TOWARDS THE SUSTAINABILITY OF MICROFINANCE SERVICES: THE ROLE OF CLIENT IMPACT MONITORING

A dissertation submitted by

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ABSTRACT

Over the last few decades microfinance has become an integral part of the economic development of the less developed countries with regional governments, the multilateral donor agencies such as the World Bank and the Asian Development Bank and other donor organisations investing in the industry to build its capacity and widen the outreach. Further, the World Bank has highlighted the need to help the poor achieve self-sustainability as much more than just a social issue. In fact, in their view, the long-term financial growth of the Developed countries will be largely determined by the expansion of the Third World as their future client base. Those who are interested in economic development in the less developed countries strongly believe that microfinance will be an effective tool of alleviation of poverty and developing prosperity for the poor. For this reason microfinance is considered as one of the effective way of achieving Millennium Development Goals (MDGs).

Central to the success of microfinance is the distribution of capital from the wealthy to the poor in a manner which encourages accountability and responsibility from the recipient, while at the same time allowing donors to see appropriate stewardship of their funds. This is measured through the achievement of financial independence of the group being studied. The role of implementing agencies in facilitating this efficient and accountable transfer of capital is seen to be crucial to the ongoing development of microfinance. The interrelation between donors and these agencies requires a high degree of trust and mutual accountability, in many cases built up through years of hard work and experimentation.

The policy framework and legislative environment for microfinance is still evolving. For instance some countries are still developing the regulatory environment to monitor the transparency of the industry. Furthermore, there are some growing concerns on the level of efficiency of the delivery of microfinance in making an impact on projects or at least making an impact on alleviation of poverty. In order to

contribute to the latter, this study investigates a major microfinance operation in the Philippines to examine whether it is consistent with the wider international practices, particularly in achieving the MDGs.

The study uses a survey tool developed by the donor agency to monitor the quantitative and qualitative aspect of the microfinance operation and benchmark them against similar operations within the Asian region. The results show that, in the majority of cases, the Philippines operation has outperformed their counterparts. However, there is considerable room for improvement to maintain the sustainability of the operation.

These experiences of successes and failures need to be recorded and delineated to build on existing achievements and support an environment geared towards substantial growth in the funding of microfinance in the future. It is the intention of this study to highlight these experiences and draw attention to the very real achievements currently being experienced through some effective microfinance projects.

CERTIFICATION OF DISSERTATION

I certify that the ideas, case study work, results, analyses, software, and conclusions reported in this dissertation are entirely my own efforts, except where otherwise acknowledged. I also certify that the work is original and has not been previously submitted for another award, except where otherwise acknowledged.

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Signature of Candidate Date

ENDORSEMENT

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Signature of Supervisor Date

ACKNOWLEDGEMENTS

My motivation for engaging in this research started through meetings with the entrepreneurial poor in the rural Philippines after a number of visits to their dwellings. Their determination to overcome extraordinary challenges in maintaining livelihoods with very limited resources to make a better future for their families was the real inspiration behind this work.

There are a number of very dedicated people whose help and guidance proved essential in completing this research. Firstly I would like to thank my principal supervisor Dr. Sarath Delpachitra for his wisdom, insight and guidance over the last few years. Sarath, you gave me the confidence and self belief to keep going through the inevitable challenges confronted in work like this. I also wish to thank Dr. Martin Hovey, Professor Julie Cotter, Dr Latif Hakim and Ken Tester for their valuable suggestions.

Secondly I would like to thank the staff of TSKI in Ilo Ilo in the Philippines, where much of this research was centred. To Sarah Antognelli, who spent 12 months within this community and supervised the collection of client data. Your dedication and commitment ensured a high level of confidence in the quality of the data used.

I would also like to acknowledge the support of my parents Thomas and Valerie Virtue, who continue to inspire me to take on and overcome new challenges in all aspects of my life. To my daughter Cassandra who has grown up considerably since the inception of this work I hope this is an example to you of what can be achieved through perseverance and resolve.

Finally this work is dedicated to the millions of entrepreneurial poor living on US$1 per day who are striving to make a better life for their families and communities. This research sought to draw attention to the many people working selflessly within microfinance organisations to help people live with dignity and self-respect.

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CHAPTER 1

INTRODUCTION

1.1 The problem and its setting

Microfinance is *widely* regarded as a form of financing to alleviate poverty in developing countries in a sustainable manner. Basically, microfinance programs provide opportunities for poor entrepreneurs to establish themselves and expand their business through the provision of small unsecured loans, which may be cross-collateralised or not collateralised (McGuire & Conroy, 1999). Generally, these loans are delivered by local non-government organizations, also known as 'implementing partners' who work closely with the local community and actively manage all aspects of the loan and repayment process (Murduch, 1999). However, growing acceptance of this form of funding had led to a fair level of competition among formal institutions (such as government agencies, rural banks and cooperatives), semi-formal institutions (such as non-government\not-for-profit social welfare organizations) and informal sources (such as moneylenders and shopkeepers) for offering microfinance services.

A number of reports have been produced reviewing the effectiveness of these programs (Khandker, 1998; Llanto & Chua ,1996). Furthermore, a significant amount of resources has been allocated by the World Bank through the establishment of the 'Consultative Group to Assist the Poorest' (CGAP) in 1995, to promote the productivity and efficiency of the microfinance sector. At the Microfinance Summit held in 1997, CGAP set a goal of improving the living standards of 100 million of the world's poorest families by 2005.

The main focus of this research is to investigate the effectiveness of microfinance operation of an implementing partner of the donor agency Opportunity International (OI) named '*Taytay Sa Kauswagan Inc*' (TSKI), meaning 'Bridge to Progress', in the Philippines. The effectiveness is measured by using a tailor-made "Client Impact

Monitoring System" (CIMS). TSKI is one of the largest providers of microfinance in the Philippines and is regarded as a benchmark model for the successful microfinance delivery by the independent ratings agency; MixMarket (website MixMarket: www.themix.org)

TSKI has previously not participated in the Client Impact Monitoring System (CIMS) used by is donor agency in other parts of the world. As a Non- Governmental Organisation (NGO), OI, used CIMS as a tool of assessing and benchmarking the performance of local implementing partners receiving donations. The CIMS research has been used widely in reviewing over 3000 clients of OI in four continents and has been the principal means by which the success of their projects have been measured. It is thus essential that TSKI, as one of OI's largest implementing partners, participate in the client impact monitoring process and benchmarks themselves against the other implementing partners ensure that the objectives of the donor agency are achieved. This research attempts to synthesize the information generated through CIMS with the objective of exploring performance in terms of the impact on the clients of TSKI. It is important to note that OI adopted a policy decision that all its implementing partners use a single impact monitoring tool. Hence this study explicitly assumes that CIMS is the most preferred impact monitoring tool available.

1.2 Motivation

Microfinance has become a topic of interest to regional governments, the World Bank and other donor organisations. The management of the World Bank has recognized the need to help the poor to achieve self-sustainability through microfinance as it helps to mitigate social issues considerably. In fact, in their view, the long-term financial growth of the developed countries will be largely determined by the expansion of the Third World as their future client base (WB, 1996).

Central to the success of microfinance is the transfer of capital from the wealthy to the poor or to raised level of capital accumulated by poor through a donor-implementing partner relationship in a manner which encourages accountability and responsibility, while ensuring donors appropriate stewardship of their funds. This is measured through the achievement of financial independence of the group being studied.

The role of implementing agencies in facilitating this efficient and accountable transfer of capital is seen to be crucial to the ongoing development of microfinance. The interrelation between donors and these agencies requires a high degree of trust and mutual accountability, which in many cases, built up through years of hard work and experimentation.

If the objectives of the microfinance operation are to be efficient and sustainable, these experiences need to be recorded and delineated to build on existing achievements. The knowledge gained could then be used to support an environment geared towards substantial growth in the funding of microfinance in the future. Primarily, this study aims at highlighting these experiences in specific microfinance projects.

1.3 Key definitions

To assist in understanding the various terminologies used within this study the key concepts and organizations are defined below.

Microfinance: Microfinance has been defined as 'The provision of financial services, primarily savings and credit to poor households that do not have access to formal financial institutions' (McGuire & Conroy, 1999).

Alternatively, the Asian Development Bank offers the following definition:

"Microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and their micro enterprises.

Microfinance services are provided by three types of sources:

1. Formal institutions, such as rural banks and co-operatives
2. Semi-formal institutions, such as non-government organizations
3. Informal sources, such as moneylenders and shopkeepers.

Institutional microfinance is defined to include microfinance services provided by both formal and semi-formal institutions. Microfinance institutions are defined as institutions whose major business is the provision of microfinance services." (ADB, 2000a)

Implementing partners (IP): They are the regional organizations established to receive funding from donor/s and grant agencies and distribute to members of their community which meet their lending criteria.

Non-government organizations (NGOs): They are the institutions that are not owned or controlled by local sovereign governments and operate in the microfinance arena.

Self-help groups (SHG): They are the end recipients of donor funding; typically they are organized into a co-operative and often cross guarantee each of the member loans.

The Poor: They are defined as those family units living on less than $2US per day as defined by the World Bank who created the international poverty line in 1990 (WB, 1990). This is based on purchasing power parity (PPP) and represents the purchasing power of $1/day across countries. The upper poverty line or $2 a day poverty line is simply twice the $1/day poverty line (WB, 2000).

1.4 Research problem

There appears to be a polarisation within microfinance lending which has evolved over the last decade. The 'multi-purpose development NGOs for which microfinance is only a sub-section of wider social objectives and which are more inclined to be subsidised in their activities (eg. Swanivar Bangladesh, MYRADA in India). By contrast, 'minimalist NGOs' focus purely on financial services to the poor and tend to be more self sustaining (eg, the APPEND NGOs in the Philippines and Grameen in Bangladesh).

Another form popularly known as 'The bank-NGO-Self Help Group (SHG)-poor' credit delivery approach or ‘linkage approach’ (Llanto & Chua, 1996) appears to be becoming the preferred method of distribution. Credit filters down via organizations best able to manage the credit risk by understanding their clients’ needs and providing financial services relevant to these circumstances.

Whilst the policy framework and legislative environment for microfinance is still evolving, there are some growing concerns on the level of efficiency of the delivery of microfinance in making an impact on projects or at least making an impact on alleviation of poverty. In order to contribute to the latter, this study will investigate the following main research problem:

> “To what extent is the TSKI’s microfinance experience in the Philippines consistent with wider international practice in particular the objectives set through the Millennium Development Goals (MDGs)?”

In order to explore the above research question the study will focus on a number of linked-research problems as specified below.

1. To what extent does donor funding through the local implementing agency, TSKI, impact on the long-term financial sustainability of their clients in the Philippines in terms of 3 criteria: income, health and quality of life?
2. To what extent does donor funding particularly through Opportunity International’s (OI) worldwide network impact on the long-term financial sustainability of their clients in terms of the same criteria specified above?
3. To what extent does TSKI results (Philippines) reflect OI’s wider international experience? In particular, this study will explore the following specific questions related to TSKI’s operation.
    - i. Is there some correlation between donor funding and long-term improvements in the financial sustainability of the clients within the sample data in the Philippines?
    - ii. Is there evidence within the sample data in the Philippines of some correlation between the client’s improvement in income and their family’s health and education?
    - iii. Do the results of the sample in the Philippines correlate with the International Data (or benchmarks) provided by Opportunity

International on their other implementing partners?

1.5 Delimitations of scope

The scope of this study is limited to examining the relationship of donor funding to TSKI over a six month period through sampling three dimensions of financial sustainability (income, health, and quality of life). These results are then compared to international data for similar micro-finance organisations.

The principle source of data has been provided by Opportunity International (OI), a leader in the provision of worldwide microfinance. The Client Impact Monitoring System (CIMS) seeks to provide a snapshot as to the effectiveness of implementing microfinance organisation through the use of questionnaires to their ultimate clients. The international data summarizes a client survey of over 3000 end recipients located in four continents (Africa, South America, Asia and Eastern Europe) and offers a detailed assessment of the effectiveness of projects in very different regional situations.

The report is then sub-divided into 28 sections, which consider the impact of microfinance on clients in specific areas. This questionnaire will be repeated in the Philippines using TSKI as the implementing partner. The control sample will be compared and contrasted with international experience. A further questionnaire to the same sample of TSKI clients will be completed six months later to see if any notable trends can be detected. This time period reflects the normal length of a group loan from implementation to full repayment.

As mentioned before, due to the complexity of the subject matter, studies will be limited to assessing the performance of Implementing Partners and their clients receiving donor support via Opportunity International. Obviously as can be seen in the Chapter 6, there are a number of alternative methods available to assess the impact of a microfinance operation. However accessing such information which in most cases are commercially sensitive and confidential goes beyond the capability of a research student. Nevertheless, the sample size should provide some relevant insights to the probable experience of the wider microfinance industry and can then be compared and contrasted with other similar studies.

1.6 Process of investigation & organisation

This research explores the success of CIMS and its relevance to the microfinance industry and uses it to address the main research question, “To what extent is the microfinance experience in the Philippines consistent with wider International practice?” a particularly with regard to other OI’s implementing partners.

In order to address the sub-questions leading to the main research question, this study adopts a structured process as outlined in figure 1.1. Chapter 2 provides a comprehensive background to microfinance and the literature on microfinance. The literature first uncovers the developments in the microfinance industry and then describes some theoretical considerations related to the industry with a long list of issues, including case studies of success. The chapter concludes with a summary of research in microfinance.

Chapter 3 examines the microfinance industry through the Structure-Conduct-Performance (SCP) framework which is highly regarded in the literature on industrial organisation and used in many industry analyses. The limitation of the application of SCP approach includes its ignorance of firm’s profitability and concentration. SCP framework also ignores the long-run equilibrium of the market limiting its wider application. However these limitations are not the primary concerns for the microfinance industry and thus the use of SCP framework was preferred.

In order to contrast the microfinance operation in Philippines with the other countries, a comprehensive overview of the target organisation in this study is provided in Chapter 4. The chapter not only gives a background to its main donor agency (OI), but also presents some comprehensive information on the structure, operating procedures, outreach and the financial and non-financial performance of the operation.

The chapter 5 provides a background to the impact assessment methodology, it variations with the objective of contrasting the specific impact assessment technique researched in this study. In particular, this chapter provides a historical background to the debate on impact assessment followed by a description of current practices of impact assessment to capture both economic and social impacts using qualitative and quantitative methods with the objective introducing the concept of Client Impact Assessment methodology.

Chapter 6 revisits the research questions and outlines the research methodology adopted. In particular, it provides a detailed assessment of CIMS methodology and its application to TSKI operation. This includes a description of the development of infrastructure for data collection and process adopted for data collection and some empirical analysis of data to facilitate the discussion of results in the next chapter.

Using the process identified in the Chapter 6, the penultimate chapter provides detailed descriptive statistics and analysis of results. The chapter compares the results with the global CIMS study both quantitatively and qualitatively, in order to generate some meaningful observations on the performance of TSKI operation.

The final chapter begins with an overview of the research questions and the summary of findings. The chapter also provides a review of the implications of results and the role of CIMS in the microfinance industry along with recommendations for its future adaptations. The chapter concludes by providing a description of limitations and suggestions for future research.

Figure 1.1: The process of investigation

Introduction
(Chapter 1)
Identifies the problem and its setting, define the key terms to facilitate rationale, describes the motivation for research and explains the research problems and importance of the research and delimitation of scope

Background to microfinance Services (Chapter 2)
Provides a historical background to microfinance, the relevance of Transaction & Agency Cost Theories, funding issues for microfinance, elaborates case studies of success, illustrates some examples of self sustainable groups

The Microfinance Industry
(Chapter 3)
Provides background to the analytical tool SCP framework, analysis of the structure, conduct and performance of the microfinance industry and a discussion on the issues related to the sustainability of the operation

Microfinance Industry in the Philippines
(Chapter 4)
Covers the commercialisation of microfinance industry, institutional developments, the progress and the donor-implementation partnerships including profiling the microfinance industry in the Philippines.

The Impact Assessment (IA) Methodology
(Chapter 5)
Provides a detailed assessment of IA methodologies, the debate on relevance of IA, variants of IAs and scope of Client Impact Assessments

Research Questions and assessment Method
(Chapter 6)
Describes of the research questions, the research methodology used to address the research questions including a CIMS approach

Analysis of empirical results & discussion
(Chapter 7)
Presents the analyses of quantitative, qualitative and custom data related to CIMS and the discussion

Conclusions
(Chapter 8)
Provides a summary of findings and their implications, recommendations along with limitations and suggestions for future research

CHAPTER 2

BACKGROUND TO MICROFINANCE SERVICES

2.1 Introduction

Microfinance is defined as the provision of a broad range of financial services such as deposits, payment services, money transfers, and insurance to poor and low-income households and their micro enterprises (ADB, 2005). However, the definition of institutional microfinance does not cover the informal sources such as moneylenders and shopkeepers outlined in chapter 1. Therefore microfinance institutions are defined as institutions whose major business is the provision of microfinance services. It is commonly believed that microfinance is a vital element of efforts in poverty reduction thereby supporting the strategies of reducing income disparity and associated economic development. Evidence from many microfinance projects implemented in less developed countries indicate that microfinance has improved the access and efficient provision of credit, savings and insurance facilities to the poor to sustain their consumption, manage their risk better, facilitate the building of asset bases through development of microenterprises, enhance their income generating capacity and eventually enjoy quality of life (Robinson, 1996).

This chapter aims to present a comprehensive review of literature related to the microfinance industry. The chapter consists of six sections. The next section provides an historical overview and background to the evolution of microfinance as a means of funding the entrepreneurial poor. This section will set the foundation for the analysis of the microfinance industry using SCP framework in chapter 3. The third section explores the economic theories of transaction costs and agency risk as applied in a microfinance context. The fourth section provides some research evidence on funding issues unique to microfinance settings. The fifth section cites a number of examples of successful implementation strategies highlighted in previous work. The penultimate section provides some examples of self-help groups and the final section provides a summary of the overview provided in the chapter and a justification of its relevance to subsequent chapters.

2.2 Background to the microfinance services

The purpose of this section is to provide a brief historical overview to the development of microfinance services which is important for understanding the impact of reducing poverty, improving safety nets and promoting economic growth and development.

2.2.1 The growth of the microfinance industry

Microfinance first came to prominence in the 1980s although the earliest examples can be traced back some 10 years earlier to Bangladesh and Brazil (www.opportunity.org.au— accessed 02/05/2006). Prior to this most support to the poor was provided through targeted industry specific development lending for larger projects on a national or regional basis. This form of lending included agricultural development projects, irrigation infrastructure development project, small and medium industries development project and integrated rural development projects. This form of development lending, however, had limited impact on the improvement of day-to-day life of the poor entrepreneur whose principal source of funding would come from either family friends or the local money lender (Shaw, 1973; McKinnon, 1973).

Intense competition among the providers of microfinance services had led to rapid growth in the industry, prompting the attention of a variety of private banking institutions and integration of microfinance into their lending portfolios. This has activated the rapid growth in the industry over the last decade and microfinance has become the forefront of development discussions and framework of safety nets. Despite this growth, rural finance markets, particularly in Asia, appear to be ill-prepared for the 21st century and a study conducted by the ADB indicated that about 95% of some 180 million poor households in the Asia and Pacific region still have little access to institutional financial services (ADB, 2000). However all the stakeholders in the industry recognise that provision of microfinance services is an effective way of promoting safety nets for these countries with a large segment of population struggling with poverty.

One of the founding pioneers of microfinance was Dr Muhammad Yunus who established the Grameen Bank in Bangladesh in 1976. The organization's charter was to provide funding to the very poor rural communities through the use of small group loans. These group loans were cross guaranteed by each member of the group which assisted in providing an adequate level of peer pressure to ensure prompt repayment of the loans (Yunus, 1999).

From humble beginnings this organization became a living example of how the poor, given a fair opportunity, proved to be both bankable and able to use credit wisely. By 1998, 21% of Grameen Bank borrowers had managed to lift their families out of poverty (Khandker, 1998). Further studies have shown that this has also had a flow on effect to wider social economic issues such as schooling and nutrition (Johnson and Rogaly, 1997). Similar observations have been presented based on the other organisations such as Bangladesh Rural Advancement Committee, a microfinance NGO, in which 11% of the borrowers have lifted their social wellbeing (Khander, 1998).

This model has been successfully adapted and implemented worldwide based on regional conditions. Some examples of this can be found in South America (through the Banco Sol of Bolivia), Asia (through APPEND in the Philippines), and Africa (through the Zambuko Trust of Zimbabwe) (CGAP, 1998).

Key criteria for a lasting model identified in some of these cases included a stable economic and political environment, dedication from enlightened donors, and hands-on approach from field staff. Ownership by borrower members was also a key determinant of keeping the model effective. Similarly, over the past decade ending 20th century, without excessively targeting the poor, the '*Unit Desas*' of the Bank Rakyat Indonesia (BRI) have also assisted hundreds of thousands of households lifting themselves out of absolute poverty. Both the Grameen Bank and BRI in

Indonesia are good living examples of successful lenders (Sugianto, 1998).

According to ADB (2005), microfinance services are important for the segment of population in the developing counties for a number of reasons.

1. Microfinance services enhance the income-earning capacity of the poor and allow them to enjoy improved quality of life.
2. Microfinance services can also contribute to the improved efficiency of resources allocation, promotion of distribution through the market mechanism, adoption of technology thereby promoting growth and economic development.
3. A lack of access to institutional microfinance promotes poor people’s reliance on self-finance or money lenders and shopkeepers, which limits their ability to actively participate in and benefit from the development initiatives.
4. Microfinance can be considered as an effective way of empowering the women who make up a significant proportion of the poor and suffer disproportionately from poverty.
5. Microfinance can contribute to the development of overall financial system through integration of financial markets.

Of the above reasons listed by the ADB, access to technology, empowering women and integration of the financial system have a significant role in building the capacity of the rural communities because they all eventually increase their access to the global market environment and reap the benefits of globalization which was limited to a selected group of urban communities.

The growth of the microfinance sector also led to the establishment by the World Bank of the Consultative Group to Assist the Poorest (CGAP) in 1995.This organization, domiciled within the World Bank headquarters, acts as a coordinator and facilitator between governments, donor organizations and implementing agencies. In 1997 CGAP recommended that the World Bank ‘focus on borrower countries with appropriate financial sector policies, strong demand and a commitment to long-term financial sustainability of retail microfinance institutions’ (CGAP, 1997).

Regular conferences are held worldwide between donors and implementing partners, providing ongoing opportunities for both sides to discuss issues such as best practice techniques and suitable methods for coordinating activities on a wider scale. The reduction of duplicated effort and learning from previous mistakes are two factors identified as being crucial to the success and ongoing development of current programs, if they are to reach their full potential.

A key example was the Microfinance Summit in 1997 attended by 1500 organizations from 137 countries including heads of state. The Summit committed to reaching 100million of the world’s poorest families by 2005.The Summit Declaration stated:

‘There now exist both a substantial track record of accomplishments and a significant body of scholarly studies that together paint a picture of microfinance as a compelling antipoverty and development strategy. Taken together, these accomplishments communicate the possibility of moving toward a world freed from the blight of poverty within a length of time measured in years, rather than decades or centuries’ (MS, 1997).

2.2.2 Safety nets and microfinance

The safety nets programs aims at protecting people from the worse effects of low income and poverty by providing support by both formal and informal means. The informal means include support from the neighborhood, extended families and members of the networks supporting each other through hard times through cash, food or labour exchanges. The formal means include the social security programs offered by governments and other formal institutions which are aimed at providing an additional source of income or in-kind support (i.e. Salvation Army) to vulnerable households. Thus, safety nets are mechanisms that mitigate the adverse effects of poverty and other risks on vulnerable households. According to Grosh (1993), risk can be temporary or permanent and can be idiosyncratic, affecting specific households (such as illness or death of a bread winner) or covariate, impacting communities and countries (like natural disaster such as droughts or worsening terms of trade).

The formal safety net programs, which are the main focus in this section, have two major roles in the formulation of economic strategy. Traditionally, formal safety net programs were meant for reducing the income disparity and providing resources to the population below a particular level of income threshold to overcome poverty. The more recent focus on safety nets includes the role of helping households to manage risk. In developed countries most safety nets are formal, mostly transferring income one way or another to the needy people. This may come through welfare payments, tax concessions, and subsidized accesses to services such as health care and education. Such safety nets normally include social insurance programs such as contributory pension schemes or unemployment insurances and help the needy people to manage risk. In contrast, the poor households in most rural economies in the less developed countries mostly rely on informal means and there is an imbalance with the provisions of formal safety nets.

The protagonists of formal safety nets began to argue that micro-credit should be included in safety net programs because a major constraint to the participation and contribution to the self reliance by poor and vulnerable household was access to financial services. They argue access to financial services permits individuals and households to better manage the risks and uncertainties thereby helping them to invest in an enterprise to generate secure income, save in secure ways to cope with or insure against unexpected shocks (Grosh, 1993).

2.2.3 The failure of the traditional banking services

According to some estimates, more than 500 million of the world population needs access to the financial services. However, the traditional banking sector such as commercial banks often do not serve poor households and ignore them for reasons that include the lack of traditional collateral, high transaction costs not only in the provision but also in the process of recovery, defaults and geographic isolation implying high infrastructure and capital costs. This has left the poor households no alternative but to rely on informal moneylenders for loans or to use savings clubs, rotating savings and credit cooperatives and mutual insurance societies, either individually or as a member of the society/club. A team of researchers of MIT (MIT,

2001) argue that, in particular for poor people in developing countries, imperfections in the credit markets are quantitatively very important. Based on this argument they specified a simple model to show that the traditional banking institutions will have to incur relatively high fixed and variable costs to screen borrowers, making the loan origination a costly exercise.

Following the success of some major small and medium scale development projects of the major formal organisations such as WB and ADB in the last two decades of the 20th century, a more focused microfinance services emerged attracting the interests of donor agencies including NGOs, credit unions and non-banking financial intermediaries. They not only showed that microfinance services are an effective way to alleviate poverty but also an effective way of integrating access to financial services to the rural communities. This has led to the changes of the traditional view of the commercial banks and the private provision of microfinance services to the rural communities (such as Gami Pubuduwa of Hatton National Bank of Sri Lanka and Ceylinco Grameen project of Seylan Bank of Sri Lanka.

However some donor agencies have expressed their concerns over the entry of private banking institutions into the microfinance industry. For instance, OI expressed its concerns by stating “some global banks are now looking into retailing microfinance loans. We welcome the competition, but most global banks have a cost structure that is several times higher than most MFIs. They could flood the market for few years, find that profits generated do not meet their expectations and then exit, but not surely before seriously damaging the established MFIs in the area and destroying the local market for microcredit” (MS, 2006, p. 14)

2.2.3 The millennium goals

The dynamic nature of the growth of the microfinance sector led policy makers to believe that education, health, water and social services could be enhanced by appropriately designed saving and loan services highlighting the role of microfinance. This in turn contributed to the integration of microfinance with the MDGs of poverty alleviation thereby making microfinance a central development strategy. These millennium development targets are to be achieved by 2015. The details of MDG targets and their measurement indicators are given in the Appendix I.

How does microfinance contribute to the MDGs? According to CGAP (2003), extensive evidence demonstrates that micro finance:

- *Eradicate extreme poverty and hunger*: helps to reduce poverty through increase in income, allowing the poor to build assets and reduce their vulnerability.
- *Achieve universal education*: enables households that have access to microfinance to spend more on education than non-client households. Improvements in school attendance and the provision of educational materials are widely reported in microfinance households. Participation in credit and savings programmes has enabled many families to send several children at a time to school, and has reduced drop-out rates in higher primary grades
- *Promote gender equality and women's empowerment*: since clients are overwhelmingly female, microfinance has been widely credited with empowering women by increasing their contribution to household income, the value of their assets, and control over decisions that affect their lives.
- *Reduce child mortality, improve maternal health, and combat disease*: contributes to improved nutrition, housing, and health, especially among women clients.

Based on the initials goals set up in the late 1990s, two new goals were adopted in 2006.

1. To ensure that 175 million of the world's poorest families, especially the women of those families, are receiving credit for self-employment and other financial services and business services by 2015.
2. Working to ensure that, from a starting point of 1990, 100 million of the world's poorest families move from below US$ 1 a day adjusted for Purchasing Power Parity (PPP), to above US$ 1 a day adjusted for PPP.

Whilst some argue that the above goals are impossible to achieve others challenge the need for setting bold impossible targets (MS, 2005). Regardless of the appropriateness of the goals and outcomes yet to be observed, the goals highlight the role microfinance can play in the decade to come. However some evidence such in the case of Grameen and BRI, have proved fears of setting targets were unfounded.

2.3 Transaction and Agency Theory

Having considered the key background issues for the study we shall now turn to discuss the main academic theories that are relevant to the practical application of microfinance.

2.3.1 Transaction Cost Theory

One of the fundamental issues within microfinance development is the effective application of transaction cost theory. Ronald Coase contended that without taking into account transaction costs it is impossible to understand properly the working of the economic system and have a sound basis for establishing economic policy (Coase ,1937). More specifically there are three types of costs.

1. Search and information costs
2. Bargaining and decision costs
3. Policing and enforcing costs

Coase argued that when a company tries to determine whether to outsource or to produce goods or services on its own, market prices are not the sole factor. Since the above costs are significant, they frequently determine whether a company uses internal or external resources for products or services. This is the essence of the make-vs.-buy decision. These costs vary widely depending upon the industry concerned. It has been suggested by Llanto and Chua (1996) that third world microfinance endeavours are characterised by high transaction costs due to the low value of each loan; the difficulty in identifying appropriate potential customers and a perception within the banking sector of a high default rate.

Case studies investigating implementing partners and self-help groups have been valuable in expanding the knowledge of applying microfinance at grass root levels. Detailed calculations have been produced showing the breakdown of transaction costs by sub-function (Murduch, 1999; Moseley, 2001; Llanto & Chua 1996). Based on this method, a modified breakdown of transaction costs in a microfinance setting has been identified by the following equation.

$$C_T = C_L + C_M + C_A + C_O + C_D \qquad 2.1$$

Where, C_T is the lender transaction costs, C_L is the lending cost of funds, C_M is the mobilisation costs, C_A is the general administration costs, C_O is the other operational costs and C_D is the default costs (Llanto & Chua, 1996). There remains a high fixed cost associated with the financing of both implementing partners specifically and non-government organizations more generally, with operational losses being subsidised by external financing whether by a regional government or donor funding. (Conroy, Taylor & Thapa , 1995).

Transaction theory would suggest that as these organizations grow in experience and scale, then the actual costs of distribution should decline due to greater efficiencies and lower default rates (ADB, 2000). Further, Porter (1990) argues that these efficiencies will only manifest themselves through competition, specifically pressure and proximity. He claims that the process of modifying strategy frequently involves unsettling, sometimes wrenching, organisational adjustments. The behaviour required to sustain advantage then, is in many respects an unnatural act for established firms. Few companies make significant improvements and strategy changes voluntarily; most are forced to. The pressure to change is more environmental than internal.

In many cases the alternative funding for local microfinance entrepreneurs is from informal local lenders charging prohibitive interest rates sometimes on a daily basis. It could be argued that some implementing agencies still fail to charge a competitive rate of interest to meet their transaction costs , and in fact their client base with little alternative of competitive funding could be charged more (Llanto & Chua, 1996).

In an Australian context; Valentine (1994) considered in depth different methodology for recouping costs based on both a full mark up equation and a user pays basis. The principle being that where there is limited competition for funds, there is a low elasticity of demand and hence lending rates can rise. A key aspect of pricing policy requires instructions to accurately assess their cost base and allocate and price their lending facilities accordingly. These aspects are relevant to microfinance operation as well.

Benchmarking the performance of implementing partners against industry best practice will assist in identifying structural weaknesses within these organizations and help in developing a remedial program to correct deficiencies. The application of accepted economic strategy in managing transactions and ancillary costs is paramount in achieving an optimal outcome for all concerned (Porter, 1996).

The vast majority of implementing partners fail financially due to high fixed costs, lack of scale or poor lending practices. Until these systemic failures are identified and addressed the microfinance market will remain a cottage industry with little to offer the commercial banking sector it so desperately seeks (Conroy, Taylor and Thapa, 1995).

Weak implementing partners intuitively lead to fragmented end clients who have their own financial challenges without having to worry about the viability of their finance provider. This leads to de-motivation of clients to repay loans and the loan officers whose job it is to enforce this.

2.3.2 Agency Theory

Agency theory deals with the issues of the principal-agent problem which are quite relevant to the majority of ongoing microfinance partnerships. In economic theory, the principal-agent problem treats the difficulties that arise under incomplete and asymmetric information when a principal hires an agent. The principal may use various mechanisms to align the interest of the agent with those of the principal; i.e. piece rates/commissions, profit sharing and efficiency wages. Principal-Agency theory explains how to best organise relationships in which one party (the principal) determines the work, which another party (the agent) undertakes (Eisenhardt, 1989). The theory is also applicable when there is uncertainty. Under uncertain environments, in most business settings, two agency problems such as adverse selection and moral hazard may arise. Adverse selection is the condition under which the principal cannot ascertain if the agent accurately represents his ability to do the work for which he is being paid. Moral hazard is the condition under which the principal cannot be sure if the agent has put forth maximal effort (Eisenhardt, 1989).

2.3.3 Transaction Theory vs. Agency Theory: a comparison

This section compares the perspective of transaction cost theory with agency theory using a business case of microfinance unitization based on their application to other industries (See Kim & Mahoney, 2005). Table 2.1 provides the general distinctions between the theoretical perspectives in terms of:

1. unit of analysis,
2. focal dimension,
3. focal cost concern,
4. contractual cost,
5. theoretical orientation,
6. strategic intent and
7. sources of market friction.

Table 2.1: Transaction Costs Theory Vs Agency Theory

Item	Transaction Theory	Agency Theory
Unit of analysis	Transaction	Principal-agent contract
Focal dimension	Various types of assets specificity	Incentives
Focal cost concern	Mal-adaptation & holdup problems	Residual loss
Contractual focus	Choice of (*ex post*) governance - mechanism	Ex ante incentive alignment & monitoring mechanisms
Theoretical orientation	Comparative assessment	Constrain optimization
Strategic intent	Shareholder view	Shareholder view
Sources of market friction	Bounded rationality, uncertainty, information asymmetry, opportunism and asset specificity.	Information asymmetry, un-observability, risk aversion (by agents)

Source: Kim & Mahoney, 2005 (P. 26)

Based on Kim & Mahoney’s classification, the relevance of above theoretical points and their application to microfinance industry is compared in Table 2.2.

Table 2.2: Application of Transaction Cost Theory and Agency Theory to Microfinance

Item	Transaction Theory	Agency Theory
Unit of analysis	Individual unitization Contractual transaction	Donor (principal) Implementing partner (agent)
Focal dimension	Interdependence funding decision (donors decision on project selection)	Incentives of unit operators (implementing partner) may diverge from other donors (i.e. softer terms of funding)
Focal cost concern	Mal-adaptation costs Potential (strategic) holdout	Cost of monitoring and residual loss from imperfect incentive alignment
Contractual focus	Choice of efficient governance mode	Implement monitoring mechanisms
Theoretical orientation	Comparative assessment; choice between (imperfect) discrete structural forms	Theory of the second best optimal contact in the presence of constraints; information asymmetry and non-obervability
Strategic intent	Shareholders view: minimise transaction cost in order to create shareholder value	Shareholder view: (utility maximization: maximize pay of in terms of objectives)
Sources of market friction	Information asymmetry in evaluating productivity	Imperfect observability

The unit of analysis in agency theory is interpreted as the principal-agent contractual relationship. In contrast, transaction cost theory considers the dimension of the transaction itself. Thus agency theory places greater conceptual emphasis on the economic incentives of the contracting parties within the context of the principal-agent relationship. Agency theory can be interpreted as the business case from the economic perspective of the implementing agency. The key productive resource is the donor’s capital and not the microfinance capability of the implementing partner. If there are economic benefits to offer microfinance as a donor-implementing partner team, then, under agency theory, there is a strong incentive for unitisation. By contrast, transaction cost theory deals with the choice of organizational form for matching transactions that have certain transactional characteristics with appropriate governance mechanisms. (Hennert, 1993;

Williamson, 1996). The strong interdependence between microfinance projects means transaction by one implementing partner with a particular donor can have an impact on another implementing partner.

As can be seen from table 2.2 transaction theory provides a choice of efficient governance for the donor while agency cost theory allows the donor to implement monitoring mechanisms. Similarly, under transaction theory, the objective of the shareholders (donors and members of their contributory network) is to minimise transaction costs thereby maximising the investment on a particular microfinance project. By contrast, under agency theory, the strategic intent of the shareholders is to maximise the utility or payoff in terms of the objectives of various interest groups and contracting parties attached to the donor.

2.3.4 The relevance of theories to a microfinance institution?

How do the above theories affect a grass-root level microfinance institution? For microfinance operations to be successful attention is required at a senior management level to minimise potential agency costs through clearly documented procedures. The very nature of small loans, lent via self help groups and monitored by travelling loan officers, means that there is significant opportunity for both adverse selection and moral hazard to be present.

In essence each loan officer is running a local franchise of the implementing partner and enjoys considerable autonomy. A key component of overcoming agency risk is strong information systems at a head office level which can detect undesirable activities at an early stage (Lal, 1990)

Further evidence has shown that monitoring costs increase with the distance between the principal and the agent (Norton, 1988).These costs include traveling time and the opportunity costs of being away from Head Office .Accordingly it has been argued that implementing partners perform better financially when their client base operates in close proximity to their premises (Carney & Gedajilovic, 1991)

Possibly the most original and timeless thought on agency risk was by Adam Smith

(1776), who in observing the failures of dozens of companies in his era, concluded that only organizations capable of close monitoring of their activities would succeed when all the operations are capable of being reduced to what is a routine, or to such a uniformity of method as admits little or no variation.

Agency theory extends to the appropriate use of incentive systems to encourage positive behaviour by front line staff in achieving the organisation's overall objectives. In microfinance organizations this can include additional financial rewards to loan officers and regional managers for good lending and collection performance. As these organizations operate in a competitive employment environment, the capacity to reward and retain key local staff members is seen as paramount in the financial sustainability of the implementing partner (Conroy,Taylor & Thapa, 1995).

Reviewing the background theory of transaction costs and agency risk applied in a microfinance setting, research questions can be formulated to determine the extent to which these theories are valid in an operational setting.

Intuitively transaction costs should reduce as implementing partners grow in experience and achieve greater scale. This should be reflected in greater efficiency as measured by improved cost to income ratios and lower bad debt write offs.

Transaction costs should also decline at the local self help group and individual level as additional loans are provided, building on the previous commercial experience gained and the successful repayments of earlier loans. These propositions can be quantified through back-testing existing data by implementing partners and feedback questions to the end borrower.

2.3.5 Relevance of theory to focus of the study

Transaction cost theory and agency cost theory have been adopted by several other industries to highlight their relevance (see. Kim & Mahoney, 2005; Williams & Fellaman, 2006). The importance of providing microfinance efficiently to those with limited or no income and the importance of providing access to the estimated millions of people without access to institutional microfinance, demand stronger microfinance networks offering the most cost effective processes. Higher costs (both transaction and agency costs) translate directly to less economic development and slow recovery from poverty. The principal-agent model provides the policy makers a basis for assessment of the impact of the microfinance operations. This research will add to the existing body of knowledge in identifying the successful characteristics required throughout the distribution chain of microfinance in minimising both transaction and agency costs. It will also help in the strategic planning of local implementing partners as they seek to introduce best practice policies and procedures to their organizations.

Following on from having clarity as to what characteristics an effective implementing partner should exhibit one can then consider the effectiveness of their programs to the clients. Ultimately this needs to be quantified through statistical analyses of the results of the lending process to the poor. From a research perspective, one needs to answer the question: what is the link between microfinance and the reduction in poverty of its recipients?

For the purposes of these analyses we shall focus on three key performance indicators measured over a 12-month period. This time period has been selected based on the previous international research available and from which this sub sample will be compared with. As most loans are structured for repayment over a 6 months period, this has provided adequate time for participants to assess the economic value of the financial facilities offered. These outcomes should be consistent with the mission statements of the implementing partners, but must be measurable to provide meaningful feedback into the success or otherwise of these programs.

2.4 Funding issues for microfinance projects

2.4.1 Commercial efficiency relative to social responsibility

One of the key challenges for implementing agencies is to balance the need for active intervention of a humanitarian nature in client circumstances with the need for their operation to be financially self sustainable. It has been suggested that no more than 1% of NGO programs worldwide are currently financially self-sustainable, with only a further 5% having the future potential to achieve financial autonomy. The remaining 95% will merge, close down, or rely on external subsidies (McGuire & Conroy, 1999).

Thus a key question when considering the use of microfinance as a tool of poverty alleviation is whether the financial sustainability of an implementing partner is a mandatory requirement of success; or alternatively whether subsidisation should be acceptable as long as the financial service needs of the poor are met.

The literature presents two distinct types of emerging NGOs. The ‘multi-purpose’ NGOs for which microfinance is only a sub-section of wider social objectives and which are more likely to be subsidized in their endeavours; particularly by their local government. By contrast ‘minimalist’ NGOs focus purely on financial services to the poor and tend to be more self-sustaining.

The protagonists of the ‘minimalist’ camp offer the following key distinctions for why self sustainability is not just desirable but essential for implementing agencies:

1. Capital from existing donors is limited. So, to achieve adequate scale to reach a significant percentage of the potential market; commercial funding will become mandatory. In general, commercial banking institutions will only lend to financially viable implementing partners with a sound financial track record. Previous examples of poor management may lead to a reduction in donor support for future projects due to a lack of confidence.
2. Subsidized programs do not have the same imperatives of efficiency and commitment to regular repayments as commercial ones and this may lead to sub-optimal behavioural characteristics from borrowers.
3. Inappropriate clients may be acquired and driven by lower interest rates and poor financial supervision rather than a commitment to build a sustainable business (CGAP 1997; McGuire & Conroy, 1999).

By contrast the ‘multi purpose’ camp comment that it is quite appropriate for external financial intervention to take place to ensure that the poor are properly serviced. The Grameen Bank is an example of an organisation which, while clearly meeting its mandate of poverty reduction in its community, remains reliant on government grants and subsidies (Murduch, 1999).

It is claimed that Grameen’s reported successes have been exaggerated, but even if the bank is not the economic miracle that many have claimed, it is not obvious that its failure to reach self-sufficiency is in itself a problem. As long as benefits sufficiently exceed costs and donors remain committed to the cause Grameen could hold up as a wise social investment (Murduch, 1999).

Murduch then considered two of the most financially successful implementing partners in the world; Banco Sol in Bolivia and BRI in Indonesia, both of whom had received substantial government support in their formative years. These organizations tended to lend to the richest of the poor, who were more able to utilize this funding and were clustered above the poverty line. It was estimated that only 29% and 7% of borrowers respectively from these institutions actually lived below this level (Hulme & Moseley, 1996).

The ‘multi purpose’ supporters maintain that a good balance of financial stimulation from donor agencies coupled with capable management creates an environment where wider social objectives are achieved and that demanding strict repayment from recipients may be short sighted and counterproductive. A sensible cross subsidization may be preferable to a hard-headed commercial repayment system of the developed countries, introduced into a traditional culture of short-term survival. Thus, these institutions have a double bottom line; in addition to a financial objective they also have a development or social objective (CGAP, 2004).

The above issues are not unique to microfinance. Governments have to continually make political judgments as to budget surplus or deficit policy. Similarly commercial business needs to consider investment opportunities and then allocate sufficient resources over an agreed time period to gain benefit from their strategy. Perhaps the greater issue is how long an implementing partner can be cross subsidized before this situation becomes untenable. This issue is in part determined by the objectives of the funding parties and particularly where there is regional government influence aimed at achieving wider social goals.

Donor group representatives suggest that this self-sufficiency should occur within 5 to 10 years (Committee of Donor Agencies, 1995); although, of the 49 partners surveyed in the Asia Pacific region, only 6 were financially self sufficient, of which 2 had a high percentage of genuinely poor clients (Getubig, Remenyi & Quinones, 1997). This debate between commercial sustainability and social intervention remains one of the key theoretical and philosophical issues facing the microfinance movement.

2.4.2 Commercial sources of capital vs. donor funding

The discussion in the previous section dealt with the issue of efficiency and equity. The sourcing capital for microfinance activities also has been a subject of constantly debating. Despite the best endeavours of the microfinance pioneers to reach poor entrepreneurs in their penetration of the potential market, level of access to the poor remains modest. To achieve CGAP stated objectives of reaching 100 million of the world’s poor by 2005, it is becoming increasingly apparent that commercial intervention will be required to accelerate the process.

This leads to another major controversial issue, the intervention of the commercial sector to meet the financial service requirements of the poor. Some critics complain that it is immoral to make money out of people who can least afford to pay for it and that in certain circumstances inappropriate lending can have an adverse affect on those financial situations (Hulme & Mosley, 1996).

The argument continues with a view that the primary purpose of microfinance is to provide funding to the ‘poorest of the poor’ and that donor funds should be requested to meet any operating shortfalls (Schreiner, 1999; Christen, 1995). The advocates of this policy complain about a ‘mission drift’ of implementing partners. They claim that the pursuit of profitable undertaking effectively freezes out the very poor from receiving loans in an acceptable form and the social values around which such organisations establish themselves are diluted; they become indistinguishable from traditional banking institutions.

Against this background there have been tentative efforts by the commercial sector to become involved in microfinance as a core business activity. One of the most notable examples of retail microfinance can be seen in Sri Lanka through the work of the privately owned Hatton National Bank. In this program a barefoot banker (Game Peabody Upadeshaka-GPU) visits the local community and establishes funding for local community based projects (www.hnb.lk).

However, activities of this type are as yet only of a pioneering nature and will need to be up-scaled rapidly if they are to be statistically relevant in reaching the poor. For example, the Hatton Bank had 4 400 loans outstanding with a value of $1.3 million as at 1996 (Church, 1997). By contrast Bank Rakyat Indonesia (BRI) remains the largest commercial bank operating in the Asian region with 2.5 million loans outstanding to the value of $1 700 million. Yet it remains state owned and also has the best financial results of any microfinance organisation worldwide (FDC, 1998).

The issue of government intervention in encouraging commercial involvement in the microfinance sector varies widely based on political philosophy. Variations can include direct ownership through to artificially fixing interest rates and mandating a determined percentage of funds to be targeted to disadvantaged groups. For example, in the Philippines the Magna Carta for small enterprises requires banks to allocate a minimum of 8% of their loanable funds to small and micro businesses. In some countries this has led to allegations of political interference which has further undermined and disadvantaged the very people that were meant to benefit from the opening up of the credit market.

Fundamentally, commercial organisations have a responsibility to their shareholders and therefore should only lend in a prudent and profitable fashion. This makes it difficult for mainstream financial institutions to lend to microenterprises (Otero & Rhyne, 1994). A more realistic strategy is to lend wholesale funds to reputable local implementing agencies that on lend these funds at a retail level to local self-help groups.

Lending on a wholesale level slashes transaction costs, increases loan size and reduces the likelihood of default due to better local underwriting. This practice creates enough scale to become a profitable commercial activity and can create the leverage required to impact on a meaningful segment of the target market (Conroy, 1998).

For this type of practice to be viable, a rating system for implementing partners has been introduced to objectively assess the credit worthiness and financial stability of the participants. This will also help larger financial institutions and donor bodies to readily identify and focus their attention on the more successful agencies, which in turn should reduce both their transaction costs and bad debt ratios. It should also serve to act as a catalyst to substantially increase the volume of funds available for distribution through microfinance lending (CGAP, 1998).

2.4.3 The appropriate level of funding to the very poor compared to grants

One of the most contentious debates within the microfinance network is the distinction between loans to be repaid and grants for social and community development. Polarisation exists between the ‘sustainability camp’ who regard the financial sustainability of the implementing partner as the key measurement of success, and the ‘targeting the poorest’ group who by their very nature are less profitable due to factors of higher business risks and lower volume.

This debate is reflected in the position of two of the main institutions involved in broadening the microfinance service. CGAP continues to move to a greater emphasis on addressing poverty and deepening outreach while the Microcredit Summit places increasing reliance on financial sustainability and strong financial management (Wright & Dondo, 2004).

