CL	GA	MG	NFS	SR-Cm	SR-St	SR-Env	SG-Or	SG-Sv	SG-Ch
USAID	Social Performance Audit Tool	SPAT	X	X	X	X			X	X	X	X	X	X	
CERISE	Social Performance Indicators Initiative	SPII	X	X	X	X	X	X	X	X	X		X	X	
ACCION	Social Diagnostic tool	SDT	X			X			X	X	X	X	X	X	
MFC Poland	Quality Audit Tool for managing Performance	QAT	X	X	X	X	X		X	X	X	X			
CGAP/FORD/ Grameen	Progress out of Poverty Index	PPI											X		X
FINCA	Client Assessment Tool	CAT	X		X								X	X	X
SEEP Network	AIMS Tool	AIMS											X	X	X
USAID	Poverty Assessment Tool	PAT											X		
M-CRIL	MFI Social Rating Service	SRS	X	X		X				X	X	X	X	X	
MicroFinanza	Social Rating Process	SRP	X	X		X				X	X	X	X	X	
MicroRate	Social Rating	MRSR	X	X	X	X			X		X		X	X	
Planet Rating	Social Performance Ratings	SPR	X	X	X	X				X	X		X	X	
Troidos/GRI-TSF			X	X	X	X				X	X	X			
FMO E&S Risk Audit						X				X		X			
MicroSave Tools													X		X

Acronym	**Dimensions**
Process (Governance, Policies and systems)	
SPM	social performance management and leadership
SR-CL	responsibility to clients
GA	gender approach
MG	member governance
NFS	non-financial services
SR-Cm	responsibility to community
SR-St	responsibility to staff
SR-Env	responsibility to environment
Results (Achievement of social goals, client and community)	
SR-Or	social goal - outreach

SG-Sv	social goal - services
SG-Ch	social goal - change

Method	Abr.	Process	Impact	Monetization	Primary application to date	
					non-profit	for-profit
Theories of Change	ToC	x			x	
Balanced Scorecard	BSc	x	x		x	
Acumen Scorecard	ASc	x			x	x
Social Return Assessment	SRA	x				x
AtKisson Compass Assessment for Investors	ACAI	x	x			x
Ongoing Assessment of Social Impacts	OASIS	x	x		x	
Social Return n Investment	SROI		x	x	x	
Benefit-Cost Analysis	BCA		x	x	x	
Poverty and Social Impact Analysis	PSIA		x	x	x	x

Appendix 2 – Questionnaire sent to AfriCap's investors

STUDY ON THE POTENTIAL FOR SOCIAL EVALUATION OF MICROFINANCE

We are currently making an attempt to construct a rigorous social impact assessment tool – concerning specifically our investments in commercial microfinance institutions in the developing world. In order to deliver on these levels yet avoid a solely theoretical discussion of the subject it is imperative that we engage in a discussion with the investors of AfriCap sharing similarities in both operational methods as well as core values.

At this stage we are looking at how other investors are:

1) Viewing their operational social goals and impact
2) How this could ideally be measured without concern for on-the-field measurement issues

We greatly appreciate if you would have time to fill in your answers to this questionnaire.

YOU CAN SIMPLY DOUBLE CLICK ON Answer AND FILL IN YOUR RESPONSE

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1. General organizational questions

What is (approximately) the size of your organization measured with regard to both employees	Answer
and capital base?	Answer
How long has the company been operating?	Answer

For how long has the company been engaged in microfinance activities (or considered microfinance as a worthwhile investment)?	Answer
What is (approximately) the size of microfinance related activities as part of the total share of the organization's activities?	Answer
Are you a for-profit or not-for-profit investor?	Answer
Would you consider yourselves high or low engagement investors? Do you, for instance lend operational/technical assistance to held companies?	Answer

2. Attitudes/approach to evaluation/social evaluation

Who are your principal stakeholders?	Answer
What are the most important aspects with regard to stakeholder impact (i.e. financial, organizational development? Poverty alleviation? Promotion of the developing world?)	Answer
To what extent is social objectives reflected in your organizations mission?	Answer

How do you judge the importance of communication of social impact as compared with financial returns?	Answer
How does your organization intend to work with social evaluation in the future?	Answer
What are the chief problems you have experienced with evaluating social return?	Answer
What is the focus for your evaluation? Process/Impact or Monetization?	Answer
Do you differentiate between Output/Outcomes and Impact?	Answer

3. How do you work with evaluation as an activity?

On what basis/bases is evaluation carried out?

	Project-/ Investment basis	Organization as a whole	Other basis – country/investment type etc.
Social evaluation	Yes/No/Little/ Much/Majority/ Comments		
Other evaluation			
Emphasis			

During what stage of the investment process is evaluation done?

Where is the emphasis?

	Before investing (screening)	As a going concern, what frequency?	Exit
Social evaluation	Yes/No/Little/ Much/Majority/ Comments		
Other evaluation			
Emphasis			

How are the results used?	Answer
At what levels of your organization was any process of social evaluation launched?	Answer
Where does the evaluation process take place in the value chain?	Answer

	Data production	**Evaluation/analysis**	**Reporting**
Owner/Investor	Yes/No/Little/ Much/Majority/ Comments		
Management			

Staff			
Consultants			

4. Analytics and frameworks

At what level of analysis do you concentrate your evaluation Inputs/Outputs or Outcomes and what metrics do you use?

	Inputs	**Outputs**	**Outcomes**
Concentration of evaluation	Yes/No/Little/ Much/Majority/ Comments		
Metrics			

How much recourses does your social evaluation activities demand, consultants/internal staff/management – hours / financial resources over time?	Answer

Has the following concepts been explored by your organization, which ones have been deemed to have potential?

Evaluation Concept	**Explored?**	**Potential/Comment/Conclusion?**
Balances Scorecard	Yes/No	
SROI		
Social Return Assessment		
Ongoing Assessment for Social Impacts (OASIS)		
Cost-Benefit Analysis		
Poverty and Social Impact Analysis (PISA)		
Theories of Change		

Please list any other frameworks for social evaluation considered/used by your organization	Answer

Further comments: