

Institution: University of Bath
Unit of Assessment: 22: Social work and social policy
Title of case study: Improving the social performance of microfinance globally
<p>1. Summary of the impact</p> <p>Microfinance - financial services for people excluded from mainstream banking - expanded rapidly during the 1990s into a global industry of specialist microfinance institutions (MFIs) serving over 100 million clients. The dominant view was that directly assessing achievement of social goals, such as poverty reduction and women's empowerment, was an unnecessary distraction from the commercial expansion of MFIs, needed to reduce their financial dependence on aid. Our research successfully challenged this view by demonstrating that MFIs could effectively monitor their social as well as financial performance. The impact of this has been an increase globally in the number of MFIs doing so, the development of global standards for social performance assessment, and better quality financial services for millions of relatively poor clients.</p>
<p>2. Underpinning research [<i>Numbers in square brackets refer to references in Section 3</i>].</p> <p>In 1996 the World Bank and other donors set up the Consultative Group to Assist the Poor (CGAP) to co-ordinate knowledge generation and policy development among the microfinance sector's funders. The then dominant view in CGAP was that MFIs should focus narrowly on commercialisation. The Ford Foundation (a founding member) feared that this strategy was based on weak evidence and unrealistic expectations about how far market-led growth of microfinance services was delivering sustainable poverty reduction. In 1998, Ford approached Copestake and Johnson (then respectively Senior Lecturer and Lecturer at Bath, and already known for their research on microfinance impact), to help design a global action-research programme into the effect of microfinance on poverty. It was agreed from the outset that close collaboration with MFIs would be important for two reasons: first, to document their capacity to build their own social performance assessment systems; second, to improve prospects for mainstreaming findings across the microfinance industry.</p> <p><i>Improving the Impact of Microfinance on Poverty: an Action Research Programme (Imp-Act)</i> ran from 1999 until 2005. Copestake and Johnson at Bath provided the main academic and strategic leadership of the programme throughout this period, with academic and administrative inputs also provided by staff at the Institute of Development Studies at Sussex and Paul Mosley at Sheffield. Phase 1 comprised a global call to MFIs to submit innovative ideas for social assessment; this led to 23 projects being selected for Phase 2. These were conducted by MFIs varying in their client base from a few thousand to nearly three million. Each MFI implemented its own project, while a designated member of the UK academic team provided technical support, documented the research process and assisted with writing up. Copestake assumed responsibility for the six MFIs in the Americas, and Johnson for four in Africa. Both also played a pivotal role in overall research management, global synthesis and dissemination (including leading industry workshops and conferences in Ghana, Kenya, Mexico, Peru, South Africa, USA and across Europe).</p> <p>There were four key findings.</p> <p>First, when prompted to assess their status systematically, many MFIs found their clients to be less poor than they had assumed [3.1, 3.2, 3.4].</p> <p>Second, net growth in numbers of clients using MFI services was shown to be insufficient as evidence of positive impact on poverty, principally because of high client turnover arising from taking loans without fully understanding repayment terms, or underestimating their capacity to repay [3.1, 3.2, 3.4].</p> <p>Third, participating MFIs found systematic assessment of client characteristics and experiences to be both feasible and operationally useful (e.g. in improving products, services and targeting strategies) [3.1, 3.3, 3.4, 3.5].</p> <p>Fourth, assessment of the social performance of MFIs did not necessarily detract from their long-term business growth and profitability, because raising client satisfaction and retention often</p>

Impact case study (REF3b)

enhanced MFI profitability as well as social impact [3.4, 3.5].

These findings challenged the dominant view (including within CGAP) that commercialisation and market competition alone would drive down poverty. It also provided evidence to justify further investment in social performance assessment.

The importance of assessing social performance alongside financial performance was subsequently borne out by the 2008 US sub-prime crisis and a series of similar crises in the microfinance sector itself. These crises strengthened the uptake of Imp-Act tools and ideas, because they weakened faith in the capacity of competitive markets populated by narrowly profit-oriented agencies to deliver fair, inclusive and sustainable financial services.