Perhaps non-economic lending should be reserved for regional governments and agencies in the form of grants rather than trying to persevere with implementing agencies who, while well intentioned, show little inclination to balance their loan books to achieve a degree of financial sustainability.

Good examples of governments taking an interventionist approach include Indonesia where BRI has 2.5 million borrowers and 16 million savers (Baydas, 1997). BRI is semi government owned and has managed to balance the social needs of its clients with strong profitable performance.

However, by contrast the interventionist approach in India, where some loans provided by the government have been written off, has led to higher defaults among commercial implementing partners. Other examples of governments fixing interest rates at artificially low levels have also undermined the integrity of the banking system leading to higher default levels (Goodwin–Green, 1998).

The key distinction here is to clearly separate grants for emergency short-term purposes such as relief related activities from long term financial provision to sustainable communities. Mixing the two has been seen to be counterproductive and acts to undermine the significant achievements of well targeted strategic loans.

2.5 Case studies of successful implementing agencies

There appears to be a polarisation within microfinance lending which has evolved over the last decade. The ‘multi-purpose development NGOs’ for which microfinance is only a sub-section of wider social objectives and which are more inclined to be subsidised in their activities (eg. Swanivar Bangladesh, MYRADA in India). By contrast, ‘minimalist NGOs’ focus purely on financial services to the poor and tend to be more self sustaining (eg, the APPEND NGOs in the Philippines, Grameen in Bangladesh).

The alternative ‘The bank-NGO-Self Help Group (SHG)-poor’ credit delivery approach or ‘linkage approach’ (Llanto & Chua, 1996) appears to be becoming the preferred method of distribution. Credit filters down via organizations best able to manage the credit risk by understanding their clients’ needs and providing financial services relevant to these circumstances.

While lending methodologies need to be adapted to the local environment there are a number of key strategies common to all successful microfinance institutions (Otero & Rhyne, 1994).

1. They know their market; organize self-help groups and offer loans in a convenient fashion without a great deal of individual underwriting. In general group lending cross guaranteed has improved efficiency through multiple loans while reducing arrears through peer pressure.
2. They keep their costs as low as possible with simple repeatable administration systems;
3. They ensure high portfolio quality through actively managing and providing incentives to their clients with the potential for future lending.

A survey completed by Banking With The Poor selected NGOs in 8 Asian countries who met strict selection criteria (BWTP, 1991). From this the following principles were established:

1. Target only the poor through means testing
2. Organise self help groups (SHG) to help themselves
3. Adequately train members in bookkeeping and group accountability
4. Respect their autonomy
5. Ensure loans are cross collateralised and encourage peer pressure to repay
6. Minimal documentation to reduce transaction costs
7. Charge market rates on credit and pay commercial rates on savings

While current evidence from TSKI would support the premise that these principles are being adhered to within the agency; part of the proposed research will seek to challenge these principles against the actual experiences on a local level. Reviewing the agencies' policies and procedures and selective interviewing of local staff will assist in assessing the effectiveness of the agency when compared to its peers.

Where these principles have been adhered to, NGOs have shown the capacity to become self-sustaining over time. A summary of key data from leading worldwide NGOs has been produced by the micro-banking bulletin and shows that BRI of Indonesia, which receives considerable Government assistance, dominates by size of assets, loans and savings clients. Indeed, there is clear evidence to support the premise that government involvement in at least creating a supportive business environment is essential for NGOs to be viable (ADB, 2000).

One of the obvious conclusions from this data is the need for NGOs to reach a critical mass of operation to cover their fixed costs. This may require further mergers within these organisations to reduce Head Office costs and improve scale. At an operational level the individual loan officer should be able to handle 300 clients based on the Grameen model, although in practice client numbers are a lot lower in developing NGOs (Chua, 1998).

One interesting example of the successful retail commercialisation of microfinance can be seen in Sri Lanka through the work of the privately owned Hatton National Bank. In their program a barefoot banker (Game Pubuduwa Upadeshaka-GPU) visits the local rural communities and establishes funding for community based projects. He is responsible for liaising with the local leaders in the community, approving the funding and monitoring the repayments. He then reports to the local branch manager of the bank. Interestingly, the Hatton Bank seems more flexible in its repayments approach and deals with its clients on more typical needs based commercial arrangement rather than on any predetermined one. This may be a product of operating in a relatively small community where they have had a trading presence for over 100 years (Hatton National Bank website: www.hnb.lk – accessed 12/05/2006).

2.6 Examples of self sustainable self help groups (SHGs)

The major feature of the growth of microfinance industry in many developing countries is contribution from NGOs. Furthermore some NGOs have become and continue to be the dominant source of institutional microcredit (ADB, 2004). For instance the statistics of the ADB, in Bangladesh alone 656 NGOs had 9.46 million active loan accounts with an outstanding total loan amount equivalent to US$513 million at the end of 2002 (CDF, 2003). The Bangladesh Rural Advancement Committee (BRAC) disbursed US$294 million in loans to some 2.9 million clients during 2002, while the Association for Social Advancement (ASA) in Bangladesh also disbursed about US$345 million during 2003 and had about US$2.13 million active borrowers at the and of 2003 (ADB, 2004).

The real test of the effectiveness of microfinance is its impact on the quality of life of the people it seeks to serve; those living below the poverty line. There have been a number of studies conducted at grass roots level to ascertain the effectiveness of microfinance (Pitt & Khander, 1995; Llanto & Chua, 1996).

In the Philippines, Llano & Chua (1996) conducted in-depth studies on two Philippine NGOs namely, ASKI and KMBI, to further examine their lending practices and the borrowing profile of their clients. The mechanics of lending in these NGOs consist of the following:

- A screening and approval approach where individual borrowers complete a one-page summary of their business plan including costs, revenues, profit and funds required. These proposals are then reviewed and amended by the self-help group before being approved. These loans are cross-guaranteed by all members of the local SHG. Cheques are then issued by the NGOs to the borrowers.
- Loan collections were made on a weekly basis via the SHG meeting with the group funds passed onto the NGO field officer for banking. Each group appointed a chairman and secretary to coordinate and oversee these activities. In the case of individual member default these appointees would seek to resolve these issues with the member in question.
- Record keeping was provided at an individual borrower, group, centre level (SHG) and at the NGO. There were also records for group and centre savings. These were recorded in individual borrower passbooks, weekly collection sheets and centre funds ledgers (Chua et al., 1996).
- Borrowers for the ASKI project were mainly from Palayan city, the

Philippines. After the first year the subject group had 129 beneficiaries of whom 92% were female and 96% were married. All beneficiaries before joining the centre had annual incomes below Ps 48 000 (US $153) with 20% earning less than Ps 12 000. The official poverty line threshold in 1991 was Ps 42 472 per annum based on a family of seven. Therefore 87% of the sample formally fell below the poverty line with the remainder just above.

- The sample was reviewed one year later with income showing an upward shift with only 3% earning less than $12 000, and the group as a whole showing incremental improvements in their earnings. The funds received were used to expand existing businesses in 41% of the sample, while the rest was used to establish new ventures.

A similar exercise was completed on the KMBI project based in Valenzuela. There were 80 borrowers in the survey of whom 89% were women and 85% were married. 83% of the respondents had income below Ps 60 000 at the commencement of the project, while 80% indicated income above Ps 60 000 some 12 months later (Llanto & Chua, 1996).

KMBI were the main source of credit for 92% of the group. Reasons given (multiple responses) for this included: acceptable interest rates (96%); easy repayments (80%); free and good investment advice (68%); supportive organization (68%); and no collateral required (54%). The funds were used: to expand existing businesses (64%), to establish new ones (16%); and to maintain existing businesses which may have included some refinancing paying out the local money lender.

In both of these examples, while the sample population qualified as being poor, they had enough resources to make the loans viable to service through some business entrepreneurship. This was supported by using a group lending model which eliminated the need for collateral and reduced the loan transaction costs by gaining economies of scale. Finally, repayments records of 98% were consistently achieved using weekly meetings and follow-ups to encourage prompt payment.

A high repayment rate has in general been a highlight of well run microfinance

NGOs which again shows the potential for future commercialisation. This is in part due to the low loan size and short repayment periods which are six months principal and interest. Thus potential bad debts are spotted early and remedial action can be taken to correct this. As the members live in close proximity on a daily basis peer pressure quickly identifies and weeds out delinquent participants.

2.7 Summary

Microfinance services are becoming an increasingly popular tool of poverty alleviation. The policy makers, regulators, donors, implementing partners and all others who are involved in poverty alleviation, economic growth and development have formed a common opinion that microfinance is an essential safety net element. The traditional banking sector did not wish to be involved in the initial stages of the development of this industry due to some concerns about the strategic, operational, and economic issues affecting their businesses. For this reason the microfinance sector was left with the NGOs. Over time NGOs began to flex their muscles providing microfinance services in many countries, prompting the interest of traditional banks in retail microfinance services. Interestingly, over the last two decades NGOs have transformed themselves into regulated financial institutions to face the stiff competition from the private banking sector. This growth in the industry has transformed the microfinance industry from a group of welfare institutions to a formal industrial organisation that could be analysed using the SCP approach which will be described in the next chapter.

The chapter also highlighted the role of transaction cost theory and agency cost theory on the microfinance industry. In economic terms, the nature of the microfinance donors and implementing partners can be interpreted as a principal-agent relationship. In order to maintain the sustainability while expanding the outreach, the industry needs consideration of the transaction costs and agency costs. In such situations impact assessment will have a significant role in the strategic intent under both theoretical contexts. This formed the foundation for the impact assessment study to be described in Chapter 5.

As in many other industries, the microfinance industry also has its inherited issues. Among them funding issues appear to be prominent. These issues also led to two camps of microfinance activists. However, as mentioned in the beginning of this section the role of microfinance in poverty alleviation is undisputable with some evidence of successful microfinance operations with a record of improving the living standards of the poor in less developed countries.

CHAPTER 3

THE MICROFINANCE INDUSTRY

3.1 Introduction

As discussed in Chapter 2, the literature on microfinance presents two distinct groups of emerging NGOs. The multi-purpose group which considers microfinance as only a sub-section of wider social objectives and they are more likely to be subsidised in their endeavours; particularly by their local governments. By contrast the minimalist group focuses purely on financial services to the poor and tends to be more self-sustaining. Regardless of this division a number of policy makers, analysts and other observers consider microfinance as an industry and there is a potential for commercialisation. Thus, there is a possibility of analysing the microfinance industry using a theoretical framework which is primarily concerned with a market solution to the economic problem of what; How much and to whom; a given product/service is to be produced/provided.

The emergence of new microfinance providers (including traditional banks engaged in the provision of retail and wholesale microfinance services), the outreach and the integration of business services such as Business Enterprise Development (BED) and microinsurance have led to changes of the market structure of the microfinance industry. Such changes in the industry may have impacted on both the degree of competition for the provision of microfinance and the efficiency of the providers.

The purpose of this chapter is to examine the microfinance industry using a widely regarded methodology, Structure-Conduct-Performance (SCP), which is commonly used in the analysis of the financial services industry. The users of this analysis generally believe that the structure of the market determines the conduct of the sellers and the conduct in turn determines the performance or efficiency of the market (Clarkson and Miller, 1985). The features of the market structure such as buyers and sellers concentration, product differentiation and barriers to entry are expected to have the most influence over market conduct. The chapter also analyses special factors and industry practices including the principal-agent relationship which was outlined in Chapter 2.

This chapter consists of six sections including the introduction. The next section provides a brief review of literature related to the SCP framework and its relevance to the microfinance industry. The third section examines the structure, conduct and performance of the industry taking a number of microfinance projects in the Asian, African and Latin American regions. The fourth section compares the microfinance industry with the banking industry using the SCP framework. The penultimate section analyses the issues related to the sustainability of the microfinance operation with particular emphasis on the need for impact assessments. The final section provides a summary of the contents covered in the chapter.

3.2 Background SCP framework

The purpose of this section is to provide a brief historical overview to the development of the SCP framework and its variants and alternative frameworks with the objective of providing a justification for the selection. Although this framework has been established for analysis of firms, it can just as easily be applied to microfinance entities. This is because the treatment of the firm is flexible enough to allow microfinance entities to be treated as firms for the purpose of this analysis and these firms have the potential to represent the financial data relating to a specific activity within a well-defined industry.

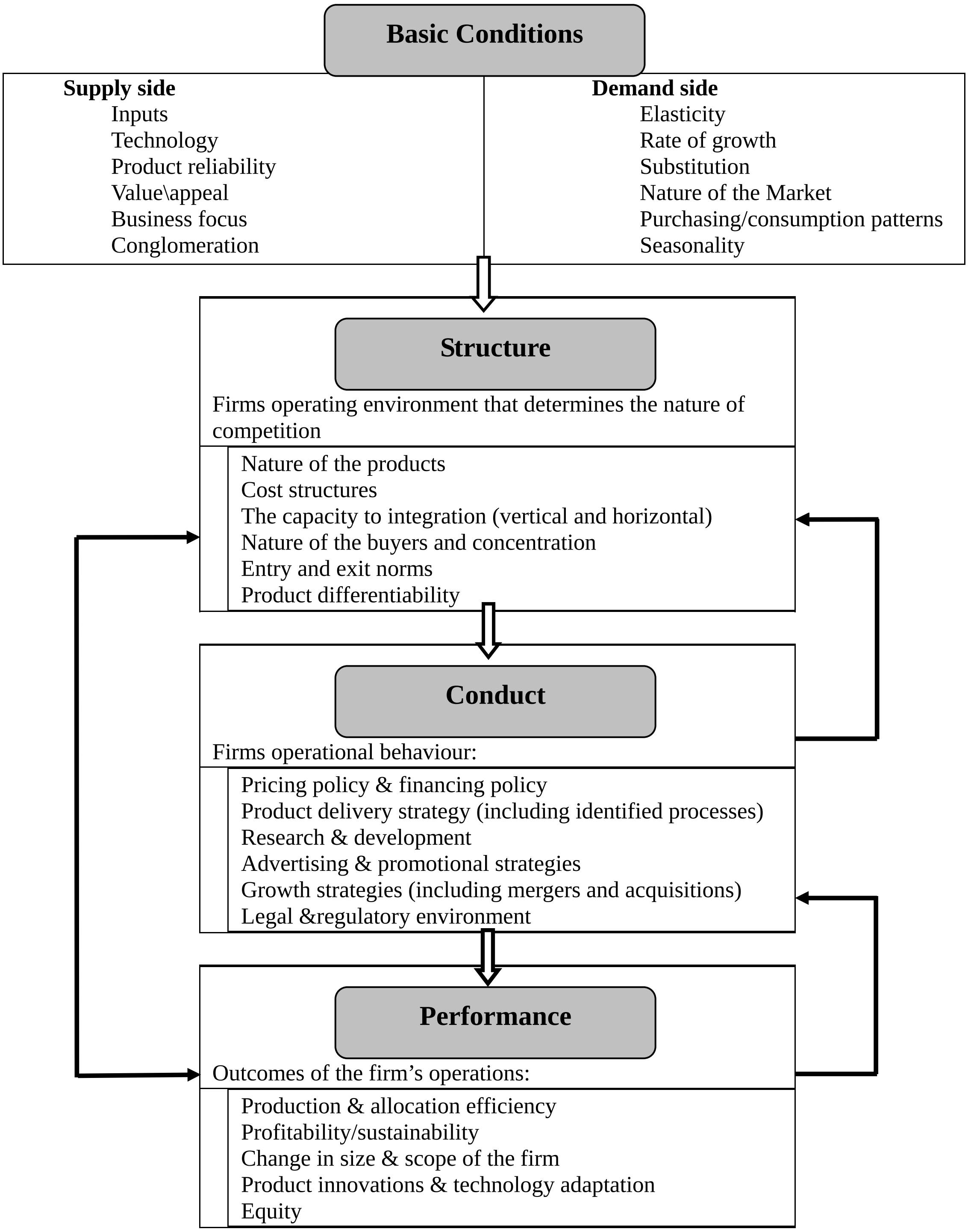
3.2.1 The SCP hypothesis

The literature on Industrial Organisation presents two major hypotheses to examine the behaviour of the financial services industry namely; Efficiency Structure hypothesis (ES) and SCP hypothesis (Mitsuhiko & Hirofumi, 2006). These hypotheses assume high market concentration weakens market competition thereby fostering collusive behaviour. (Panzar & Rosse, 1987). According to the ES hypothesis the aggressive behaviour of efficient firms in the market leads to an increase in those firms' size and market share (Lloyd-Williams, Molyneux & Thornton, 1994). However, the applicability of ES to the microfinance industry is limited and is not considered in this study because efficient structures in microfinance are evolving. By contrast, SCP hypothesis generally states that the more a financial institution grows, the more efficient it becomes (Mitsuhiko & Hirofumi, 2006). The SCP hypothesis conjectures that concentration is a source of increased profitability, rather than a consequence of an increase in market share by more efficient firms (Berger et al., 2004). Thus, according to the SCP hypothesis, market concentration fosters increase in size and scope (may be through collusion or merger and acquisitions), which in turn leads to an increase in profitability. This means, if the SCP hypothesis holds, increase in market concentration may have a positive influence on firms' financial performance (Goldberg & Rai, 1996). In other words, the SCP hypothesis supports the collusive power of the market and encourages the adoption of strategies that enhance market concentration. Therefore, if SCP is applicable to the microfinance industry, it can introduce strategies to promote market concentration.

In order to assess the microfinance industry an examination of theoretical aspects of industry structure is needed. Generally economists classify industries or markets into four broad categories: perfect competition, monopolistic competition, oligopoly and monopoly with perfect competition providing good economic outcomes and monopoly generally providing bad outcomes due to sub-optimal allocation of resources. Many industries, including the microfinance industry, may not fall neatly into one of those categories. However, they provide a reasonable basis on which to compare the industry performance.

Figure 3.1 presents the essential elements of the SCP framework and their interrelationships. The basic conditions can be considered as the fundamental determinants of the analysis. The market structure indicates the factors that influence the nature of the competitive process. Hence, it includes, in addition to product and cost features, market size, size of the firms and their distribution, types of imperfections in the market and degree of government intervention through regulation.

Figure 3.1 The SCP Framework



Source: Adapted from Scherer (1970) and Worthington, Briton & Rees (2004)

The conduct basically implies the influence of the market structure and the performance refers to outcomes of conduct on the performance of production, profitability or its sustainability, growth and equity on the market place.

3.2.2 SCP framework and microfinance industry

The ease of entry and exit to the industry plays an important role in determining the structure of the industry. For instance, easy entry into the industry ensures that the suppliers will have profit no higher than that earned by others in the industry. This suggests that the market process determines a price at which firms operate at the lowest average cost point (where average cost is also equal to the marginal cost) and buyers are getting the lowest possible price. Thus, absence of barriers to entry is a key requirement to achieving a competitive outcome. It is important to note that the barriers to entry can be evident in the form of feature of the firm's product or a legal barrier where government grants exclusive production rights.

In the case of microfinance, these entry barriers can be subtle. In the case of permitting the local implementing partners to engage in microfinance activities providing financial services, they would benefit from a cost advantage enjoyed by the principal donor and so the barriers to entry would be higher for the other potential entrants without such principal donors. Similarly, if input prices such as interest costs, wages and salaries tend to rise as more players enter the market, then the long average cost curve rises proportionately. However the opposite result occurs if input prices fall. If there is no change, then long run average cost should indicate constant economies of scale. That is there will be no cost advantage between large or small providers. It is important to note that the adoptions of technology or technological innovations over time will lead to lowering of cost curves. Such a situation will lead to either higher than normal profits among existing providers or to forming implicit entry barriers.

Market conduct is mainly the actual behaviour of the consumers and producers (in the microfinance case of microfinance clients and service providers) in a particular market. As shown in Figure 3.1, it includes pricing policy (collusive or predatory and discriminatory), activities to impose entry barriers or any other activities to limit competition. As in the case of barriers to entry non-competitive firms may have strong pricing power if there is a relatively low-cost potential entry by a rival. In the literature such markets are identified as contestable [*the contestability doctrine, for instance, argued that so long as there was potential competition, there did not have to be actual competition* (Tanzi & Chu 1997 p. 25). For instance, an area serviced by a single microfinance provider may not be able to raise the interest rate on lending above what is said to be "normal" for fear of an early entry by a competitor (a retail microfinance provider) into that market. Therefore, from the existing providers' point of view, it is in the interest of the incumbent service providers to raise the entry barriers. However, from an economic point of view, entry barriers lead to misallocation of resources, higher interest cost for the borrowers and inefficiencies in the microfinance market. This is more relevant to the microfinance market when considering the current view of the traditional banks' interest in entry into the retail microfinance services. This was evident at the most recent gathering of the microcredit summit where representatives from a major donor agency stated:

> "*some global banks are now looking into microfinance loans. We welcome the competition, but most global banks have a cost structure that is several times higher than most MFIs. They could flood a market for a few years, find profits generated do not meet their expectations and then exit, but do not before seriously damaging the established MFIs in the area and destroying the market for microcredit*" (MS, 2006, p.14).

Surprisingly the same summit has given a prominent focus on removing barriers to provision of microfinance services.

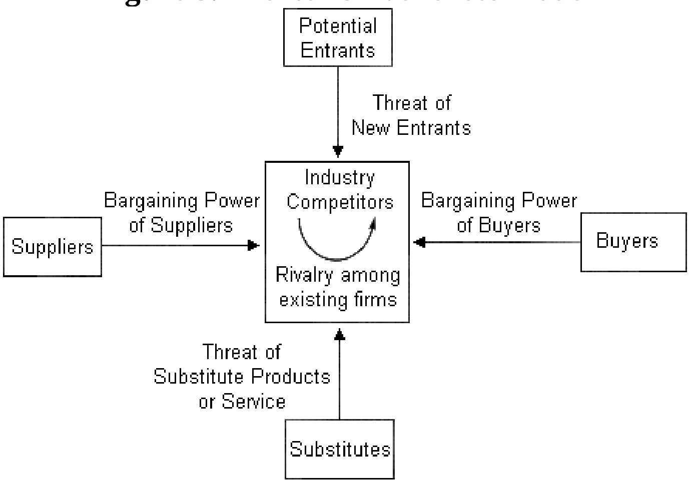
According to the theory of industrial organisation (see Realtors, 2005 for example), a manager of a firm can pursue policies that are not in the best interest of the principal (in the case of microfinance some of the goals and decisions of the board of directors may not necessarily benefit stockholders or donor/principals). Nevertheless, such policies can be pursued and yet survive in the market place because of the high barriers to entry and the perfect knowledge of the market place resulting in dominant market power. Finally, microfinance services may be offered through a regulating agency (i.e. government) to protect society from industry misconduct. However, such agencies may become captives of the industries they were supposed to oversee, furthering the industries' interest at the expense of beneficiaries. One such case is where government provision of microfinance services [such as Samurdhi Banking Societies (SBS) in Sri Lanka], with continuous provision of microfinance services supported at government expense, without having an incentive to lower costs or strategy to maintain the self-sustainability of the microfinance program.

The final outcome of the SCP framework is the performance and it looks at the end results. Primarily, it addresses the question: Does the industry deliver the services in an efficient manner and achieve the socially desirable goals? As can be seen in Figure 3.1, the most important characteristics on performance include efficient delivery of services, equity (in the case of microfinance, this is generally viewed as low interest cost to the borrowers), employment, technical progress, alleviation of poverty and some other social goals such as promotion of disadvantage including promotion of women entrepreneurship.

3.2.2 Industry analysis in classical thinking

The prominent economists Michael Porter (Porter, 1985) suggests a strategy that a firm should adopt depending on the rivalry or competition that it faces. He identified five forces model that could be used to explain his suggestions as illustrated in Figure 3.2.

Figure 3.2 Porter's five forces model



Source: http://www.12manage.com/methods_porter_five_forces.html (accessed 08/12/2007)

Porter (1985) argues that the bargaining powers of the suppliers (or service providers) are more powerful when there are few suppliers with their customers are fragmented. Furthermore, no substitutes available, prices form a large part of the total costs and potentially undertake value-added processes. Similarly buyers (or users) are more powerful when they are concentrated, product is undifferentiated, backward integration is possible and the supply industry comprises a larger number of small operators. He also claims that the threat of potential new entrants is high when the barriers to entry are low. The barriers are identified as economies of scale, capital requirements, access to distribution channels, cost advantages independent of scale, product differentiation, government policy and retaliation.

