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MINUTES OF THE
SAVINGS & CREDIT FORUM
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Outcome and Impact Evaluation of Financial Sector Projects

For the participants of the Savings & Credit Forum
and other interested persons

Dear colleagues,

The Savings & Credit Forum of 8.12.2006 discussed the rationale for, and the methodology of impact assessment studies, but also highlighted possible alternatives to these cost and work intensive methods. It started with a clear and pragmatic methodological introduction that was enriched by two very different case studies: the first on an 'impact evaluation' of a branch opening for entrepreneurial poor of the Akiba Commercial Bank, Tanzania, and the second on the 'project-end evaluation' of the Kyrgyz Rural Finance Project of the World Bank.

Mr. Hansruedi Pfeiffer (SDC) first welcomed the participants and then introduced the speakers: Dr. Ruth Egger, former Vice Director of Intercooperation, Dr. Martin Brown, Senior Economist at the Swiss National Bank, and Mr. Hans Ramm, Teamleader at Intercooperation.

Ruth Egger started her methodological introduction with clarifications of how to differentiate between outputs, outcomes and impacts and what main analytical concepts exist in the particular context. She pointed out that impact assessment has become more important in recent years, as donors have stepped up their emphasis on accountability and strive to prove long-term effects of micro-finance projects. She also emphasized that micro-finance alone (and especially micro-credit) is not a panacea for poverty alleviation.

Ruth Egger defined impact as the positive and negative, primary and secondary long-term effects produced by a project, directly or indirectly, intended or unintended (which is the definition used by SDC). Impact assessment studies of financial sector projects thus evaluate long-term effects, such as changes in the employment rate, poverty reduction, or economic growth, but also social and behavioural changes and empowerment. She regretted that impact assessment studies do rarely analyse the reduction of vulnerability of the target group, and she attributed this to the fact that most impact studies concentrate on micro-credit and not on savings or micro-insurance.

Concerning different methodologies of impact assessment studies, Ruth Egger argued that quantitative ("scientific") studies are very time-consuming and costly. Therefore, alternatives, such as market research or participatory learning and action (e.g. case studies or focus group discussions) could often be used instead of qualitative impact assessment studies. In conclusion, she emphasised that impact studies are essential, but should be used selectively (e.g. for large-scale projects) and not too frequently (e.g. in intervals of five years). However, studies focussing on outcomes and financial, institutional and social performance measurement should be carried out on a regular basis.

Martin Brown presented an example of a cost-effective and simple impact evaluation of a group-lending scheme of a branch of Akiba Commercial Bank in Tanzania. This study had been commissioned by Swisscontact to assess the socio-economic impact of micro and small loans on the bank's clients. The study was carried out by means of interviews with members of a target group (i.e. old clients of Akiba having had access to credit for more than 12 months) and a

control group (i.e. new clients of Akiba who were not yet eligible for a loan). Both groups came from the same region and social strata. The large majority of interviewees were active in retail trade in the local market.

Martin Brown's impact study showed that access to credit led to higher levels of turnover and profit. But clients did not use the additional cash and income to increase basic household expenses, nor did they change the structure of their businesses. They simply increased the level of business operation without hiring additional personnel or investing in new assets. A part of the clients' supplementary funds went to Akiba Bank's compulsory and voluntary saving schemes. Concerning the impact on clients, Martin Brown emphasised that access to credit slightly improved the status of women inside the household. Furthermore, the loans reduced the traders' dependency on fellow traders, without weakening the information exchange among them.

Some participants expressed reservation with the results of the Tanzanian impact study in two areas: Firstly, the time horizon of 12 months is too short to allow for conclusions on the impact on clients, if impact is defined as a long-term effect. Martin Brown responded that access to affordable loans can lead to immediate increases in turnover and profit for trading companies where growing markets exist. Nevertheless, trends in income changes can only be verified statistically, if clients' financial situation can be assessed at least at three time intervals. Secondly, the positive conclusions of this study regarding income increases are case specific (e.g. the clients are 'better-off' poor) and cannot be adopted for micro-credit in general.

After a common lunch, Hans Ramm presented the more complex and cost-intensive 'project-end evaluation' of the Rural Finance Project in the Kyrgyz Republic that assessed outputs, outcomes and impacts by covering the dimension of 'effectiveness', 'relevance' and 'sustainability'. It also included a clients' satisfaction survey. The project offered (1) credit lines, (2) TA for establishing the Kyrgyz Agricultural Financing Company (KAFC), and (3) support to agricultural/business service providers. The World Bank had commissioned the study to assess (1) whether the project met its objectives, (2) the impact of rural/agricultural loans on the socio-economic situation of the clients and their business practice, and (3) whether the 'greenfield' approach of creating KAFC to develop a rural credit system on the ruins of a former socialist economy is an effective model for replication in other Central Asian countries.

The socio-economic impact on clients was assessed by different methods, such as a comprehensive survey of 480 households (including a control group), focus group discussions and individual interviews of clients, drop-outs and rejected clients. Hans Ramm concluded a positive impact in terms of moderate increases in quantity and quality of food consumption and non-food goods by client households compared to non-client households over a three-year period. The client households' income grew also significantly more compared to the income of the non-client households. More clients than non-clients introduced innovations which changed positively their business practice. The latter was attributed primarily to the 'non-financial' services.

The study concluded that clients' satisfaction was in general good, but that the rapidity of services needs to be improved and clients' transaction costs reduced. The project achieved the objective of building a sustainable rural credit system, but the 'non-financial' service providers are still far away from institutional and financial viability. KAFC has emerged as the leading financial institution with a countrywide branch organization that reaches 10% of total farm households. It has proven that agricultural lending can be profitable and thereby encouraged the market entry of MFIs and commercial banks into the rural credit market which has led to decreasing interest rates. However, KAFC can further enhance its operational efficiency by simplifying its lending technology and collateral registration procedures. KAFC has an excellent potential to pioneer rural savings mobilisation, but the ideological stubbornness of the International Monetary Fund and parts of the World Bank has blocked KAFC's licensing process so far.

Hansruedi Pfeiffer shortly summarized the key findings and conclusions of the workshop. He thanked the speakers and participants for their valuable contributions and lively discussions.

On behalf of the Financial Sector Backstopping Team of SDC
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