3. References to the research

- 3.1 J Copestake. 2007. 'Mainstreaming Microfinance: Social Performance Management or Mission Drift?' *World Development* (35,10):1721-38. [SCOPUS 26 citations against journal 5 year impact factor of 2.18] <http://dx.doi.org/10.1016/j.worlddev.2007.06.004>
- 3.2 J Copestake, P Dawson, J-P Fanning, A McKay and K Wright-Revollo. 2005. 'Monitoring the diversity of poverty outreach and impact of microfinance: a comparison of methods using data from Peru.' *Development Policy Review*, 23(6):703-724. [SCOPUS 9 citations; journal impact factor of 1.52] <http://dx.doi.org/10.1111/j.1467-7679.2005.00309.x>
- 3.3 Copestake, J. 2003. [Part II: Institutionalising social performance 5. Simple standards or burgeoning benchmarks? Institutionalising social performance monitoring, assessment and auditing of microfinance.](http://dx.doi.org/10.1111/j.1759-5436.2003.tb00090.x) *IDS Bulletin*, 34 (4): 54-65. <http://dx.doi.org/10.1111/j.1759-5436.2003.tb00090.x>
- 3.4 Copestake, J. G., Greeley, M., Kabeer, N., Johnson, S., & Simanowitz, A. 2005. *Money with a Mission (Volume 1): Microfinance and Poverty Reduction*. Rugby: ITDG Publishing. Chapter 1 of the book provides a detailed narrative account of the research programme. ISBN 1-85339-614-1
- 3.5 J Copestake. 2004. 'Social performance assessment of microfinance: cost-effective or costly indulgence?' *Small Enterprise Development*, 15 (3):11-17 September. <http://dx.doi.org/10.3362/0957-1329.2004.032>

By 2011, our peer reviewed publications on microfinance had attracted more than 300 citations (Source: Google scholar).

Research grant income

Ford Foundation (Economic Policy and Governance Office, New York): **Improving the impact of microfinance on poverty: an action research project (Imp-Act)**. Including the 23 grants to action research partners, the total *Imp-Act* budget between 1999 and 2005 was US\$3.5 million. The University of Bath received four grants totalling £240,000.

Since then Copestake and Johnson have also secured additional research and consultancy income relating to social performance assessment of microfinance of more than £300,000. Sources have included DFID, CGAP, the Kenya Financial Sector Deepening Trust and the Dutch Microfinance Network.

4. Details of the impact [Numbers in square brackets refer to evidence in Section 5].

The *Imp-Act* research between 1999 and 2005 has had a major impact on policy and practice across the microfinance industry, notably in terms of the ideas, frameworks and tools which the industry uses. This has had significant consequences for millions of poor people globally.

1. The research **changed mind sets** [5.5, penultimate paragraph; 5.8]. In particular, it was key to developing the idea of 'double bottom line' (i.e. social as well as financial) performance management of MFIs – Copestake (2003) being the first published reference to the idea of social performance in this field [3.3]. This in turn shifted the emphasis away from *ad hoc* impact assessment studies controlled and dominated by international donors, towards practices that

Impact case study (REF3b)

MFIs themselves could implement and benefit from directly.

2. The research **had an immediate impact on how MFIs in *Imp-Act* undertook social performance assessment and management**: including their design and use of tools for poverty assessment and social audit [5.5, 5.6, 5.7]. An independent evaluation lauded the high quality of the materials produced from the research, reporting that *Imp-Act* was “*really entering new territories and was innovative*” and has “*changed the industry*” [5.2, p55; 5.3].
3. The research **played an “effective role in setting the agenda of the Social Performance Task Force”** [5.2, p55]. The SPTF is an industry-wide body to which CGAP is affiliated, which in 2012 produced the first “Universal Standards for Social Performance Management”: a joint policy statement for the sector by its leading actors.
4. Evidence of **the growing adoption of social performance assessment, beyond the MFIs who participated directly in *Imp-Act***, comes from “MIX”, the premier industry reporting body. By 2010, 405 MFIs with 44 million borrowers (including banks) reported the use of social performance management techniques [5.1]. The majority of their clients were women, [5.2] with the median MFI reporting 29% of members below a US\$2 per day poverty line [5.1]. This adoption of social performance assessment demonstrates a deeper commitment on the part of MFIs, to align their financial services to their social mission and **to meet poor people’s needs** [5.1].

This impact was achieved in three interconnected ways, involving evidence, advocacy, persuasion and coalition-building.