Porter's (1985) model can also be applicable to the microfinance industry when considering the case for changing the institutions to regulated financial institutions or commercialisation of microfinance services. In particular, the threat of potential entrants with innovative service options, access to distribution channels (such as cooperative or religious member based organisations) and the development of the bargaining power of the recipients after integration of business development services into their microenterprises can be considered as the main drivers of competition in the industry. This model will be quite useful in addressing the issue of commercialisation of microfinance services (see chapter 4).

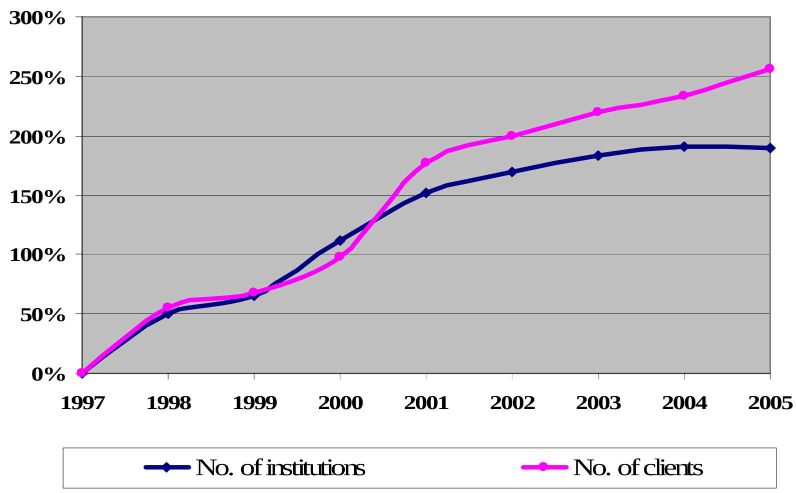
3.3 The behaviour of the microfinance industry

As in any other industry, the global microfinance industry also comprises the service providers from developed and developing countries, and the recipients of services in developing countries. This section provides some aggregate information collected on a global scale to provide an insight into the microfinance industry in general.

3.3.1 The structure of the microfinance industry

The industry comprises many providers and recipients. It is important to note, as outlined in chapter 2, the microfinance industry comprises two main groups of providers namely; the principals and the local implementing partners or retail microfinance service providers. The principals includes those government sponsors, as well as INGO based organisations such as OI, which is heavily involved in microfinance with aims of poverty alleviation and improving living standards of the less developed countries. The government sponsored group includes both unilateral donors such as USAID, AUSAID, GTZ and CIDA and multilateral donors such as the World Bank and the ADB. The industry also comprises lobby groups for entities such as Microcredit Summit, BWTP, CGAP and WOCCU. There are quite a number of examples of situations where the above groups work on a partnership/consortium basis to achieve certain project outcome. The local implementing partners may include government agencies, institutional providers such as local NGOs and banks and non-institutional providers.

Figure 3.3 Cumulative percentage growth of the microfinance industry



Data source: Microcredit Summit Report, 2006

Figure 3.3 shows the cumulative growth of the number of MFIs and their client outreach. It can be seen that, over the period from 1997 to 2005 the number of MFI s and the clients grew by 190% and 257% respectively. By 2005 there were 3133 microfinance institutions reaching over 113 million clients of which over 81 million were the poorest clients. Table 3.1 presents the size and the distribution of the poorest clients. It is also important to note that over 84% or 69 million of the poorest clients reported in Table 3.1 were women. This is alone a 570% increase in the number of poorest women reached over the period from 2000 to 2005. Table 3.2 provides the regional breakdown of the distribution of microfinance institutions.

Table 3.1 Size and distribution of poorest clients

Size of the institution (in terms of poorest clients)	**No. of institutions**	**Total number of poorest clients served**	**% of total poorest**
1 million or more	9	26 856 854	32.7
1000 000 to 999 999	46	11 775 843	14.4
10 000 to 99 999	299	8 176 554	10
2 500 to 9 999	553	2 667 531	3.3
Fewer than 2 500	2 223	1 305 970	1.6
Networks	3	31 166 284	38
Total	3 133	81 949 036	100

Data Source: Microcredit Summit Report, 2006

Table 3.2 The regional breakdown of the microfinance industry in 2005

Region	**No. of institutions**	**No. of total clients**	**No. of poorest clients**	**No. of poorest women clients**
Sun-Saharan Africa	959	7 429 730	5 380 680	3 422 825
Asia & the Pacific	1 652	96 689 252	74 330 516	63 934 812
Latin America & Caribbean	439	4 409 093	1 760 405	1 258 668
Middle east & North Africa	30	1 287 318	387 951	321 004
Developing World Total	**3 080**	**109 815 393**	**81 859 552**	**68 937 309**
North America & Western Europe	35	55 707	11 318	7 682
Eastern Europe & Central Asia	18	3 390 290	76 166	47 856
Industrialised World Total	**53**	**3 445 997**	**89 484**	**55 718**
Global Total	**3 133**	**113 261 390**	**81 949 036**	**68 993 027**

Data Source: Microcredit Summit Report, 2006

As shown in Table 3.2, the Asia-Pacific region accounts for approximately 53% of the global microfinance institutions. The region also serves 85% of the global microfinance recipients. The proportion of poorest recipients and women is also over 90%. The above information highlights the importance of the microfinance industry to the Asia-Pacific region relative to other regions, in particular, for countries in the South Asian region (such as Philippines, Bangladesh and India) where efforts are being made to overcome poverty in the urban and rural sectors.

Entry into and exit out of the microfinance industry are relatively easy for MFIs, provided they have the access to capital, distribution channels and cost advantages with less intervention through government legislation. It is also important to note that the service provision differs from full range of services (i.e. BDS, marketing, income protection, investments) to minimum service (i.e. microcredit). One of the limitations in the industry is that the users have limited information on the selection of service providers. The information of the services normally found through social networks and the representatives of the MFis (such as bear-foot bankers of Gamimi Pubuduwa of HNB in Sri Lanka or Centre Managers of TSKI of Philippines who visit the communities regularly). However, it is reasonable to assume that users seek out the lowest possible interest and other costs for a given level of service. Microfinance has a potential to integrate communities through person-to person business requiring a high level of trust and also facilitate even small entrepreneurs to compete with large firms because MFIs facilitate the provision of a level playing field.

3.3.2 The conduct of the microfinance industry

The competition among MFIs and other banks offering retail microfinance services enables users to demand best services for best price (or least cost). A MFI that charges an above-market interest rate on borrowing (or below their interest cost) either will have limited business or will not sustain the provision of microfinance unless there is a continuous funneling of funds by the donors or principals. Therefore, highest quality microfinance services providers cannot set their own interest rates but must offer competitive rates and other supporting services to maintain recovery and minimise delinquencies while improving the impact on clients.

A discrimination (in terms of setting interest rate or otherwise) is almost unheard of in the microfinance industry. Undoubtedly, there may be business models that charge lower interest rates on lending but they should not be treated as discriminatory because of the differences in the basic objectives of microfinance. Overall, implementing partner’s (or agent’s) power of setting interest rate is consistent with that of a price taker. Interestingly, there are virtually no barriers for implementing partners (or agents) to compete for microfinance clients against each other or against non-institutional providers. Similarly, the donors may engage in competition with each other for implementing partners.

3.3.3 The performance of the microfinance industry

It is important to point out that the motive of profit is not the primary objective of the microfinance industry. However, profitability of the MFIs indirectly contributed to the sustainability of the operations as they can not rely on continuous subsidised borrowing or other forms of financial support from the principals. Thus, the performance of the industry should be measured not on the basis of profitability but the overall efficiency and productivity of the operation. If a MFI has adopted efficient delivery methods, recovery procedures, and saving mobilisation mechanisms while improving the living standards of the clients, then they will be able to move into a regulated financial institution where profitability becomes an integral part of the performance measures.

Because of the differences in focus and social status of the client groups, the microfinance industry faces continued low profitability, in some cases aggravated by the defaults or high level of delinquencies as interest incomes are not able to rise as quickly as expenses. Adoption of sound delinquency management practices and provisioning for loan losses continue to act as the key factors determining the efficiency of the operation.

In addition to theoretical aspects of industry analysis, such as operational efficiency and allocative efficiency, the performance of the microfinance industry needs to be measured against meeting its social goals; mainly alleviation of poverty while expanding the outreach (including achieving the goals set as per Appendix I. As shown in Table 3.2, governments, donors, agents and others in the industry recognise the importance of women's participation in microfinance and as such promotion of their entrepreneurship is a socially desirable goal. Furthermore, the factors such as bailouts by the government or principals and technological advancement (which is also a part of technical efficiency) determine the performance of the MFIs. However, evidence from successful microfinance institutions suggest that MFIs will be able to move into regulated financial institutions through maintaining loan portfolio quality, increasing efficiency and profitability levels and accessing commercial funding sources. This way they will be able to perform on par with, or better than, other banking and financial institutions in their countries while providing services to and low-income households, many of whom have never had access to a bank before (Berger et al., 2006). It is also evident that the following measures will increase the efficiency and lower the operational costs of the MFIs.

- The use of experienced loan officers and development of a loyal customer base, both of which increase productivity.
- Improved product development, including significantly reducing collateral and documentary requirements to speed disbursement of micro loans.
- Re-engineering operations, both at branch level and headquarters
- Introducing new technologies, including credit scoring PDAs, which increase the productivity of loan officers.
- Taking advantage of technology, such as smart cards and ATMs, to design loan products that improve the quality and lower the costs of their lending products.
- Using market intelligence to segment their markets and better understand how to serve the clients efficiently and effectively (Berger et al., 2006 p. 60).

3.4 Can MFIs be compared with banks?

The promoters of commercialisation of microfinance argue, in order to infuse competition into the microfinance industry, the traditional financial institutions (banks) should be permitted to conduct microfinance activities or else MFIs should follow the norms of traditional banks. The arguments against banks entering into microfinance range from conflict of interest or objectives to advantages that government or otherwise subsidised banks would have against non-subsidised MFIs. Table 3.3 presents a basic comparison of MFIs against banks. Such a comparison is important when considering the issue of commercialisation of MFIs or upgrading MFIs into a regulated financial institution.

Table 3.3 A comparison of MFIs and banks

	Microfinance Institutions	Banks and Bank Holding Companies*
Market structure	Consistent with the perfect competition	Oligopoly among market leaders
No. of firms	Relatively large	Relatively small
Number of independent decision makers	Relatively large	Relatively small
Concentration ratio	Nearly zero at agent/implementing partner level	Very high
Barriers to entry	Minimal	Large capital requirement
Collusion	Not visible	Possible
Historical experience of government bailout	Non-significant	Significant
Regulation and supervision requirements	Minimal	Yes, normally subjected to central bank's supervision and reporting requirements
Subject to regulations by foreign entities	Yes	Yes
Ability control interest rates	Minimal	Yes
Customer profiling	Minimal	Vast information on customer
Discrimination (price/other)	Minimal	Vast –often based on net-worth of the customer
Social promotion of self reliance and entrepreneurship	Yes	Yes but limited only to community banks and credit unions
Promotion of poorest and women entrepreneurship	Yes	Yes but limited only to community banks and credit unions
Social promotion of small/micro businesses	Yes	Yes, but limited to SMEs
Contestable markets	Yes	No
Monopsony/monopoly situations (trade unions)	No	Yes
Promote flexible working hours	Yes	No
Potential work stoppage	No	Yes, through labour grievances and unionisation
Access of client to services	Often less/no emphasis on net-worth or collateral	Often based on the net-worth of clients and/or collateral
Integration of services and product packaging	Minimal	Yes

** Some aspect were adapted from REALTORS (2005) evaluations.*

3.5 The issues of the microfinance industry revisited

Although governments, donors, implementing partners and others recognise the importance of the microfinance industry, there are a number of issues affecting the efficiency of the industry. Furthermore some of these issues stretch beyond the focus of the SCP framework as they may have not been considered important under the market approach to the allocation of resources. These issues add further dimensions to the issues covered in the chapter 2.

3.5.1 Access to microfinance services by low-income households

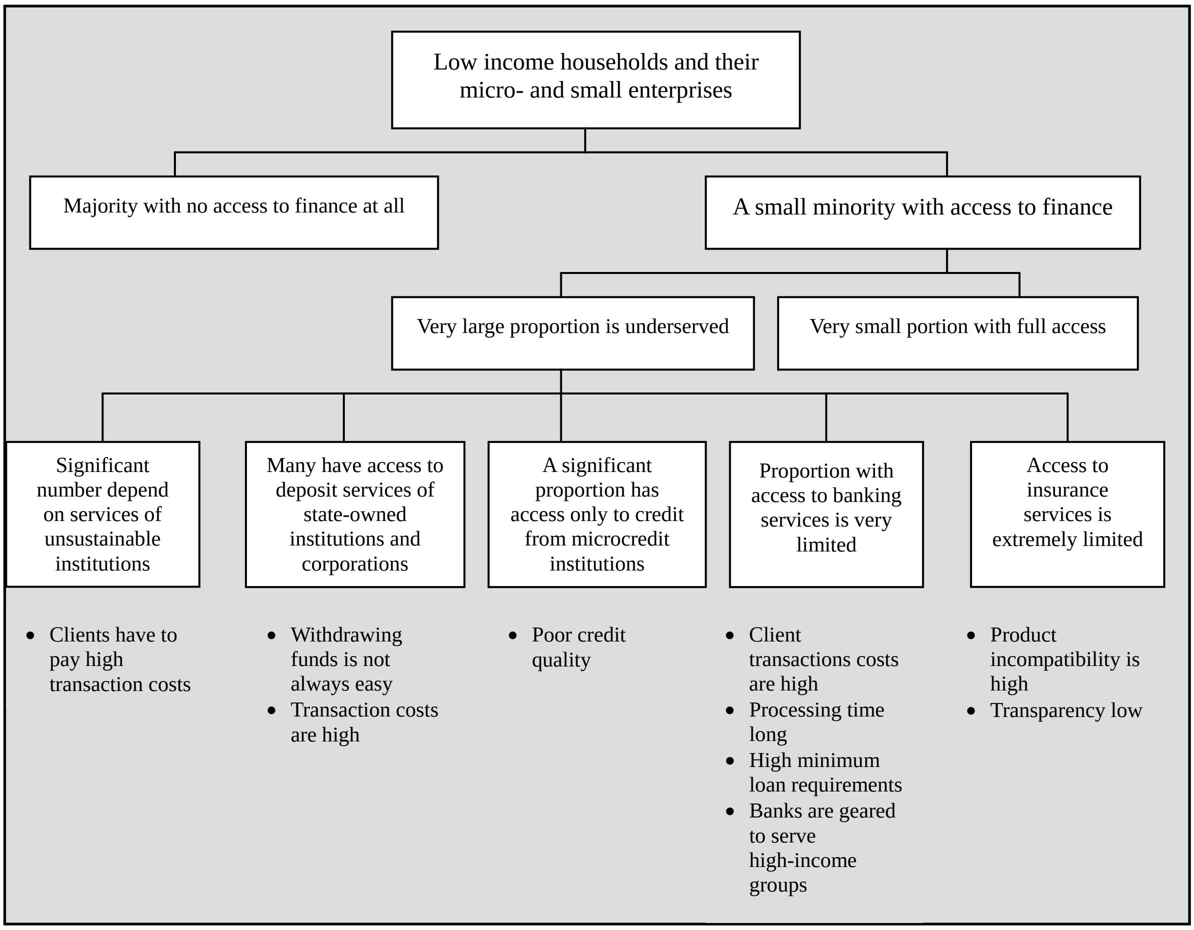
One of the areas ignored by the SCP approach is the buyers access to a market. The issue of access to finance for low-income households has been well documented in the literature. Fernando (2007) identified a number of different dimensions of the access problem (see Figure 3.3). He suggests that it is necessary to look at these dimensions to get a better understanding of the gravity of the issue of access.

He identifies three major dimensions related to the issue of access of low-income households to finance.

1. A majority of the low-income population in developing countries do not have access at all even to very basic financial services.
2. A large majority of the limited number of those who have access are underserved in terms of quality and quantity of product and services.
3. Access to a significant proportion of low-income households is dependent on unsustainable, subsidy dependent and poorly performing institutions.

From the above it can be seen, even though access to finance is a seemingly simple concept, measuring the access is not an easy task because it is different from actual usage of financial services. This situation gets even more complicated when considering the problem of formal and informal sectors of microfinance. Fernando (2007) argues that even though some MFIs have extended the access for poor household to financial services, the access problem remains significant due to capacity issues. Further he claims that a significant proportion of those with access depend on the services provided by financially unsustainable, heavily subsidy-dependent and poorly performing institutions.

Figure 3.4 Dimensions of access problem



Source: Fernando (2007) p. 4.

3.5.2 Broadening the scope of financial services

The focus of the SCP framework has mostly centred towards firms and pays little attention to the nature of the buyers. For instance, the SCP approach considers the scope, vertical and horizontal integration from the firm's perspective. However, the mix of microfinance services offered in many countries and emerging understanding about the needs of microfinance clients demonstrate that a broad scope of services is significant to the development of the sector (Christen & Miller, 2006).

Generally, there is a consensus among microfinance scholars and practitioners of the economic and social behaviour of their microfinance focus groups. Christen and Miller (2006), argue that contrary to traditional customer behaviour, poor households usually have more than one source of income, and in terms of economic strategy, more closely resemble a portfolio manager than the head of a single-product firm.

This view is further confirmed by Hulme & Mosley (1997) by providing examples that indicate depending on circumstances, low-income households employ various income strategies, including performing paid labour, opening microenterprises (particularly in the production and trading sectors), growing their own food, hunting and gathering and obtaining small loans (institutional or otherwise) or subsidies. Wright (2000) further argues that the poor are both economically rational and risk averse, as demonstrated by diversified portfolios of productive activities. One cannot ignore that the income portfolio of the poor household include migrant members of the family working elsewhere and remitting wages back to the family for either investment or for basic consumption.

If the above arguments are valid one can argue that it is the systematic risk (as in the theoretical case) that the low-income can not manage. At least, this may be the case for families that move in and out of poverty. They may accumulate wealth for sometime and then face a setback due to a family illness, poor harvest as a result of a natural disaster or some major life event. Similarly they may be paying for poor government economic, social and political strategy.

The emerging research and the above fact highlight that microcredit is not the only solution to alleviate poverty. Obviously, at minimum, microfinance should include microsaving, microinsurance and business development services. Fernando (2007), points out that MFIs have significantly improved access to credit for low-income households, women in particular and, with few exceptions, much of the credit provided by MFIs is for short-term income-generating activities. He also points out that a little is provided for housing improvements, education, health, consumption smoothing and emergencies. Apart from these services, beyond the microcredit provisioning of other financial services, such as attracting deposits, insurance and an efficient system of domestic money transfer, services remain peripheral in the case of the majority MFIs.

Evidence from many Latin American countries further support these views. For instance, the primary balance of deposits in many Latin American MFIs comes from institutional investors, rather than microenterprises (or small-scale enterprises) or the general public (Jansson, 2003). Similarly, many low-income households do not appear to have dealings through a bank account. Instead, they often deal through money transfer systems of the local post office or the international companies such as Western Union when receiving remittances from family members or friends working outside the region or abroad (Christen & Miller, 2006). They also often use the informal transfer system used by the local money lenders.

3.5.3 Access and broadening outreach in a competitive market

The major challenges faced by the researchers and parishioners of microfinance are to penetrate unserved markets through improved access to deep in the rural areas of the regions, widen the range of services provided, improve the efficiency and performance and then conversion of MFIs into ultimate regulated financial institutions. Undoubtedly, this leads to MFIs operating in more competitive environments on a steadily declining net interest income which remains the primary source of income for most of them. Some of the issues involved have been considered by those who are lobbying for commercialisation of microfinance services. However, debate on the commercial efficiency and social responsibility will continue to dominate in the microfinance industry. If the industry needs to achieve its millennium development goals as set out in Appendix I, it needs to address these issues sooner than later.

Some argue the microfinance work undertaken so far have been on the easier part. According to Christen and Miller (2006), it may seem inconsistent to suggest that there is great unmet demand and that an increasingly competitive environment will drive down the interest rate margins. They argue that competition will come from several forms, as follows. First, through the introduction of and spread of micro credit in the urban areas which will lead to direct competition between MFIs. Second, MFIs in other markets, such as urban MFIs equipped with a broad range of product and services, will compete with rural microfinance services with a limited range of attractive product offerings. Third, given political interest in microfinance means there will be an inevitable increase in supply of politically driven government sponsored credit schemes with low interest and low repayments creating un-even playing fields and driving the traditional financial institutions out of the market.

3.6 Summary

This chapter analysed the microfinance industry using the SCP approach and then used it to compare the MFIs in the industry to banks. While the SCP framework is very useful in analysing a particular industry it has few limitations when applied to an emerging market such as microfinance. This is mainly because there are some limitations in applying the concept to microfinance due to the problem of access to a market, broadening the scope of microfinance and widening the outreach while maintaining the competitiveness. The conflicting views of minimalists and multipurpose on microfinance also limits the usefulness of the SCP approach.

As outlined in chapter 2, the most contentious debate within the microfinance network is the distinction between loans to be repaid and grants for social and community development. Polarisation exists between the 'sustainability camp' who regard the financial sustainability of the implementing partner as the key measurement of success, and the 'targeting the poorest' group who by their very nature are less profitable due to factors of higher business risks and lower volume.

Regardless of this debate there is a need for improvement in industry performance through adoption of measures to improve the efficiency and productivity of microfinance services. If the concern is the low net interest income or low margins on lending then the MFIs should focus on adopting more value adding services to the product range which, as the literature suggests, will eventually lead to a better impact on microfinance clients.

The ultimate evidence of sustainability, improved performance, productivity and efficiency will be MFIs upgrading themselves into regulated financial institutions. This may be the case for supply side development of the microfinance industry. The process and the objectives of microfinance are completely fulfilled if clients were also taken out of poverty and improve their living standards because the role of microfinance in poverty alleviation is undisputable. The evidence provided in chapter 4 will further support this proposition. It is important to note the SCP framework applies to both transaction cost theory and the agency cost theory because both theories deal with a structure, conduct and performance of a given market/industry.

CHAPTER 4

THE MICROFINANCE INDUSTRY IN THE PHILIPPINES

4.1 Introduction

As discussed in Chapter 2 and 3, the microfinance industry presents a unique opportunity for poverty alleviation in the poorest regions of countries where regulated financial intuitions do not have an active role. On the other hand, sustainability of the microfinance activities could be maintained only if the MFIs are developed themselves into regulated financial institutions. In other words, commercialisation of microfinance could be the best strategy to maintain the sustainability of the operations while maintaining key objectives of poverty alleviation and improving living standards of the low-income household.

Chapter 4 first extends the previous discussion on the commercialisation aspect of microfinance, drawing some examples from the empirical literature including the role of government regulation. Second, the discussion extends to the Philippines to take the readers attention to the MFIs studied in this research. Third, the chapter presents a background MFI (TSKI) considered in this study with the objective of emphasising the role of client impact assessment and the process adopted on commercialisation.

This chapter consists of six sections including the introduction. The second section extends the discussion on commercialisation of microfinance services with the objective of drawing on its relevance to TSKI examined in this study. In particular, this section will examine the generic process involved in the transformation of NGO based MFIs into more formal regulated financial institutions. The third section presents a background to the development of the microfinance industry in the Philippines and its progress towards commercialisation. The fourth section outlines the donor-implementing agency relationship between OI and TSKI. It also provides a profile of TSKI and some operational information as one of the leading microfinance providers in the Philippines. The final section provides a summary of the contents covered in the chapter.

4.2 Commercialisation of microfinance

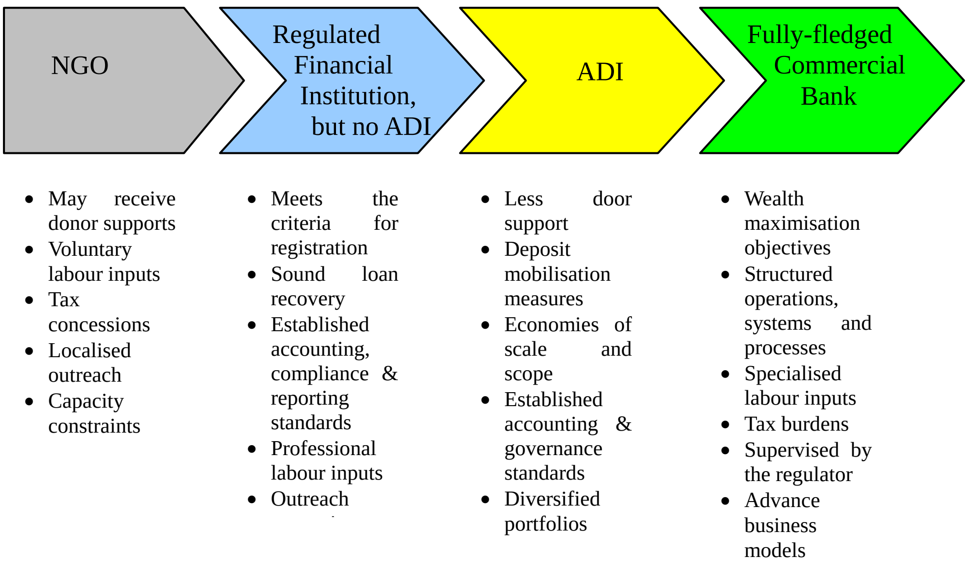
In the microfinance literature the process involved in commercialisation is identified as upgrading MFIs to formal financial institutions making them a segment of the regulated financial institutions. This suggests that the key focus of the industry is to transform the microfinance provider, rather than promoting competition or removing barriers to entry and exit. Berger et al. (2005) believe that upgraded MFIs continue to play a major role compared to a creation of greenfield investment type new specialised institutions from scratch. This view gained further support from Marulanda and Otero (2005) who presented the evidence that upgraded MFIs reached more clients than commercial banks or greenfield institutions.

The rationale behind the upgrading of MFIs is the desire for commercial sustainability of the institutions and to promote efficiency in terms of delivery in a competitive environment. However, since most of the microfinance providers are NGOs, as soon as they become regulated financial institutions they need to raise their own capital either by savings mobilisation or by other means such as securitisations of their loan portfolios. This means MFIs will not only have to compete with the established banks to attract savings, but also have to manage more complex business models that require highly-paid expert staff. On the other hand, moving from a donor-fund dependant MFIs to upgraded MFIs means that the institutions may no longer be supported by the donors. This may also act as an obstacle to commercialisation. However there is some evidence of possible solutions to this issue as shown later in this chapter.

4.2.1 The process of upgrading

The process of upgrading involves transformation of a MFI into a formal financial institution that will be subjected to compliance and reporting requirements of a regulator such as a central bank. Even though moving to a regulated financial institution may add extra cost and the burden of reporting and compliance, it provides a number of benefits to the MFIs. These benefits may include, contrary to what is mentioned in the previous section, MFIs becoming a more appealing institution to the donors of loan capital. Similarly, the upgraded MFIs are in a stronger position to engage in refinancing or securitisation than informal MFIs. From the point of view of the regulators, the commercialization of microfinance operation provide the security, reliability leading to increase in the confidence of the all stakeholders of the industry.

Figure 4.1 presents the process involved in transformation of an informal NGO into a regulated financial institution. In essence, it shows that the transformation leads to donor capital dependent MFIs moving into a more structured and self-sustained financial institution with more efficient operating processes and capital raising techniques.



Source: Adapted from Fernando (2004) and Berger, et al. (2005) p. 40.

Figure 4.1: The Process of Commercialisation

Undoubtedly, transformation of MFIs into regulated financial institutions will lead inefficient providers to exit the industry, unless continued support is forthcoming. It is highly unlikely that a donor will continue to fund an inefficient microfinance provider unless its priority is not poverty alleviation or sustainability of microfinance service. On the other hand, in some countries (such as Sri Lanka), growth of NGOs, either in the disguise of microfinance or with other not-for-profit motives has led to some social issues. This has resulted in the introduction of some stringent registration requirements and costly government compliance protocols. The transformation of MFIs provides an effective cover against such government interventions.

4.2.1 The factors to be considered

Among the most serious challenges that have to be faced by the MFIs in the transformation process include developing a sound process for deposit mobilisation, integration of a diversified range of products into the business and the packaging to suit the client groups, changing the composition of their client base and adopting sound risk management practices with a diversified portfolio.

One of the significant factors contributing to the process of transformation is the MFI's ability to develop a sound system of savings mobilisation with the objective of achieving authorised depositing-taking institution status. Here the NGO-based MFIs not only will have to compete with regulated financial institutions but also with member-based institutions such as credit cooperatives, cooperative banks and credit unions. They normally have established wider rural networks with a considerable outreach. The improvement in the ability to mobilise savings means MFIs have developed their capability of engaging in financial intermediation with less reliance on continued dependency on provision of subsidised capital from donors. If the MFIs are to be successful in savings mobilisation, they should not only develop the savings habits of the microfinance clients, but also lure other clients such as successful small and medium scale enterprises (SMEs), as well as large scale enterprises, to their client portfolio.

The strategists in marketing generally believe that if a financial institution can bind a customer with three or more products, it is more likely that the customer will retain that financial institution as the principal financial service provider. This suggests that, by increasing the range of products and services offered to the clients, MFIs will be able to maintain their customer retention. Similarly, diversification of product and services gives MFIs opportunity not only to reduce costs through cross-selling but also increase profitability and sustainability of the operation. The introduction of microinsurance, remittance support services and product development and marketing support are considered as convenient additions to product portfolios of the MFIs (Berger et al., 2005).

It is important to note that, if a microcredit or a microfinance support to a particular individual or group is successful, there is a high probability of moving that enterprise from a microfinance cluster to a SME cluster needing not only a range of financial services, but also a higher level of lending support with or without some collateral. If this is not the case transforming MFIs need to broaden their client base by adding SMEs and other high net-worth clients. In this case the so-called “multi-purpose” group may argue that upgrading leads to a “mission drift” in microfinance. However, the evidence of successfully transformed Latin American MFIs shows that diversified client base is a key factor that contributes to commercialisation.

One of the key aspects of maintaining profitability and generating overall financial performance is the efficient management of the quality of their loan portfolios. This means MFIs need to take sound measures to identify sound and viable microenterprises for funding, use appropriate loan recovery strategies, and adopt established methods of provisioning for loan losses. The transformation to regulated financial institutions and accompanying regulatory supervision enable the MFIs to adopt stronger management in all key business areas and also to maintain high portfolio quality. The commercialisation aspects considered in this section provide a suitable basis for the examination of how microfinance industry in the Philippines is evolving.

4.3 The Microfinance industry in the Philippines

The purpose of this section is to provide a brief historical overview of the microfinance industry in general with the objective of highlighting the role of TKSI and its-own process of commercialisation.

4.3.1 A brief history of microfinance activities in the Philippines

According to Charitonenko (2003), there are three major types of retail MFIs.

Among them 2,865 cooperative banks registered under the Cooperative Development Authority (CDA), 500 NGOs and at least 100 of the rural banks conduct microfinance activities. As in other countries, the oldest providers of microcredit are the cooperatives which began in the early 1990s. The introduction of rural banking in the 1950s began the transformation of microcredit and small-scale financial services to rural entrepreneurs which were marginally served by the cooperative sector. The entry of NGOs by 1980, facilitated the extension of microcredit to low-income households who did not have access to formal financial services. The composition of microfinance industry is presented in Table 4.1.

Table 4.1: Composition of major microfinance providers in the Philippines

Type	Ownership	Legal basis	Regulated by	Supervised by	Main source of funding	Authorised activities	Target market
Formal institutions							
Thrift Banks	Private investors	Thrift bank Act, Law on Corporations	BSP, PDIC	BSP, PDIC	Equity, commercial loans & deposits	Saving, deposits & loans	General public
Rural Banks	Private investors	Rural Bank Act, Law on Corporations	BSP, PDIC	BSP, PDIC	Equity, commercial loans & deposits	Saving, deposits & loans	General public
Pawn Shops	Private investors	General Banking Law	BSP, SEC	None	Equity, commercial loans	Pawn loans	General public
Lending Investors	Private investors	General Banking Law & Law on Corporations	SEC	None	Equity, commercial loans	Loans	General public
Semi-formal institutions							
(Savings & credit) Cooperatives	Individual members	Cooperative Code	CDA	None	Capital plus member deposits	Savings, deposits & loans to members	Members
NGOs	Private trustees	Law on Trusts & Non-profit Foundations	Annual Reports to SEC & BSP	None	Grants, donations & commercial loans	Loans to individuals and groups	General public

Legend: BSP: Bangko Sentral Pilipinas, PIDC: Philippines Deposit Insurance Corporation, SEC: Securities and Exchange Comission
Source: Charitonenko (2003) P. 10.

All the three main types of MFIs have expanded their microfinance services due to ongoing government and donor support programs to expand outreach to the low-income households on a commercial basis. The rural banks and credit cooperatives maintained an extensive network through their local branches. However, relatively few of them were familiar with the techniques of microfinance and its value as a profitable business opportunity. This facilitated the entry of NGOs into the Philippines microfinance market as a major player. In addition to formal and the semi-formal institutional providers of microfinance services, informal providers such as money lenders, farmer lenders, trade creditors, self-help groups (rotating credit and savings associations) and friends and families, thrived in the market by charging flat interest on loans ranging from 10–30% per month.

4.3.2 The development of microfinance NGOs in the Philippines

Although NGOs began their microfinance activities in the 1980s the real growth of their involvement started in the 1990s with increase in support for microfinance by the governments, institutional donors and international donors. It is also important to note that the popularity of the Grameen model in Bangladesh was on the rise during the same period. There has been an increased interest of the donor agencies in microfinance with the sector attracting $35 million ADB and International Fund for Agricultural Development (IFAD) funding in 1996 (Charitonenko, 2003). The government also encouraged NGOs to develop sustainable microfinance programs and supported adoption of international best practices by MFI managers. However, a vast majority among hundreds of microfinance NGOs was neither viable nor sustainable (Charitonenko, 2003).

By 2002, only three NGOs; Canter for Agriculture and Rural Development (CARD), *Tulay Sa Pag-unlad* Inc. (TSPI) and Negros Women for Tomorrow Foundation (NWTF) reported loan portfolios over Php100 million (MCP, 2002). In 2005, the Microfinance Council of the Philippines increased the benchmark for loan portfolio classification to Php200 million. Even with this increase, three new NGOs; TSKI, *ALalay sa Kaunlaran sa Gitnang Luzon* Inc. (ASKI), *Kabalikat Para sa Maunlad na Buhay* Inc. (KMBI) moved into the large microfinance services providers category. The NGOs jointly reported the best performance in financial revenue ratio which exceeded not only other microfinance providers in the Philippines, but also the entire Asian region. Table 4.2 provides some comparative performance indicators of the major NGOs in the Philippines. This information will be useful when analysing the recent growth of TSKI later in this chapter.

Table 4.2: Some comparative performance indicators of major NGOs

Indicator	CARD	TSPI	NWTF	TSKI	ARDCI	ASKI
No. of branches	30	26	15	8	4	6
No. of borrowers & savers	84 037	39 378	35 010	32 036	13 304	12 479
Total no. of staff	337	309	224	209	78	102
No. of field staff	307	249	163	126	62	85
Value of loan outstanding (Php million)	379.0	195.6	179.4	90.4	63.3	43.3
Value of collateral savings (Php million)	156.0	85.6	54.4	30.5	21.9	10.2
Average loan balance (Php)	4 110	5 984	5 125	3 515	9 260	3 469
Average portfolio per field staff (Php million)	1.2	0.8	1.2	0.7	1.0	0.9
Repayment rate (%)	99.9	98.5	99.2	97.3	99.5	85.0
Portfolio at risk (%)	0.4	3.0	2.1	7.3	2.4	18.0
Operating cost ratio (%)	24.0	35.8	34.4	33.3	28.1	41.0
Operational self-sufficiency (%)	139.5	122.7	102.4	110.6	119.0	85.6
Financial self-sufficiency (%)	118.5	100.8	85.7	88.7	84.0	82.1
Equity to assets ratio (%)	30.4	44.6	32.0	28.4	62.1	21.0
Current ratio (%)	2.3	1.7	2.8	3.5	2.5	2.0
Collateral-savings to loan ratio (%)	41.1	43.8	30.3	33.7	34.0	23.0

Source: Charitonenko (2003)

4.3.3 The commercialisation of microfinance NGOs in the Philippines

A comprehensive report completed by ADB (Charitanenko, 2003), identifies a number of challenges faced particularly by the NGOs in the transformation to regulated financial institutions as follows.

1. Ownership and governance structure: the report claims that the board of directors lack owners with a financial stake in the business which may lead to an overemphasis on social agenda and hinder the process of commercialisation. The report also notes the poor quality of the composition of the board, indicating that many of the board members lack sound background in banking and finance. This is very critical when considering the issues related to saving mobilisation, and portfolio diversification because lack of appreciation of modern financial business models means they place the institution and its clients at risk.
2. Illegal deposit mobilisation: The report presents evidence of illegal deposit

mobilisation based on a survey of 23 of the largest NGOs in the Philippines. Accordingly, almost half of their combined outstanding loan portfolio was funded by a combination of capital build up despite such practices deemed to be illegal under general banking law of the country. However, BSP has ignored this practice because most of the depositors of the NGOs are members and most of them are net borrowers. One way to overcome this problem is the introduction of accepted accounting and financial reporting standards.

3. Mission drift: The issue of mission drift was dealt with earlier in this chapter. The legislative requirement to include at least two independent members on the board of directors and to reduce NGOs ownership in the new regulated entity to no more than 40% within 5 years of transformation is considered as a significant cause for mission drift in the NGOs.
4. Lack of credit information bureau: Although there has been a nation-wide privately-operated credit information bureau operating since 1990, as in many other countries, it has not been able to capture the growing MFIs. Therefore, there is a need for a credit information bureau within the MFI sector to capture microcredit information and maintain the credit health of the industry.
5. Lack of integrated training facility for microfinance: despite a range of microfinance training programs in the Philippines, there is no "one-stop" training facility offering demand driven training programs across all MFIs, including NGOs. This has led the larger NGOs to develop their own training facilities to deliver their own training programs.

However, the growth of the larger NGOs suggests that the institutions have been able to overcome the above challenges by introducing better governance and reporting standards, improving institutional capacity by balancing the social mission with a business approach and by adopting international best practices of microfinance. As a result some NGOs such as TSKI have managed to increase operating and allocative efficiencies and enhance their market leadership.

4.4 The Opportunity Microfinance Bank and MFIs in Philippines

In May 2001, the Opportunity Microfinance Bank (OMB) began its operations as the first microfinance-oriented thrift bank in the Philippines with the objective of providing a range of financial services and products to the low-income household. The OMB was soon able to supplement the traditional microfinance products such as group loans and forced savings, with individual loans, voluntary savings accounts and certificates of deposits. The OMB formed its structure to facilitate a diverse way of capital raising and to lure both commercial and private investors either as owners of owners equity or charitable donors.

OMB was initially formed as a small financial institution under the Philippines Scale-up project managed by Alliance of Philippines Partners in Enterprise Development Inc. (APPEND) (Charitonenko 2003). With the financial support of IO, APPEND “network” bank incorporated another five NGOs comprising ASKI, Daan sa Pag-unlad Inc. (DSPI), KMBI, Rangtay sa Pagrang-ay Inc. (RSPI) and TSKI into its operations. In the Philippines, OMB works closely with APPEND and its partner NGOs to ensure that their venture is viable and efficient. OMB helped APPEND and NGOs partners to grow stronger, first by integrating branches of the NGO partners into OMB structure and, second, by utilising the strengths of the partner NGOs to develop and run branches in new regions until they are financially sustainable to be included in the OMB framework. This means OMB induced NGOs to turnover their best performing branches to the bank for either cash or equity.

4.4.1 Taytay Sang Kauswagan Inc. (TSKI)

Taytay Sang Kauswagan Inc. (TSKI) or “Bridge to Progress” was registered with the Securities and Exchange Commission on 1 September 1986. TSKI based its operation in Iloilo city of Central Philippines. The primary objective of TSKI was to see the upliftment of poverty of the least privileged members of the society through development of income generating and job creating small and microenterprises through a Christian environment. Table 4.3 presents a chronology of important developments that led to current status of TSKI.

Table 4.3: Chronology of important developments of TSKI

Year	Event
1986	Commenced business operations in Oct 1986 with start-up capital Php2 500 & 3 employees. Signed a memorandum of understanding (MOU) with TSPI for a five-year funding & technology transfer on Micro Enterprise Development Program (MEDP) methodology
1987	Received first direct funding of Php 0.5 million from the Phil-Australian Community Assistance Program (PACAP) for microfinance expansion
1988	TSPI announce that it cannot sustain its support after 1991 Maranatha Trust took over the responsibility of financial support
1989	Formed the partnership with APPEND along with 4 other NGOs
1990	Commenced the individual lending programs in Iloilo City and neighbouring suburbs
1992	Signed a MOU with Agricultural Credit Policy Council (ACPC) to implement a group lending methodology by adopting Grameen model in the Iloilo city, Southern Iloilo & Northern Iloilo
1993	Started group lending under the national Livelihood Support Fund for Php4 million.
1994	Established first four branches in Jaro, Iloilo city, Jordan & Sara
1995	Established fifth branch in Pototan Signed a MOU with Smith & Stiftung for a three-year funding arrangement
1996	Experienced a downturn in the operation with delinquencies reaching 45% All creditors with a cumulative amount Php20 million decided to call on their loans
1999	Signed a MOU with Group Development Foundation for a three-year funding agrrement
2000	Open the seventh branch in Antique Signed a three-year funding agreement with OI-Aus/AusAID on Trust Banks Signed a three-year funding agreement with TEAR Fund New Zealand on Community Based Projects
2001	Opened 8th and 9th branches in Talibon & Bohol: the first branch outside Western Visayas & Boracay Together with six other partners formed the OMB: the first microfinance bank in the Philippines
2002	The total number of branches increased to 15
2003	The total number of branches increased to 26 TSKI was recognised by People's Credit & Finance Corporation (PCFC) as its Visayas Flagship partner PCFC named TSKI as the largest MFI in the Visayas and accredited as training institute for Grameen Bank replicators
2004	Two TSKI clients received "Microentrepreneur of the Year (MOTY) award from Citi Group, BSP & MCP.
2005	Open the training/convention centre in Boracay Island The number of branches increased to 45 with a total outreach of 178,596 clients Inaugurated the first 5 branches of upgraded financial institutions: Kauswagan Bank (also know as K-Bank) PCFC named TSKI as its most outstanding partner in microfinance
2006	The total number of branches increased to 64, spreading all over Visayas Island, Western Mindanao & portion of Southern Tagalog region with a total out reach of 203 747 clients K Bank has five branches a total outreach of 18 865 clients
2007	Number of braches to be increased by 23 with an estimated outreach of 350 000 clients

Source: Various periodicals of TSKI

Specifically, TSKI extends banking facilities to the low-income households, creates opportunities for self-employment and self sufficiency through improved productivity, builds individual and collective capability within the community to become responsible citizens and foster Christian values. In order to attain this vision TSKI used a project termed "PKK" (*Proyekto Kauswagan sa Katalingban* meaning Project for the Development Community) basically aimed towards poverty alleviation through the Grameen model. Accordingly, low-income households in the community were allowed themselves to form so called "Centers" (groups of 30 to 45 members) and through the facilitation of TSKI they were encouraged to help each other to overcome their plight.

A centre is composed of a chairperson and a treasurer with the main function the facilitation of lending and collection. In particular, in the process of loan repayment, members remit their weekly instalments to the chairperson who, in turn, remits them to their treasurer. The latter will handover the collection to the TSKI representative (TSKI Centre Manager), who visits the centre weekly, and then deposited at the branch. The TSKI member attends the centre meeting every week and assesses loan requirements, progress of repayments and acts as a conduit between the TSKI branch and the centre. The centre meetings are normally held in the mornings as TSKI representatives are required to assemble for TSKI progress review meetings in the afternoons.

Subsequently TSKI obtained permission from BSP to establish a microfinance oriented thrift bank known as Kauswagan Bank (also now commonly known by its acronym as K-Bank). The current operation of TSKI includes centres belonging to K-Bank, as well as PKK. Generally, PKK centres that have shown rapid growth in terms of performance were upgraded into centers of the K-Bank. The areas of TASI operations are given in Appendix II.

4.4.2 Operating profile of TSKI

TSKI offers a number of traditional microfinance services, as well as a range of innovative products and services. These products and services have helped TSKI to maintain its viability, sustainability and visibility in the microfinance industry while following the path to commercialisation and achieving its vision for helping poorest communities using an integrated approach. The programs and services of TSKI include the following:

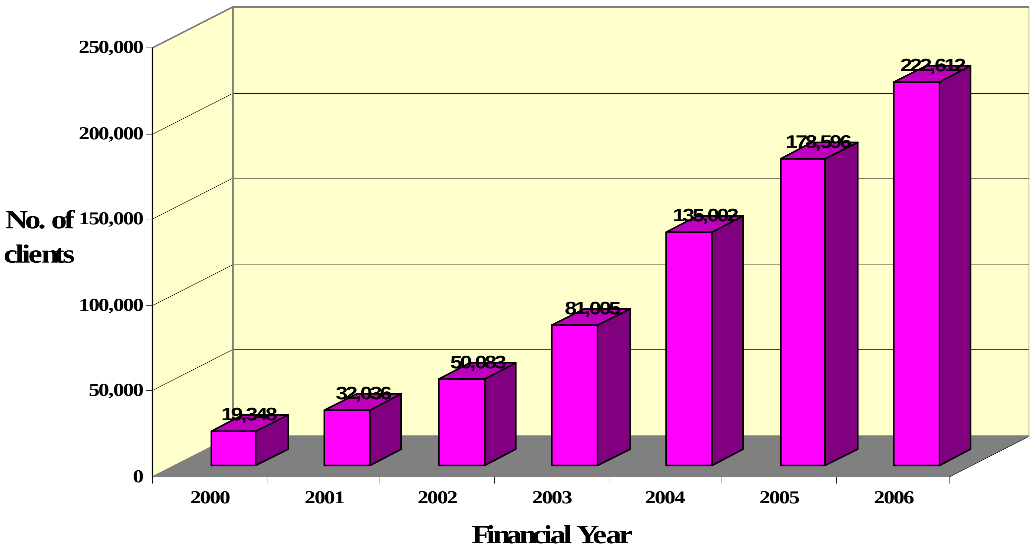
1. PKK: As mentioned previously PKK is an adoption from the Grammen Model used in Bangladesh. However, through their experience over the last 20 years of delivering this program, TSKI now maintains its own system, policies and procedures to suit the local environment driven by the centres.
2. MEDP: This program is designed to cater for the financial needs of individual entrepreneurs who have existing business and see the need to expand the said business, but are not in a position to proceed due to limited capital. This is also a pathway for improved PKK members who have secured a source of regular income from self employment or by expanding their microenterprise and need more financial services to expand their involvement, but such needs go over the limits of PKK loans.
3. Microfinance Success Institute (MSI): TSKI is one of the three Grameen Bank Replication (GBAR) institutions by PCFC. It offers Master of Business Administration program in partnership with Philippines Christian University. The institute also offers short courses and seminars for staff development and capacity building/strengthening with the objective of making them to be responsive to the needs of the profession. The seminars also extended to the members of the centers (clients) in the form of value formation such as management and all aspects of enterprise skills development training. These seminars also cover empowering and transforming leaders, Bible sharing and time of prayer.
4. Business Development Services (BDS): In addition to training on business enterprise development, TSKI provides business consultancy services to the entrepreneurial clients through computer-aided business analysis. BDS also include product promotion through trade fairs and other means, marketing, quality assurance through laboratory testing, branding, packaging and designing and labelling.
5. Microfinance housing: TSKI in partnership with another agency launched a microfinance housing program with the aim of financing its clients and staff housing needs. The lending also extended to refinancing of existing

dwellings for renovations and improvements.

6. Microfinance funding for renewable energy: In partnership with the Department of Energy, TSKI offers microcredit for solar energy based installations in client and staff housing in remote areas.
7. Farmers Integrated Development Assistance (FIDA): This program helps farmers to transform their primary products into final goods with the objective of crating a direct access to the retail markets.