First, from the outset the research was designed to be embedded within the microfinance industry and to be ‘owned’ by MFIs, as much as by the UK academics coordinating *Imp-Act*, or the Ford Foundation funding it. As the research diffused through the MFIs of the *Imp-Act* network, they readily adopted the language, tools and practices that the research promoted. This transmission was reinforced by the findings Copestake and Johnson published in practitioner journals and industry-oriented outlets, such as the *Small Enterprise Development* journal [3.5], and through other leading microfinance research and support organisations. Evidence for this is to be found in supporting statements from senior staff of CARD in the Philippines [5.7], the Microfinance Centre (MFC) in Warsaw [5.6], SEEP, SPTF and Microfinance Initiatives in Washington DC [5.5, 5.8] and MicroSave [5.9].

Second, the *Imp-Act* research led to the formation of the *Imp-Act Consortium* in 2006. This mainstreamed the uptake of social performance management in microfinance through training and networking. The Consortium drew heavily on *Imp-Act* research findings and materials [5.1, 5.2]; therefore although not directly involved in the training, Copestake and Johnson continued through their research findings to have a significant impact on wider practice.

A key link resource was the *Imp-Act Guidelines for social performance management of microfinance*, published in 2005 in French, Spanish and Russian as well as English [5.4]. This included eight detailed Practice Notes (<http://www.imp-act.org/resources/publications/practice-notes>), six of which were drafted primarily by Copestake or Johnson. The *Imp-Act Consortium* subsequently incorporated all this material into *A Practice-Based Guide for Microfinance*, aimed at “putting the social into performance management”. This is now available in five languages, with over 100,000 downloads: <http://www.imp-act.org/resources/publications/practice-guide>.

Third, 2005 also saw the formation of the Social Performance Task Force (SPTF). This was an initiative of the Ford Foundation, CGAP and the Argidius Foundation, with the aim of mainstreaming the ideas and practices of *Imp-Act* at the global policy level. By 2012, its membership had grown to 700. As its coordinator, Laura Foose, comments: “*all of the ideas, frameworks and tools that SPTF promotes can be traced back to the Ford Foundation funded Imp-Act Programme that culminated in an international conference on social performance in Bath in 2005 and the book ‘Money with a Mission’. James Copestake and Susan Johnson both played leading roles in the conception, implementation and influence of the Imp-Act Programme and hence the idea of social performance management in microfinance.*” [5.8]

5. Sources to corroborate the impact

Impact case study (REF3b)

5.1 Mix and Imp-Act Consortium (2011) *A survey of 405 MFIs reporting to MIX in 2009-10*

Available at: http://www.themix.org/sites/default/files/MBB-%20SoPinSPReporting%20and%20Management_FINAL.pdf

5.2 Triodos Facet (2011) *External Evaluation of the Imp-Act Consortium*

5.3 Srinivasan, G., Agashe, R., and Garriott A., (2011) *Microfinance India: The Social Performance Report 2011*. Access Development Services. Available at: http://www.microfinanceindia.org/uploads/publication_link_files/spm-report-2011.pdf

5.4 Imp-Act (2005) *Social performance management in microfinance guidelines*. Brighton: Institute of Development Studies. Available at http://www.imp-act.org/sites/default/files/spm_guidelines_english.pdf also <http://www.ids.ac.uk/publication/social-performance-management-in-microfinance-guidelines>

5.5 Senior Advisor, Small Enterprise Education Programme (SEEP) Washington D.C., statement. 30 December 2012

5.6 Deputy Director, Microfinance Centre, Warsaw, statement. 14 February 2013.

5.7 Research Director, Centre for Agriculture and Rural Development (CARD) Phillippines, statement. December 2012.

5.8 Coordinator, Social Performance Task Force, Washington statement. 24 August 2011.

5.9 Group Managing Director, MicroSave (Kenya and India), statement. 18 May 2013.

Additional evidence of the impact of this research is its inclusion in the portfolio that won the Queen's Anniversary Prize (2011) for Higher and Further Education: the University of Bath for *Influential Research into Child Poverty and Support for Vulnerable People*, www.royalanniversarytrust.org.uk & www.bath.ac.uk/sps/about/queens-award/.