4.4.3 Financial performance of TSKI

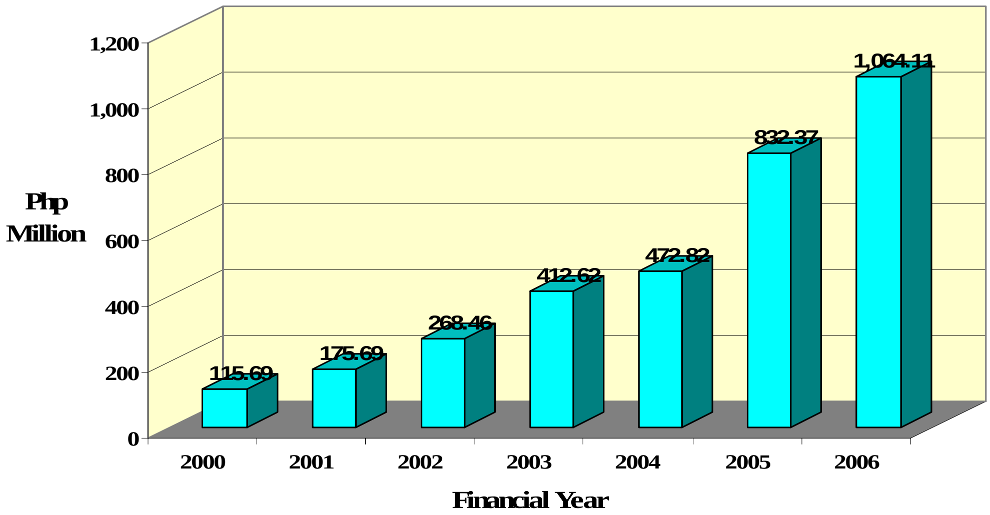
By year 2006, the total gross loan portfolio of TSKI exceeded Php600 million while the upgraded segment of microfinance, K-Bank, continued to expand its own operations by recording approximately 19 000 clients. As can be seen in Figure 4.2, the total number of clients served exceeded 222 000. It is also important to note that over 90% of these clients are women. Figure 4.2 also shows that client numbers in 2006 represented an almost 11-fold increase in the client outreach compared to 2000. The growth of client outreach shows the progress of TSKI's mechanisms and movements geared towards poverty alleviation.



Data source: TSKI Annual Reports

Figure 4.2: Growth of client outreach

As a result of the significant increase in outreach and the diversification of products and programs, the total assets of the TSKI exceeded Php1 billion in 2006 (see Figure 4.3). This corresponds to over 825% increase in assets over the period from 2000 to 2006. Interestingly, both client outreach and assets growth shows similar trends indicating significance of both the increase in client numbers and the wealth of the institution.



Data source: TSKI Annual Reports

Figure 4.3: Growth of total assets

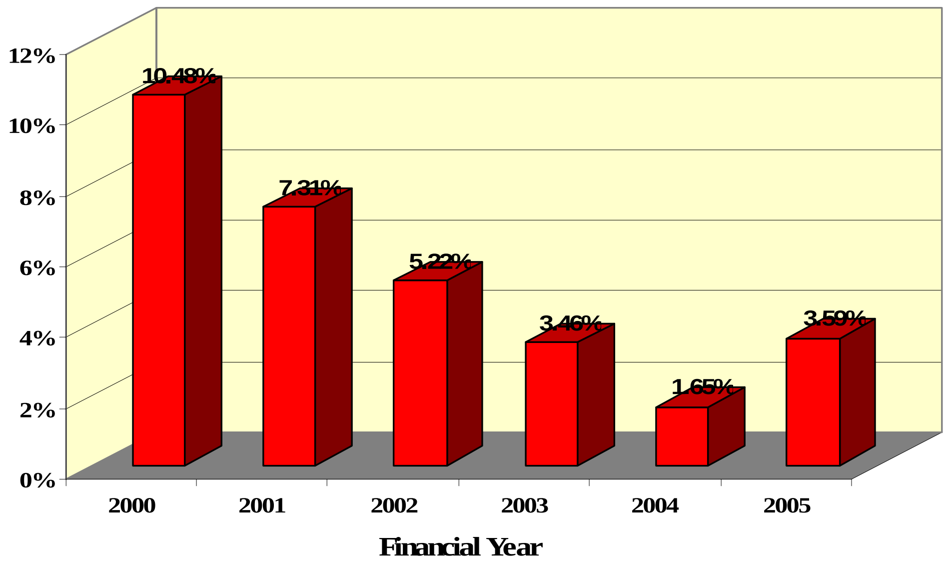
Given the nature of the microfinance business, TSKI's activities are exposed to a variety of financial risks as follows.

- Credit risk: TSKI manages its credit risk by setting limits on individual borrowers and groups. The TSKI's representatives of the centres regularly monitor credit exposures and continually assess the creditworthiness of the centers as well as its individual members. Where appropriate, the centre representatives recommend shift of groups from PKK to K-Banks based on the net-worth of the individuals and groups which enable the institutions to offer collateral based lending.
- Interest rate risk: As in any other financial institution the operations of the TSKI face the risk of interest rate fluctuations to the extent that interest-earning assets (loans to borrowers and investments) and

interest-bearing liabilities mature or are renegotiated at different times or in different amounts. As such, risk management strategies need to be focus on increasing net interest income while maintaining TSKI's business strategies consistent with the market interest rate levels for microfinance.

- Liquidity risk: Liquidity risk arises from institution's potential inability to meet all payment obligations when they become due.

The most effective way to control risk is by constantly assessing the risk profile of the institution while monitoring the project impact on clients. Portfolio at risk (PAR which is normally defined for more than 30 days) measures the institutions exposure to risk in terms of credit. It measures the value of all loans outstanding that have one or more instalments of principal past due more than 30 days. This includes the entire unpaid principal balance, including both the past due and future instalments, but not accrued interest. It does not include loans that have been restructured or rescheduled. Figure 4.5 presents TSKIs performance in terms of PAR > 30 over the period from 2000- 2005. Accordingly, TSKI has been able to constantly reduce PAR from high levels (over 10%) in 2000 to very impressive level around 2-4%. Given the nature of the microfinance business, this can be considered as a very good performance of TSKI's operation.



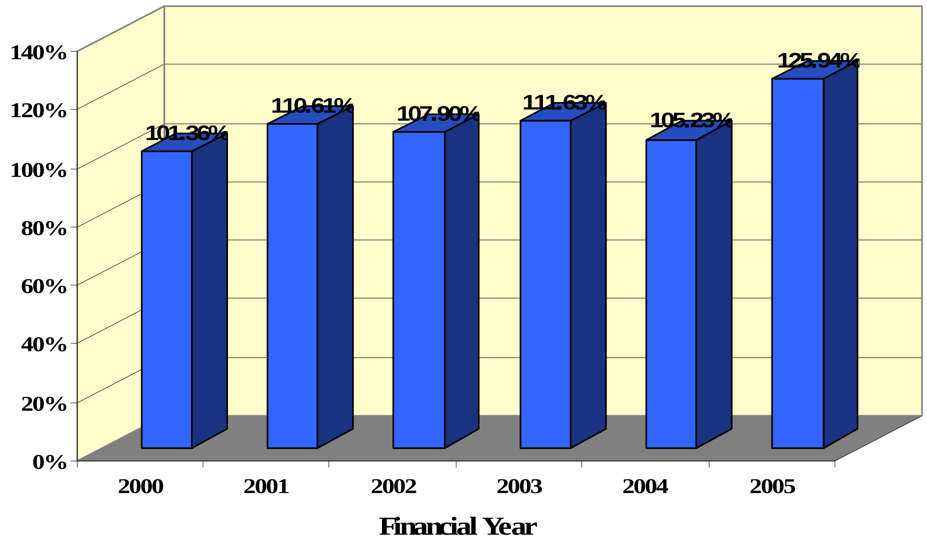
Data source: TSKI Annual Reports

Figure 4.4: Position of PAR

Generally, MIFIs can obtain financial resources to fund their assets and operating expenses from several sources as follows.

- Earning income from all sources of business over their expenses.
- Increasing deposit mobilisation from their existing customers and new customers.
- Obtaining loans, concessionary funds or donations from commercial banks, donors and other sources
- Raising equity capital in market and non-market environments.

For the above reasons, resources mobilisation is very closely related to self-sufficiency. To make the task of resources mobilisation expedient, MFIs are required to increase levels of operational self-sufficiency (OSS) which is defined by Financial Revenue (Total)/ (Financial Expense + Loan Loss Provision Expense + Operating Expense) (Mixmarket, 2005). In other words, the operational self-sufficiency requires an institution to cover all its operating expenses, including wages and salaries paid, administrative costs and other costs, from operating revenue. It is important to note that an essential element to be imbedded in the other costs is the provision for loan losses which seemed to be generally ignored by the MFIs. Figure 4.5 provides a profile of OSS over the period from 2000 to 2005. By 2005, TSKI reported an OSS level of approximately 126%.



Data source: TSKI Annual Reports

Figure 4.5: Position of OSS

This means TSKI has been able to finance all of its expenses from its income and is less dependent on external resources to meet its expenses. Thus, it is in a unique position to divert its funding from external sources to fund activities that increase assets position. This will not only facilitate the progress towards commercialisation or to a upgraded financial institution status, but also attract capital from market sources such as commercial banks, savings from business clients, and issue of securities. The TSKI's performance places OSS in a relatively high position of the MFIs in the region. One study in the Asia-Pacific region finds that, even in most favourable circumstances, only six of the 49 MFIs in the region were self-sufficient (FDC, 2003).

Table 4.4: Key financial indicators of TSKI

Indicator	Position at 2006
Financing structure	
Capital to assets ratio (CAR)	11,26%
Debt to equity ratio (DER)	788.44%
Deposits to loans ratio (DTL)	0.00%
Deposits to total assets ratio (DTA)	379.0
Gross loan portfolio to total assets ratio	56.69%
Overall financial performance	
Return on assets (ROA)	6.86%
Return on equity (ROE)	70.50%
Portfolio at risk (> 30 days) (PAR)	3.59%
Loan loss reserve ratio (LLRR)	1.74%
Efficiency	
Operational self-sufficiency (OSS)	125.94%
Administrative efficiency (AE)	45.98%
Staff productivity	110

Source: http://www.pinoyme.com/phildb_tski_financial.html (accessed 17/11/2007)

Table 4.4 presents further information on some key financial benchmark measures. The definitions of these measures are provided in Appendix IV (http://www.pinoyme.com/ phildb_tski_financial.html). Interestingly, even though DER was very high, ROE indicates superior performance.

One of the difficulties of interpreting the above information is the level of operating expenses (both salary and non-salary) expenses. It is often claimed that the industry does not offer attractive salaries to lure specialised workers into the labour force and depends on either hiring low-paid employees or voluntary labour. However, the more commonly observed issue of the industry has been the movement of trained workers from MFIs to commercial providers in search of higher remuneration, resulting in hidden cost of training and professional development programs of MFIs.

4.5 Summary

This chapter extended the discussions in previous chapters on the commercialisation aspect of microfinance drawing on some MFIs as examples. Then the discussion was focussed particularly on the MFIs in the Philippines to show the relative influence of TSKI in the microfinance industry in the country. The chapter also presented a general background to TSKI's operating structure and its key financial performance.

Since its inception in 1986, TSKI has grown from a very small microfinance operator to one of the largest providers in the country, expanding its outreach from central province of the Philippines to southern regions, including Mindanao. It also provides some unique examples of integration of projects that have commercial, as well as social, objectives through a single MFI provider. The diversified range of products and services ensure the expansion of the outreach and TSKI's ability to meets the needs of its clients to lift their living standards and remove them from the poverty trap. The financial information exhibited the strong growth prospect of TSKI and its rapid shift towards a regulated financial institution. However, it has been able to maintain its original vision of creating opportunities for self-employment and growth of productivity, building individual and collective capability to become responsible citizens and fostering Christian ideals. The CIMS methodology to be described in the next chapter examines the answers to this question.

CHAPTER 5

THE IMPACT ASSESSMENT METHODOLOGY

5.1 Introduction

The preceding chapters provided a discussion on the microfinance industry, some theoretical background underpinning microfinance services and the microfinance industry in the Philippines using the SCP framework. One of the questions being raised by the donors, policymakers, practitioners and other stakeholders in the industry is "How or on what basis is an impact of a given microfinance operation measured?" Both the minimalist and multipurpose camps described in Chapter 2, unreservedly accept the need for assessing the impact of given microfinance operations, but they differ on the way it should be carried out.

The purpose of this chapter is to provide some background to the impact assessment methodology, and its variations, with the objective of contrasting the specific impact assessment technique researched in this study. This chapter comprises four sections. The second section provides an historical background to the debate on impact assessment. The third section provides a description of current practices of impact assessment to capture both economic and social impact using qualitative and quantitative methods and also introduce the concept of Client Impact Assessment methodology. The final section presents a summary of the impact assessment methodologies adopted in microfinance.

5.2. The impact assessments

The issues related to the impact assessments in rural credit surfaced in the late 1970s after leading donors such as the World Bank, The International-American Development Bank and the Agency for International Development began to promote rural credit aggressively through rural credit schemes to promote agricultural production in most less-developed countries such as India, Sri Lanka, Brazil and Thailand by committing in excess of US$5 billion through hundreds of projects (WB, 1984). It began with the notion that loans are a basic necessity to accelerate technology driven economic change in predominantly rural farming communities and to release these communities from the dependence of the informal moneylenders. Most of the credit projects were aimed at stimulating the production of primary commodities such as rice, corn or dairy products, through augmenting the use of an input like fertiliser, increasing the use of improved varieties or breeding stocks, encouraging investment in machinery and providing more financial services to the focus groups such as rural poor, members of the cooperative societies, and local government authorities who provided supporting services such as irrigation and agricultural extension services. Other projects have augmented loanable funds flowing through existing parts of rural financial markets (RFMs) comprising small rural financial institutions such as agricultural banks, credit unions, cooperative banks and other supervised credit agencies.

5.2.1 The onset of impact assessment issues

The projects have been evaluated primarily to monitor the efficiency of disbursements and loan recovery rates as desired by the donor agencies. However, only a few of these evaluations are publicly available (see Daines, 1975; AID 1973; WB, 1975; Scobie & Franklin, 1977). The impact measures also included any increase in crop production, or the change in yield before and after the project, increase in the use of fertiliser, and sale of machinery. The numbers, amounts and kinds of loans released, farm income and net-worth have also been used as performance measures. However, these analyses focused very little on the in-depth analyses of the credit institutions handling credit funds. Although the measures of impact assessments have met the donors' expectations and target groups participations goals, a number of critiques were increasingly concerned about the quality and the quantity of the services provided by the RFMs in low income countries. They also charged that, despite donor funding for agriculture credit increasing sustainability, the real value of total agricultural loans has decreased in many countries and that concessionary loans often end up in the hands of the well-to-do (Von Pischke & Adams, 1980). In some cases, RFMs encourage consumption and discourage saving with the objective of reducing interest costs with inflexible terms structures for lending. The donors have not focused on RFMs adopting sound operational procedures and cost efficiency drives, with limited support for adopting cost saving technologies and process improvement in the provision of financial services.

Subsequent analysis of the issues by Von Pischke and Adams (1980) identified fungibility (defined as "of such a kind or nature that one specimen or part may be used in place of another specimen or equal part) as the main factor leading to faulty conclusions on the impact of credit lines. In fact, they extended it to additionality, substitution and diversion in explaining why impact assessments lead to faulty conclusions. Accordingly, fungibility arises from adaptation of money as a medium of exchange which made monetised transactions more efficient than barter. They pointed out that fungibility makes credit activities hard to evaluate because its effects will not only appear at a rural level, but also at an agency level and national level, implying spill over and drifting effects. They used the findings of Scobie and Franklin (1997) which showed that even if a loan is given in kind, such as bags of fertiliser, the goods provided can often be sold and converted into cash if the borrower desires. This means that even though the impact of the project is marginal at a farm level, it may not be the same at agency or at national level as the fertiliser is used somewhere. Von Pischke and Adam (1980) also pointed out that additionality, substitution and diversion are the terms that clarify problems posed for credit projects by fungibility. The additionality measured the impact under the situation with and without, or before and after the project situations. They suggested additionality is difficult to measure because it is impossible to know how exactly what governments, lenders and borrowers would have done in the absence of credit projects. Similarly, diversion—which is an extreme form of substitution—occurs when a borrower obtains a loan for one purpose but uses the funds for some other purpose not authorised by the loan contract. This highlights that the issues of impact assessment in early days of rural credits were largely due to the lack of transparency and efficiency of the operation processes of the credit agencies, or administration or accounting processes of project agencies.

5.2.2 Dimensions of impact assessments

The issues identified in the above section began to rapidly disappear with the development of information technology and the advancements in quantitative micro and macroeconomic modelling. For instance, the developments in technology have improved the information communication and data gathering processes between donors and borrowers. Similarly, advancements in research have not only led to the introduction of not only innovative processes and governance procedures, but also impact assessment models, such as General Equilibrium Models, that were capable of measuring additionality described in the previous section. As a result, a variety of impact assessments methods that are capable of measuring project impact on various dimensions surfaced.

Table 5.1 Dimensions of impact assessment models

	Economic Impact		Social Impact	
Micro Models	Quantitative	Qualitative	Quantitative	Qualitative
Macro Models	Quantitative	Qualitative	Quantitative	Qualitative

Table 5.1 provides a broad summary of impact assessment models being employed in monitoring the microfinance services. The economic impact assessment covers the internal and external operation in terms of accounting, financial and economic performance. Social impact assessment is the process by which an organisation measures the impact of its social activities relative to its social mission and objectives, as well as those of key stake holders (SEEP, 2007). The social impact assessments cover the social performance related to outreach, reducing hunger, access health and other care services, schooling, women empowerment and creation of social capital. The social impact assessment can be administered as an internal process. Further review of social impact assessments will be provided later in this section.

On the other hand, the goals of quantitative methods focused on measuring impact of a particular project in a quantifiable way. The data required were normally collected either through sample survey or secondary data sources. In order to ensure the outcomes are unbiased, randomised sampling techniques were used. In client impact monitoring systems, which are alternative forms of quantitative techniques, data collection is integrated into routine microfinance institutions (or rural finance institutions). Activities and data are collected from all or a sample of clients on a regular basis, normally using the institution's staff. The process of collection of data needed to be simple and rapid as such impact assessment monitoring systems collect data on a narrow range of indicators. It is generally believed impact monitoring systems are useful for the collection of baseline information, for determining the profile of new clients relative to institutions' stated target clients and for tracking changes in clients status over time. The qualitative methods included qualitative interviews, focus group discussions, direct or participant observations and case studies (IFAD, 2006).

Relative to social performance assessment, the impact assessments are particularly complex because MFI services entails a number of interactions and relationships of cause and effect with their surroundings. According to IFAD (2006), the effects of MFIs can be direct and indirect, intended, unintended, positive or negative noted at different levels (such as individual, household, enterprise, institution, community, local/regional/national economy) and in different dimensions and domains (such as economic, social, socio-political). Impact assessment thus presents the greatest methodological challenges. One of the challenges is the fungibility of credit described in the previous section which makes it difficult to determine how loans were actually used once the funds had entered the household budget. Another major challenge lies in the difficulty of assessing whether the observed changes are due to the financial service obtained or to other factors affecting socio-economic context (IFAD, 2006). The perceived complexity of the impact assessments has spearheaded the donors, consultants, academics and practitioners attention with substantial literature on various approaches to impact assessments.

5.2.3 The focus on efficiency and benchmarking

The economics and social performance of an MFI may vary depending on the age of the institution, outreach, ownership structure, and diversity of the services provided.

Some leading analysts of MFIs (Christen, 2000) examined the MFI using peer group methods classifying MFIs by region, loan portfolio size, institutional type and target recipients to measure efficiency and benchmark against other MFIs. However, critics argue that such groupings have serious methodological drawbacks as MFIs mostly operate in local markets, with very different degrees of accessibility, competitiveness and organization, even within the same country (Balkenhol, 2005). Therefore, it raises some general questions: Is there are a set of realistic or fair benchmarks to compare efficiency? What happens to the efficiency of MFI operation if the voluntary labour component, (i.e. loan officers) is replaced with skilled staff (reflecting in creasing marginal value of labour)? Can two MFIs be compared using the same efficiency benchmarking tools?

There have been number of benchmarking tools of efficiency adopted by the commercial financial services industry. The Data Envelopment Analysis (Coelli, 1998), in particular has facilitated the financial services industry to analyse the efficiency of financial services in terms of administrative efficiency, cost efficiency, technical efficiency and the productivity of a given financial service. Some of these tools such as the real yield on loan portfolio and the ratio of administrative or delivery cost to the loan portfolio, are gradually being adopted by the microfinance industry. However, Balkenhol (2005) argues that such tools are useful in measuring efficiency of the MFIs. For instance, the administrative costs are largely influenced by the drivers such as average loan balance, salary cost and staff productivity.

In a given market segment, some MFIs can be efficient and others may not but both may show low average loan balances. In such a situation average loan balances have nothing to do with true efficiency. The loan balances may be too low for compressing administrative expenses, but the MFI may deliberately choose to stay within the market segment only because of their low average loan balances.

Generally, staff cost reflect the supply and demand of skilled experienced and reliable MFI staff in a particular market segment. High salary cost may either be a result of inefficient utilisation of staff or scarcity of staff, leading to higher wages and salaries. Balkenhol reported that in some unsustainable MFI staff costs are double those in self-sufficient institutions, although the unsustainable MFIs pay lower wages per head and achieve identical levels of staff productivity. Similarly MFIs in rural areas that use an individual client approach are likely to show lower staff productivity than MFIs operating in urban areas with a mix of group lending and individual lending. Obviously, staff expenses are higher and staff productivity is lower if transactions are very small and frequent as they require additional screening, negotiating, controlling and monitoring etc.

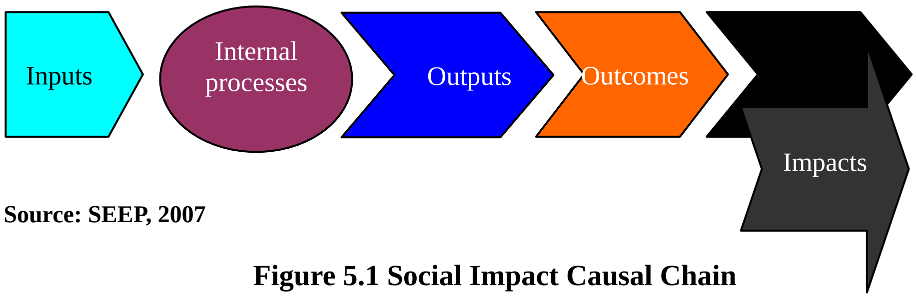
5.2.4 Efficiency and financial sustainability

Another important question is whether the efficient MFIs, measured using reliable and meaningful sets of local benchmarks, will automatically be financial sustainable. Alternatively will efficiency of the MFIs satisfy both necessary and sufficient conditions to make them financially sustainable? It is argued that an inefficient MFI can be fully financially sustainable if there is a long term grant commitment by a donor based on the social, religious principles. The Microbanking Bulletin’s statistics shows that MFIs that focus on the very poor and engage in very small transactions already set the interest rate comparatively high, without succeeding to reach full cost recovery (Christen, 2000). Furthermore, relatively high staff productivity and low wages do not seem to fully compensate for the handicap of small transactions in poverty-focused MIFs (Balkenhol (2005). Similarly, mission drift can be triggered by a change in delivery technique. When MFIs go up-market they tend to open up branches in urban areas to cater to better-off clients and regular wage earners to compensate for the losses in rural areas and to maintain financial sustainability.

5.2.4 Social performance assessment

The basic objective of many MFIs has been helping the poor by providing access to finance to overcome their social and economics conditions. Although there were a number of financial indicators that were adopted to determine the financial health of the institutions, very little emphasis has been made in developing a corresponding set of social performance indicators. This has led to the industry’s widespread interest in complementing financial assessment of MFIs with assessments of their social performance using a number of different tools.

As mentioned earlier, social performance assessment can be undertaken as an internal or external process. When an assessment is undertake internally it is called a "self assessment" and when external it is referred to as "social audit" (SEEP, 2000) the outcomes of which could be used for rating or benchmarking purposes. The social impact value chain presented in Figure 5.1 explains how impact is created. It begins with organisational inputs which are transformed using internal processes into outputs. The outputs generate outcome and outcome produce impacts.



Source: SEEP, 2007

Figure 5.1 Social Impact Causal Chain

Social performance assessment tools help MFIs to identify issues anywhere along this chain. If the MFIs could address these issues they can create a social impact. Assessing social performance can evaluate the intentions, actions and/or corrective measures implemented by MFIs in order to determine whether they have the appropriate systems and instruments in place to attain social objectives.

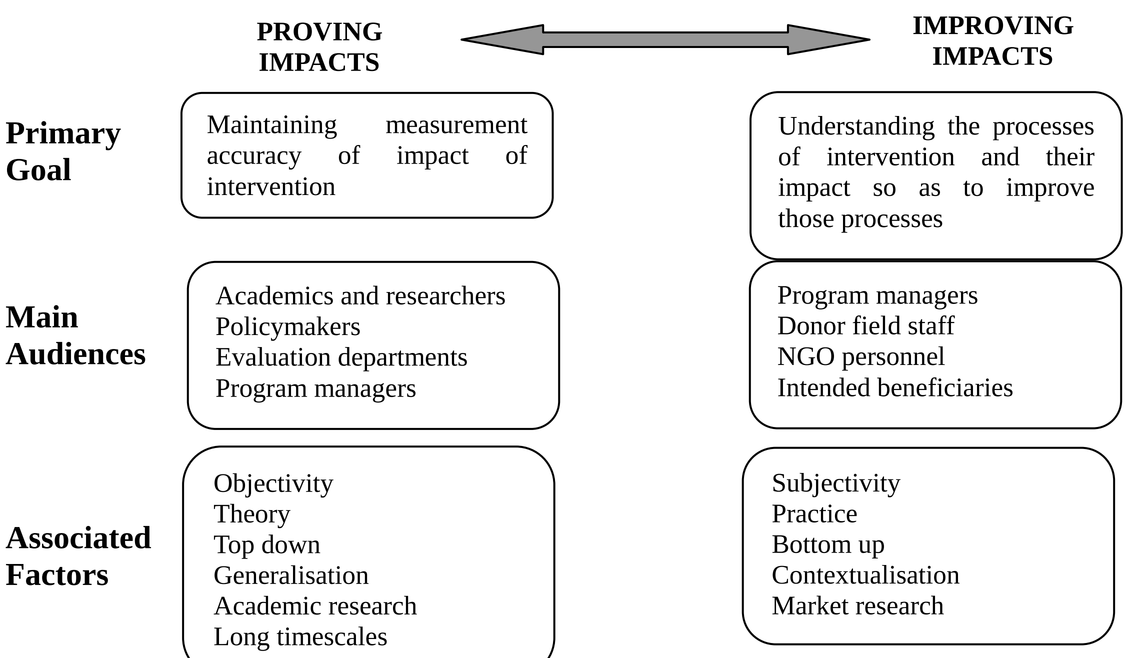
5.3 Impact assessment methodologies

This section provides a closer review of advances in theory, experience and better practices in impact assessment.

5.3.1 Main goals

In April 1997, the CGAP Working Group on Impact Assessment Methodologies conducted a virtual meeting on microfinance impact assessment. This conference was preceded by the submission of background papers commissioned by the members of the Working Group. The committee accepted the two goals of impact assessments: "proving" impact and "improving" interventions. The proving perspective, with its emphasis on demonstrating that positive impact occurs, was recognised by the participants as the basic requirement for most impact assessments. However, several participants expressed the impossibility of ever being able to obtain real proof or truly "prove" anything with absolute certainty (CGAP, 1997). However it was generally agreed that the donors and implementing partners share a universal objective of accountability. While the goals of impact assessment studies commonly incorporate both "proving impacts" and improving interventions, most of them are likely to prioritize the proving goal to maintain a steady flow of donor funding.

Hulme (1997) presented a number of factors leading to the shift of "evaluation of project success" to impact assessment. Accordingly, impact assessments are promoted by both the donors and implementing partners so that they can learn what is being achieved and improve the effectiveness and efficiency of their activities. Implicitly, impact assessments are a method by which sponsors seek to get more information about program effectiveness than is available from the routine accountability systems of implementing partners. From the donor's point of view, impact assessments are of significance to them in terms of meeting the ever increasing accountability demands of their major funding contributors or governments to show that funding brings value for money. Based on these considerations, Hulme (1997) differentiated the proving impacts and improving impact as shown in Figure 5.2.



Source: Hulme (1997)

Figure 5.2 The Goals of Impact Assessment

5.3.2 Units of assessment

Generally, household, enterprise or the institutional environment within which the agents operate are considered as the common unit of impact assessments. Some researchers have attempted to assess impact at an individual level. Hulme (2000) examined the various units of assessment adopted and their advantages and disadvantages. A summary of this analysis is presented in Table 5.2.

Table 5.2 Comparison of units of assessment

Unit	Advantages	Disadvantages
Individual (Goetz & Sen Gupta, 1995; Peace & Hulme, 1994)	• Easily defined and identified	• Most interventions have impact beyond the individuals • Difficulties of disaggregating group impacts and impacts on relations
Enterprise (Hulme & Mosley, 1996)	• Availability of analytical tools (profits, return on investment etc.	• Definition and identification is difficult in micro-enterprises • Much microfinance is used for other enterprises and/or consumption • Links between enterprise performance and livelihoods need careful validation
Household (Hulme & Mosley, 1996)	• Relatively easily defined and identified • Permit an appreciation of livelihood impacts • Permits an appreciation of inter-linkages of different enterprises and consumption	• Sometimes exact membership difficult to gauge
Community (Hulme & Mosley, 1996)	• Permits major externalities of interventions to be captured	• Quantitative data is difficult to gather • Definition of its boundary is arbitrary
Institutional Impact (USAID)	• Availability of data • Availability of analytical tools (profitability, transaction costs)	• How valid are inferences about the outcomes produced by institutional activity
Overall impact-full picture (Chen & Dunn, 1996)	• Comprehensive coverage of impact Appreciation of linkages between different units	• Complexity • High costs • Demand sophisticated analytical skills Time consuming

Source: Hulme (2000)

As shown in the Figure 5.1, the impact assessments could be undertaken in various dimensions. The studies undertaken over the last two decades show that impact assessments have increasingly moved away from single method approaches (Fuglesang & Chandler, 1986; Hossain 1988) to mixed approaches (Hulme & Mosley, 1996: Mustafa, 1996). Thus, the choice facing industry today is not what method should be used, but what mix of methods should be used and how they should be combined (Hulme, 2000).

Regardless of the quantitative or qualitative orientation and economic or social orientation, impact assessors could use several methods as given below.

1. Sample survey: Collection of qualitative/quantitative data using unbiased samples for ex-ante vs. ex-post comparisons.
2. Rapid appraisal: Use of focus groups or semi-structured interviews with key informants, case studies, participant observation and secondary data sources.
3. Participant observation: Extended working with the program community through field research and periodic mini-scale sample surveys.
4. Case studies: Detailed study of a specific project/unit to highlight the lessons learnt.
5. Participatory learning and action: Uses a facilitator to engage the beneficiaries of a program to prepare impact flow charts, village and resource maps, well-being and wealth ranking, problem ranking and institutional assessments (Hulme, 2000).

A comprehensive analysis of the strengths and weaknesses of the above methods are given in Hulme, (1997).

5.4 Summary

This chapter presented a comprehensive overview of the impact assessment methodology. Unlike in the past, modern impact assessors have tended to use a mixture of assessment methods to capture a wide range of economic and social impacts of intervention through microfinance activities. Industry interest in impact assessment has created a new segment in the microfinance industry for impact assessments with a number of alternative tools such as SPI-CERISE, (Social

Performance Indicators initiative: www.cerise-microfinance.org), AMA of USAID, ACCION, AIMS of SEEP Network, CGAP-Ford tool and IKM (Impact–Knowledge–Market) of PlaNetFinance. However as explained in Chapter 1 the focus of this study was limited to CIMS because it was the only form of impact assessments considered by the Opportunity International

Client Impact Monitoring, which is the main focus of this study, provides a profile of all clients on entry to the program and tracks objective indicators as well as client insight about change. Indicators are tracked using management information systems (MIS) which allows for filtering by a range of clients, portfolio and product variables. It is important to note that fungibility and attribution effects are the two significant challenges faced by the impact assessors. It is generally agreed that scientific impact assessments are extraordinarily difficult to do and costly. Thus opportunity cost aspects of funding for impact assessments should be considered when considering sustainability of the MFIs. Mission drift may also need to be considered before choosing a mixture of impact assessment tools. While one must note the challenges of the impact assessments, it is important to recognise that CIMS used in this study does not require rigorous scientific approaches.

CHAPTER 6

RESEARCH QUESTIONS AND ASSESSMENT METHODOLOGY

6.1 Introduction

The aim of this chapter is to revisit the research questions described in chapter 1 and outline the research methodology used to address the research questions. It is important to note that the research is concentrated on the CIMS, because it has been the main impact assessment tool used by the IO to measure both the impact of funding support for the microfinance operation of TSKI and their other global affiliates.

This chapter comprises nine sections. The next section provides a background to the formulation of research questions based on the reviews covered in Chapters 2, 3 and 4. The third section introduces the CIMS methodology employed by OI for its implementing partners. Sections 4 to 6 explain the sampling, data collection and analysis processes, and section 7 identifies the limitations of the CIMS sample. The penultimate section outlines the ethical considers. The final section provides a summary of the chapter.

6.2 Research questions

This chapter revisits those research questions outlined in Chapter 1 to justify the research approach used in the analysis.

6.2.1 Motivation

As discussed in Chapters 1 and 2, the microfinance industry has attracted the interest of protagonists of poverty alleviation through the improvement of access to financial services in the belief that provisioning the poor will lead them to attain self-sustainability. The industry has been reaping the benefits from the flow of funding through the multilateral donor and other non-governmental organizations such as OI. Along with the expansion of the industry, two groups of industry stakeholders, namely “minimalist” and “cooperatives” groups, have emerged. However, “mission drift” of the MFIs has become a significant issue in the debate of sustainability of MFIs and the flow of funding from the donors. As in many other cases the donors of MFIs have the accountability for the funding schemes and microfinance is only one of the many social infrastructure support services (such as access to health care, education, women participation in the society) needed to help the poor.

Central to the success of microfinance is the distribution of capital from the wealthy to the poor in a manner which encourages accountability and responsibility from the recipient, while at the same time allowing donors to see appropriate stewardship of their funds. This is measured through the achievement of financial independence of the group being studied. It is important to acknowledge donor funding should be accumulated through the government, corporate sponsors or wealthy individuals who have social or religious or philosophical objectives in helping the poor. The role of implementing agencies in facilitating this efficient and accountable transfer of capital is seen to be crucial to the ongoing development of microfinance. The interrelation between donors and these agencies requires a high degree of trust and mutual accountability, in many cases built up through years of hard work and experimentation. Similarly, one must recognise that the donor agencies must also maintain a strong relationship to achieve mutual objectives. The experiences of the funding of microfinance initiatives, proving the impact and improving the efficiency of operating environment, are needed to be recorded and delineated to build on existing achievements and support an environment geared towards substantial growth in the funding of microfinance in the future. The intention of this study is to explore these experiences and highlight the very real achievements currently being experienced through effective microfinance projects. Undoubtedly, it will help not only the donor agencies but also the members of the funding communities to be satisfied that their funding donations are properly accounted for and used in a productive manner to achieve the desired outcomes.

6.2.2 Problem identification

As discussed in Chapter 2, there appears to be a polarisation within microfinance lending which has evolved over the last decade. There are the ‘multi-purpose development NGOs for which microfinance is only a sub-section of wider social objectives and which are more inclined to be subsidised in their activities (e.g. Swanivar Bangladesh, MYRADA in India). By contrast, ‘minimalist NGOs’ focus purely on financial services to the poor and tend to be more self sustaining (e.g. the APPEND NGOs in the Philippines and Grameen in Bangladesh).

‘The bank-NGO-Self Help Group (SHG)-poor’ credit delivery approach or ‘linkage approach’ (Llanto & Chua 1996). appears to be becoming the preferred method of distribution. Credit filters down via organizations best able to manage the credit risk by understanding their clients’ needs and providing financial services relevant to these circumstances.

While lending methodologies need to be adapted to the local environment there are a number of key strategies common to all successful microfinance institutions (Otero & Rhyne 1994).

1. They know their market; organize self-help groups and offer loans in a convenient fashion without a great deal of individual underwriting. In general, group lending cross guaranteed has improved efficiency through multiple loans while reducing arrears through peer pressure;
2. They keep their costs as low as possible with simple repeatable administration systems;
3. They ensure high portfolio quality through actively managing and incentivising their clients with the potential for future lending.

A survey completed by “Banking with the Poor Network” in 1991 selected NGOs in eight Asian countries that met strict selection criteria. From this the following principles were established:

1. Target only the poor through means testing
2. Organise self help groups (SHG) to help themselves
3. Adequately train members in bookkeeping and group accountability
4. Respect their autonomy

5. Ensure loans are cross collateralised and encourage peer pressure to repay
6. Minimal documentation to reduce transaction costs
7. Charge market rates on credit and pay commercial rates on savings.

Whilst the policy framework and legislative environment for microfinance is still evolving, there is growing interest on the level of efficiency of the delivery of microfinance in making an impact on the project, or at least making an impact on alleviation of poverty. In order to contribute to the latter, this study will investigate the following main research problem:

> "To what extent is the microfinance experience in the Philippines consistent with wider international practice?"

Alternatively this question examines the effectiveness of microfinance in meeting the objectives of millennium goals set at the beginning of the decade. In order to explore the above research question, the study will focus on a number of linked-research problems as specified below.

1. To what extent does donor funding, through the local implementing agency TSKI, impact on the long-term financial sustainability of their clients in the Philippines in terms of three criteria: income, health and quality of life?
2. To what extent does donor funding through OI's worldwide network impact on the long-term financial sustainability of their clients in terms of the same criteria specified above?
3. To what extent does TSKI results (Philippines) reflect OI's wider international experience? In particular, this study will explore the following specific questions related to TSKI operation.
    i. Is there is some correlation between donor funding and long-term improvements in the financial sustainability of the clients within the sample data in the Philippines?
    ii. Is there is evidence within the sample data in the Philippines of some correlation between the client's improvement in income and their family's health and education?
    iii. Do the results of the sample in the Philippines correlate with the international data provided by OI?

6.2.3 Delimitations of scope

The scope of this study is limited to examining the relationship of donor funding to TSKI over a six month period through sampling three dimensions of financial sustainability (income, health, and quality of life). These results are then compared to international data for similar microfinance organisations.

The principle source of data has been provided by OI, a leader in the provision of worldwide microfinance. The CIMS seeks to provide a snapshot as to the effectiveness of implementing microfinance organisation through the use of questionnaires to their ultimate clients. The international data summarizes a client survey of 3000 end recipients located in four continents (Africa, South America, Asia and Eastern Europe) and offers a detailed assessment of the effectiveness of projects in very different regional situations.

The report is then sub-divided into 28 sections, which consider the impact of microfinance on clients in specific areas. This questionnaire will be repeated in the Philippines using TSKI as the implementing partner. The control sample will be compared and contrasted with international experience. A further questionnaire to the same sample of TSKI clients will be completed six months later to see if any notable trends can be detected. This time period reflects the normal length of a group loan from implementation to full repayment.

Due to the complexity of the subject matter, studies will be limited to assessing the performance of implementing partners and their clients receiving donor support via OI. The sample size should provide some relevant insights to the probable experience of the wider microfinance industry and can then be compared and contrasted with other similar studies.

6.3 Client Impact Monitoring System (CIMS)

In regards to impact assessments there have been two external impact studies conducted by the Central Philippine University, Iloilo. These studies, among other things, sought to assess the degree of correlation between the services offered by TSKI and the change in the quality of life of the clients, and also aimed to determine the psychosocial and economic contributions of microfinance to the women clients of TSKI.

TSKI operations and branches were equipped with client impact assessment surveys to measure client impact. However, as there was no formal collection process and no staff were directly responsible for these surveys, there was no proper process of data collection and analysis. Both OI and the implementing partner TSKI subsequently realised the need to conduct a regular impact assessment and identified CIMS as the answer to their need. The original survey aimed at covering all areas that they were looking to assess and provided them with an opportunity to include custom questions. In May 2005 TSKI agreed with OI that they would implement CIMS for the first time and collect all data for the surveys by Oct 2005. By facilitating the CIMS, TSKI anticipated that it would assist them in understanding the impact of their products and services. Further they believed outcomes would highlight opportunities for improvement or innovation.

6.3.1 The CIMS methodology

The CIMS is a survey tool that was created by OI as an attempt to assess the impact that microfinance and its products has on the lives of implementing partners' clients.

The objective of OI was firstly to measure impact to determine if they are accomplishing their mission. Does the provision of financial services lead to a reduction of poverty? Are client's lives being transformed as a result of their relationship with the particular implementing partner? Can the implementing partner better serve their clients in order to generate the desired impact?

Moreover, OI wanted to use the CIMS to ascertain the benefits of its microfinance programs to show the donors of OI that their work of investing time and resources in microfinance is beneficial.

The objectives of CIMS were to measure the:

- Client demographics to identify who the implementing partners are serving, clients' gender, age and education level;
- Social impact including, housing, health, religious and community

involvement;

- Transformational impact to determine whether products are resulting in the desired economic, social and spiritual impact in clients' lives and;
- Client satisfaction to assist implementing partners to develop products and services which better meet their clients' needs and enhance sustainability.

CIMS is a tool that provides participating implementing partners with the technology and the means to monitor and analyse client impact. By 2005, CIMS was being adopted by 18 implementing partners of the OI network and this number was further increased in 2006.

6.3.2 CIMS survey

The CIMS survey instrument is broken up into 11 sections (see Appendix III)

- Demographic Information
- Housing
- Children's Education
- Business Activity
- Savings
- Decision Making
- Health
- Community Involvement
- Client Training & Satisfaction

6.3.3 Implementation approach

TSKI was guided and supported by the OI helpdesk with regards to CIMS implementation. The helpdesk provided a comprehensive set supporting tools such as CIMS manual and CIMS quizzes (see Appendix IV), sampling tool, data entry software and e-mail support desk.

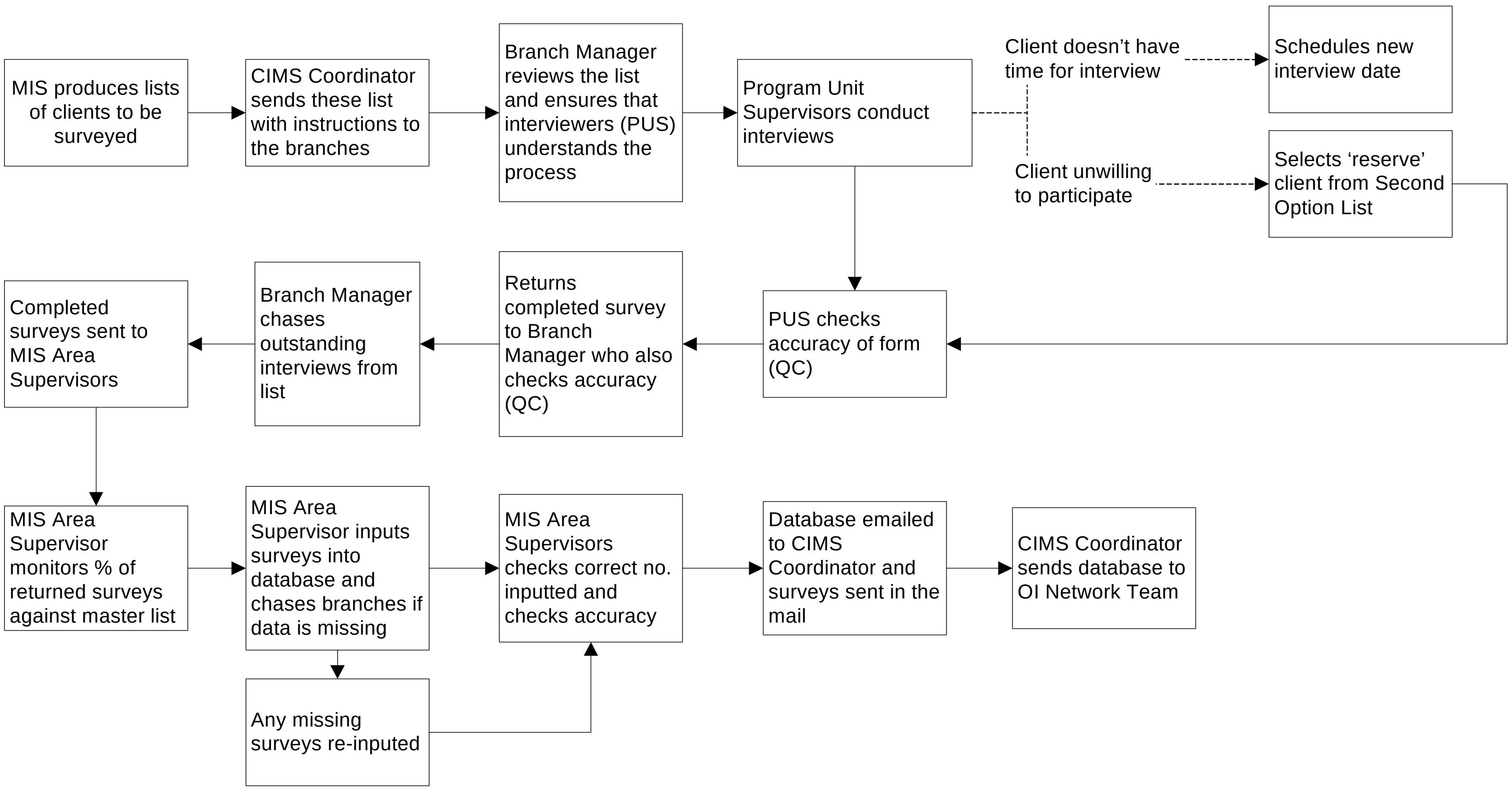
The nominated CIMS project coordinator at TSKI was an OI's Australian volunteer. The volunteer's task was to ensure successful implementation that would correspond with TSKI's current operations and to equip a local counterpart in managing CIMS. In order to receive vital buy-in from key department heads, CIMS was first presented to the management team in May 2005. The area managers especially expressed interest in CIMS, as they saw it would provide them with necessary feedback from field operations.

Further meetings were held with the Operations Manager, Business Development Manager and Business Project Manager to determine the best approach for implementation at TSKI. CIMS allows a certain flexibility which provides the implementing partner with the freedom to adjust the CIMS process to best suit their business operations. The CIMS survey was then reviewed and recommendations were made to the CIMS helpdesk to incorporate a small change in the Asia Survey form, and TSKI also determined specific questions (custom questions) which they added to the CIMS survey.

A timeframe for implementation was then determined and all branches were notified and supplied with the necessary tools and instructions for implementation. TSKI aimed to conduct the CIMS surveys every six months according to the timeframe set for database collection from the OI's CIMS helpdesk. The CIMS operational process at TSKI is given in Figure 6.1 which shows the data gathering process used at TSKI.

6.3.4 CIMS tools and staff training

The CIMS tools were developed to ensure consistency, accuracy and sustainability in field implementation. The project coordinator took into consideration the vast area of TSKI operations and the logistical and financial constraints when developing the training resources and tools. Unfortunately, not all CIMS interviewers were trained for the initial interviews in October 2005 and only half were trained before the April 2006 interviews.



Source: Opportunity International Help Desk

Figure 6.1 The CIMS operational process at TSKI

Hence, the project team realised the importance of developing a comprehensive CIMS user manual to be specifically available for the TSKI staff. The manual was prepared based on the original OI template; however it incorporated TSKI operational procedures and guidelines for CIMS implementation. Staff quizzes were also developed to ensure field staff could test their knowledge before conducting client interviews. A supplementary responsibility list was also provided to ensure that all staff adopted and followed the exact procedures before undertaking field work. A comprehensive set of training manuals were developed for the use of team leaders, branch managers, and MIS area supervisors. TSKI aimed to incorporate these into the standard staff training, thus, staff will be trained once a year to ensure consistency of the implementation, accurate client interviewing and providing an avenue for feedback from field operations.

6.4 The sample

6.4.1 Sampling tool

TSKI determined the appropriate CIMS sample size using the Excel database tool that OI made available to all CIMS implementing partners. The confidence interval of the sample tool database is set at 95% and the CIMS team recommended that there be a 6% margin of error for all core products and an interval of 10% for all other products. The formulae used in the sample tool database is given in equation 6.1.

$$n = n_0 \,/\, (1 + n_0)/N) \qquad 6.1$$

Where, n is the sample size, N is the total population, and n_0 is given by:$\rightarrow z_{\propto/2}{}^2\ S_2 \,/\, e^2$; with z normal statistics for 95% confidence interval, S representing the variance and e is the margin of error.

6.4.2 Client selection

Once the sample size was determined using equation 6.1, TSKI added a margin to it to account for a small non-response rate. TSKI also considered how realistic it would be for operations to conduct the interviews and adjusted this number accordingly.

Once the number was finalized, TSKI ensured that the maturity levels of clients were adequately represented across all product groups. The CIMS project manager provided a detailed list of the required figures to the MIS Area Supervisors and requested that they produce the corresponding client listings.

The MIS area supervisors randomly selected clients from the database. It was not possible for MIS to manipulate the selection as they were not aware of the status of the clients in the respective branches. Based on the selection process, approximately 200 to 450 “Centre Groups” had their clients interviewed on a random basis. There were over 6000 centre groups within TSKI. Within a Centre Group chosen, no more than 3 of the total membership of 30 were randomly selected. This was done to reduce any potential bias relating to individual centres or regional areas. The client listings produced by the MIS Area Managers were then passed onto the CIMS coordinator who ensured that the respective branches received the client listings. The client listings included: name and number of client, name and number of centre group, name of loan officer and client maturity.

6.4.3 October 2005 Sample

TSKI had approximately 163,000 clients at this date: 160,430 PKK clients (Group Saving) and 2,570 MEDP clients (Individual). Using the sample tool and the suggested margins of error, TSKI was required to interview up to a total of 350 clients. However, TSKI decided to interview 500 clients, equating to 100 clients per area to ensure entire branch involvement and allowed approximately 10 clients to be interviewed per branch. TSKI anticipated that its response rate would be in excess of 90% as branches were supplied with second option client lists in case the clients could not be reached from the primary list.

Having made this selection, the five area managers forwarded the client selection details to their respective branch managers for completion of the questionnaire. The branches were given one week to complete the survey. In the event of any uncertainty in the execution of these duties the branch managers were instructed to seek further clarification from the MIS Area Supervisor or the CIMS project coordinator.

6.4.4 April 2006 sample

TSKI had approximately 203,000 clients by April 2006: 199,500 PKK clients (group saving) and 3,500 MEDP clients (Individual). Using the sample tool and the suggested margins of error, TSKI was required to interview up to 360 clients. However, TSKI decided to interview 995 clients for the second implementation, which was equivalent to 135 clients per area to ensure entire branch involvement and allowed approximately 20 clients to be interviewed per branch. TSKI decided to increase the sample number as it was still realistic and practical for operational implementation even though it was not statistically necessary. In this sample TSKI also included the savings bank clients and requested each bank branch to interview 10 clients each on a random basis. TSKI anticipated that its response rate would be a little lower than the previous collections due to the branch restructuring undertaken during that time. Many branches were busy working through staffing and client concerns due to the restructuring at the time of the interview.

6.5 Data collection procedures

6.5.1 The CIMS interview

The TSKI management decided in the initial planning meeting that, in the case of PKK clients, the data was best to be collected by the program unit supervisor (loan officer or team leader). For individual clients the supervising MEDP staffs in the branches were to be responsible for conducting the interviews. For bank clients the bank tellers were assigned this responsibility.

Guidelines were also set as to the appropriate locations for the interviews. This ensured that CIMS was aligned with current business operations and did not cost the operations time and money in implementing. For PKK clients, the interviews were set and conducted after the client’s weekly centre meetings. The Team Leader was encouraged to combine this visit with a standard monitoring visit of the centre group and respective Loan Officer. In the case of the MEDP clients, TSKI staff would organise the interview either upon the monthly repayment visit by the client to the branch, or arrange to visit the client’s business. They were also encouraged to combine the visit with a monitoring visit. For Kauswagen bank saving clients, it was unrealistic and not appropriate for the current business operations to visit the homes of them. It was decided that it was best for bank tellers to conduct interviews with walk-in bank clients, still ensuring that clients were randomly selected.

For PKK clients and MEDP clients, the staff of the branches followed the client listing provided to them by the CIMS project coordinator. Group PKK Clients who were not at their weekly centre meetings were followed up at subsequent weekly meetings. Those clients not wishing to be interviewed were replaced with clients from the second option client list (see Figure 6.1).

The CIMS interviewer asked all questions on the survey in a methodical manner and recorded the client's response to ensure accurate collection and collation of data. This process, on average, took 20-30mins to complete. All survey responses were then reviewed and quality controlled. Once the team leader had reviewed the survey it was then passed to the branch manager who also quality checked the completed survey. When this was completed, both the team leader and the branch manager signed the top right hand of the survey to indicate they had reviewed the survey. Once all the surveys were completed, they were collected and sent to the respective MIS Area Supervisors for data entry.

6.5.2 October collection results

The October 2005 survey collected 477 responses out of 500 originally requested. 23 surveys representing less than 5% of the total sample were missing or inaccurately completed. This was well within the expected parameters of a standard statistical survey.

6.5.3 Recording of data

Upon receiving the completed CIMS surveys from the respective branches, the MIS area supervisors checked the surveys against the client listings to identify any members of the sample data who had been missed or incorrectly recorded. Approximately 90% of this data was received on time at the regional offices in the October 2005 survey and instructions were then sent back to the CIMS coordinator to clarify the reasons why the other 10% had not been completed.

The data from the missing clients was then promptly followed up by the branch manager. Where possible this additional data was added to the overall sample or alternatively where no explanation or result was available this was excluded from the overall results.

MIS area managers were trained by the CIMS coordinator and were confident in using the database supplied by OI. On average it took 8-15minutes to input a completed survey into the database, depending on the complexity of the answers and the speed of the data entry personnel. Once the MIS area managers completed inputting a survey, the survey was given a sequence order number which was written on the top right-hand corner of the survey and the MIS area supervisor indicated the area number as well. This ensured that surveys could be easily located, checked and validated.

Once all the surveys were entered into the database the MIS area supervisor quality checked 10% of his or her work for accuracy, after which a soft copy of the database was e-mailed to the CIMS coordinator and the hard copies of the surveys were delivered in person or via mail to head office. Upon receiving the databases and hard copies of the surveys, the CIMS coordinator checked the database against the surveys received and the corresponding client listings. Once all databases were received from the respective areas and the data was checked for accuracy, they were forwarded to OI. The analysts at OI collated these databases into single spreadsheet and sent it back to TSKI to facilitate the analysis of CIMS results.

6.6 Data analysis procedures

6.6.1 Analysis at Opportunity International level

Before the database was sent to OI, TSKI answered some key questions about their current business direction and operations. They were also asked to inform OI which questions they were particularly interested in analyzing at that certain point in time. A month later Analysts of the OI supplied TSKI with a narrative report on their key findings and also a comprehensive data analysis document which included up to 150 graphs covering all survey questions. TSKI was able to analyse these graphs on the basis of time, product or client maturity.

6.6.2 TSKI analysis

Upon receiving the collated database, TSKI first analysed the custom questions which were added to the CIMS survey. The project coordinator analysed the results using Microsoft Excel and generated a summary report. Once TSKI received the report and the 150 graphs from the OI, the project coordinator reviewed all graphs and selected those relevant graphs and a few tables to be included in the TSKI CIMS summary report, which also included the analysis of the TSKI custom questions. The project coordinator then combined all these reports and relevant tables into a CIMS reporting pack which was distributed to senior management and the board.

A result analysis workshop was then held to inform all branch managers and area managers of the CIMS results. The participants of these workshops were asked to discuss relevant successes, opportunities and needs that could be gathered from the data. The workshop was very successful and provided an opportunity for the branch managers to take ownership of the data. The presentation and workshop on the October 2005 survey results was followed by a week-long session of strategic planning. It was found that the CIMS findings and experiences assisted TSKI in setting their own-direction for the future and guided them in assessing their clients needs.

6.7 Limitations

The chosen method of implementation was suited to the large operation structure of TSKI. However, difficulties were encountered where clients that were randomly selected had already left the program (drop outs). Branches that had a higher client turnover, experienced difficulties in locating and contacting clients on the client list which had been gathered from an actual data base approximately 3 months before survey implementation.

The success of the CIMS was dependent on branch participation and interviewer understanding of the CIMS interview and process. This approach and method sought to meet these needs by providing training, memos, information and holding various stakeholders meetings. However, due to the diversity of operations and financial constraints, not all CIMS interviewers or branches managers were trained in the process, although all had access to the CIMS manual and were aware of whom they needed to contact in head office.

The analysis of custom questions was quite a lengthy and time consuming process. There needs to be staff allocated to this role in the organisation that has the analytical and excel based skills to conduct the appropriate analysis. The analysis was hampered by the lack of a suitable software program like SPSS at TSKI level. Members of the MIS staff too were not trained to pivot tables for analysis. More understanding needs to be gained in how TSKI can interpret the graphs so it can be adequately applied to the business. This may take place over time once TSKI is more familiar with the data.

6.8 Ethical considerations and clearance

All Clients who were randomly selected to be interviewed were given the option not to participate in the interview; however all chose to contribute to this research of their own volition. The CIMS interviewers and the branch managers were advised in the CIMS training and in the CIMS manual that the interview was not to be used in any way to gain information from or to interrogate the clients. All answers were to be received in an unbiased manner and not judged.

For the purposes of this dissertation OI and TSKI have requested absolute confidentiality in the use of any of their data or priority systems as this is seen to be commercial confidential. This has been agreed to as a prerequisite of allowing access to the TSKI client base.

6.9 Conclusion

The objective of this chapter was to revisit the research questions and describe the CIMS methodology employed to generate and analyse the information. Following the literature review on microfinance industry in an earlier chapter, this chapter identified the research question to be examined. Following a specific description of CIMS the features of the TSKI sample and the method employed to generate data were described. This followed a description of the quality assurance measure adopted and the method of analysis. In the final section the limitations and the ethical considerations were identified. The result of these exercises will be presented in the next chapter. It is important to note that the entire data collection process carried out by the staff attached implementing partner under the supervision of an agent of the Opportunity International. This operation was financial sponsored by the researcher to ensure that the data gathering process followed the accepted data collection norms and ethical standards. However the Opportunity International and TSKI are the rightful owner of the data collected through CIMS process.

CHAPTER 7

RESULTS AND DISCUSSION

7.1 Introduction

In Chapter 6, the research methodology employed in the CIMS survey was discussed and specific research questions were derived to examine the effectiveness of TSKI's operation in meeting the millennium objectives. In this chapter a detailed analysis of the data gathered through CIMS is provided. The data is examined using both quantitative and qualitative aspects. In drawing conclusions, the TSKI information is contrasted against the OI's other implementing partners in the Asian region, thus setting Asian observations as benchmarks.

The chapter is presented in six sections. The second section describes some specific details related to the TSKI and aggregated Asia sample. The third, describes the quantitative information classified in terms of gender and the product orientation. The fourth section examines the qualitative aspects examined through the survey and the penultimate section describes the specific questions added by the TSKI to the global CIMS questionnaire. The final section provides an overview of the results and discussion.

7.2 Sample characteristics

This section presents a profile of the sample used in TSKI and the other implementing partners of the OI in the Asian region. The TSKI and Asia samples comprised 477 and 3145 respondents respectively. The response rate is not considered as a factor in the study because size of the sample was predetermined and the respondents were chosen on a random basis. Furthermore, the inclusion of second option respondents ensured that the survey was extended to the anticipated number of respondents. As described in Chapter 6, the survey included questions on demographic information, housing, children's education, business activity, savings, decision making authority, health, community involvement and a set of TSKI specific questions on client training and satisfaction. This facilitated the analysis of data based on demography, economic and social impact. Furthermore, the data was useful in examining the impact in achieving MDGs, including poverty impact, economic and social transformation.

7.3 Analysis based on gender

For analytical purposes the data was considered on the basis of gender and product orientations (namely; individual microfinance clients, group microfinance clients and banking clients). The gender-based data was analysed graphically and the product-based data was analysed using non-parametric statistics.

7.3.1 Profile of the respondents

Approximately 64% of the TSKI sample were group clients and the rest were individual microfinance clients. Since the TSKI banking business was relatively new no clients from the banking group were included in the sample. Figure 7.1 presents a profile of respondents based on gender and residential type. As can be seen in Figure 7.1, the proportions of rural female and male clients were relatively higher than the Asian aggregates indicating a wider acceptance of TSKI's operation in the rural regions. Furthermore, the distribution of male and female clients of the TSKI was almost identical.

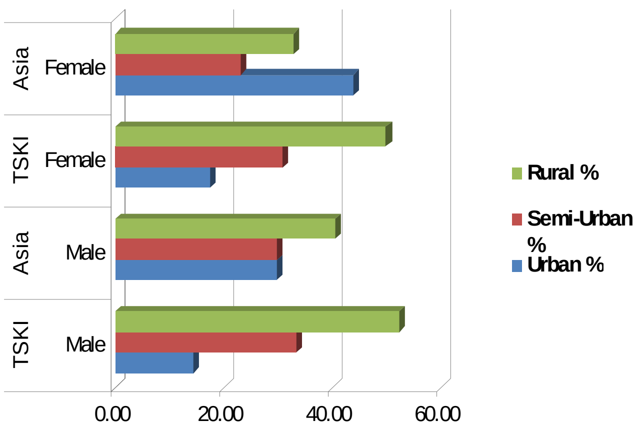


Figure 7.1 Profile of respondents

7.3.2 Loan cycle

The loan cycle indicates the maturity of the clients in dealing with the institution. Figure 7.2 presents the distribution of TSKI and Asian respondents. As can be seen in the figure, the OI's mature clients group (6 years +) comprise more females than male implying the majority of the early recipients of donor support were female clients. The large proportion of lower loan cycle (1 to 2 years) indicates the popularity of the microfinance operation among new clients.

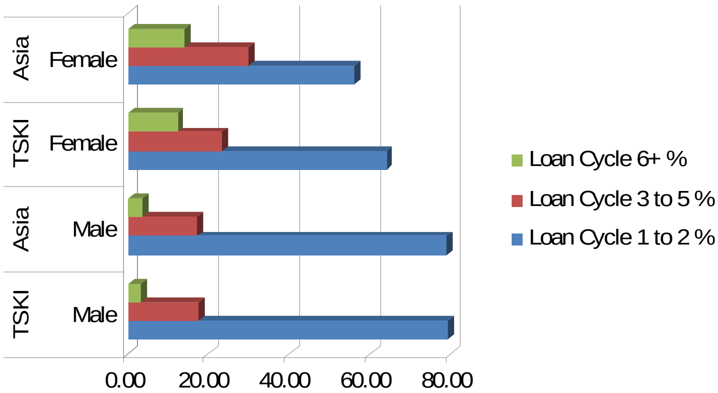


Figure 7.2 Loan cycle

7.3.3 Client orientation

Figure 7.3 analyses the respondents in terms of the business groups. As mentioned before the TSKI sample did not include banking clients. In contrast to the Asian aggregates, the majority of the TSKI clients belonged to a microfinance group.

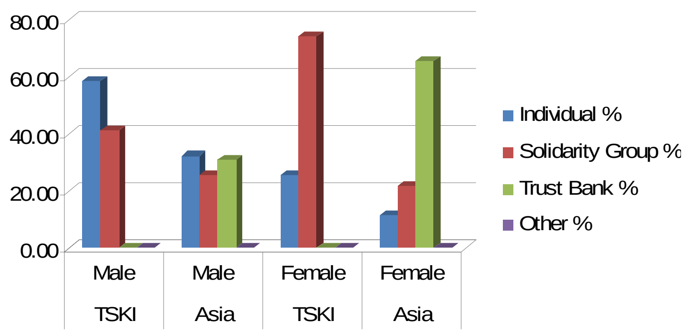


Figure 7.3 Client orientation

7.3.4 Age profile and marital status of the respondents

As can be seen in Figure 7.4, the majority of the clients were in the age group between 30 and 50 years. A substantial proportion of male clients were aged between 30 and 40 years. As can be seen in the figure, the distribution of the TSKI clients ages and OI's other partners were almost identical.

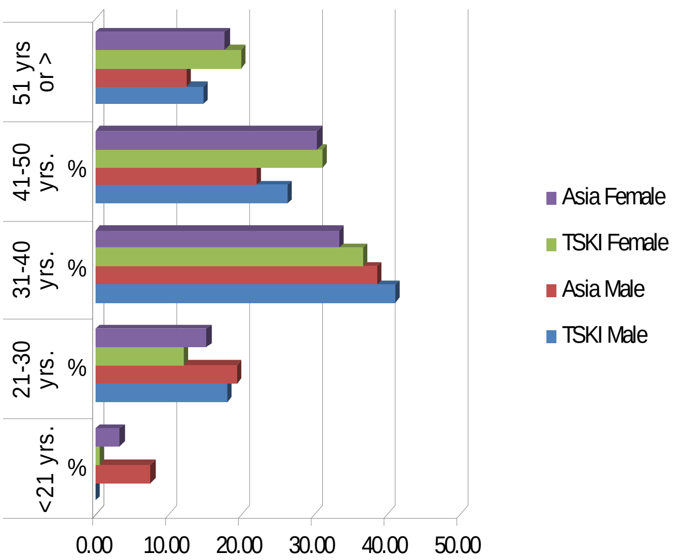


Figure 7.4 Age Distribution of the respondents

Furthermore, almost 90% of the clients were either married or living together (see Table7.1)

Table 7.1 Marital Status

Marital Status	TSKI Male	Asia Male	TSKI Female	Asia Female
Married %	85.71	87.32	89.10	87.61
Single %	11.11	10.39	4.12	4.34
Divorced %	0.00	0.35	0.24	1.20
Separated %	0.00	0.35	0.97	1.31
Living Together %	1.59	1.06	1.69	1.01
Widowed %	1.59	0.53	3.87	4.53

7.3.5 Composition of the families

Figures 7.5 and Table 7.2 present the family composition of the client groups and the schooling of their children. Respondents in both the Asia aggregate and the TSKI samples have 2-3 dependants in their families and, in most cases, two of the family members were earning an income. The number of orphans was higher in the case of TSKI sample.

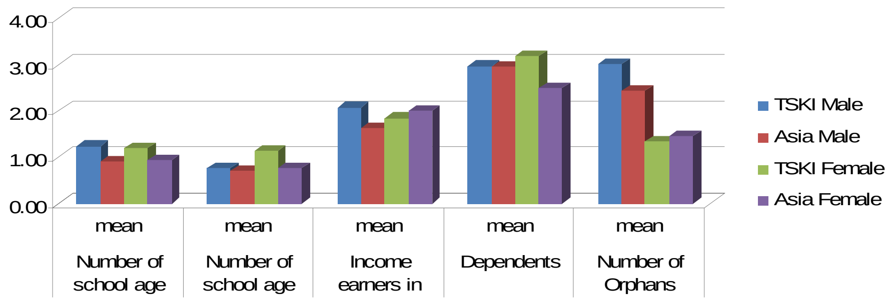


Figure 7.5 Structure of the family

Table 7.2 Schooling

Category	TSKI	Asia	TSKI	Asia
	Male	Male	Female	Female
Boys in School	47.44	69.77	61.79	64.02
Girls in School	50.00	70.44	59.15	66.20

7.3.6 Ownership of assets and household utilities

Approximately over 70% of the males and 80% of the females of TSKI clients owned their home. This was quite similar to the home ownership of the Asia aggregate sample (82% of males and 68% of females). This shows that the main issue with the clients is access to a source of finance to fund income generating activity.

Figure 7.6 presents the information on clients' access to basic services such as clean water, sanitation, energy sources and communication. On average, over 70% of the clients, regardless of gender, had access to basic services such as water, sanitation and electricity.

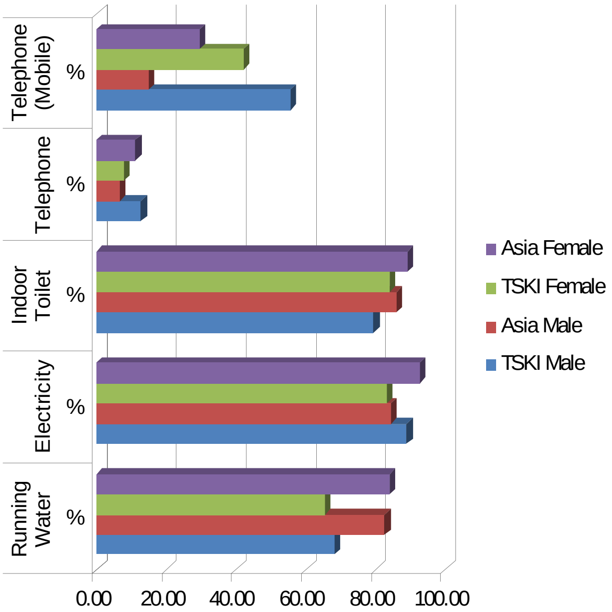


Figure 7.6 Access to services

One of the important aspects of rural communities is the remittances from the migrant family members who normally work away from their residences and make periodic remittances to maintain the family. Approximately 20-30% of the TSKI clients were the recipients of such remittances (see figure 7.7). Although these figures are quite low, TSKI clients contained a higher number of remittance-recipients that the other clients in the Asian region.

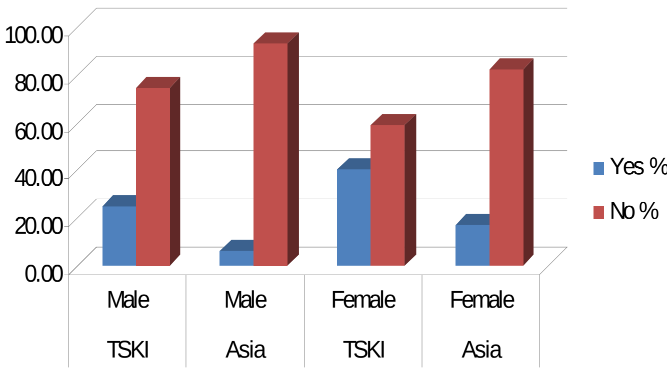


Figure 7.7 Receiving Remittances

7.3.7 Economic contributions

This section provides an analysis of the economic impact of TSKI based on the information provided by the respondents, and contrasts it against the Asian aggregates. The economic impact is compared based on the business engagements, employment, profitability, income, expenditure and decision making authority.

Table 7.3 presents the details of the business engagements of the respondents. Accordingly, the highest business engagement of the OI clients was in the trade and retail businesses. Given that this category requires little capital, technology and skills, most clients have sought financial assistance for engaging trade and retail activities such as retail grocery outlets (Sari-Sari stores and sales of essential items such as clothes, confectionery, water and soft drinks). Furthermore, a relatively higher proportion of male and female TSKI clients engaged in transport and food services enterprises.

Table 7.3 Classification of business activities

Type of Business	TSKI	Asia	TSKI	Asia
	Male	Male	Female	Female
Manufacturing %	7.94	5.14	6.19	7.01
Trade or Retail %	41.27	49.29	47.52	56.98
Food Services %	14.29	8.33	19.31	17.46
Transport %	14.29	4.96	4.46	1.85
Other Services %	7.94	13.65	8.91	10.03
Agriculture or Animals %	14.29	18.62	13.61	6.67
N/R %	0.00	0.35	1.49	0.45

The number of clients involved in manufacturing was very low. Manufacturing is one of the areas that TSKI has received attention with specific programs of BDO. It is important to note that the manufacturing enterprises have a greater potential to create more employment and reduce poverty. This was evident with the responses of those who hired labour to support their enterprises. For instance, both male and female entrepreneurs of TSKI hired, on average, 4 additional people (compared to 3 additional people in the Asia aggregate) to support their enterprises. This confirms that financing manufacturing activities would create more employment opportunities for rural poor.

Tables 7.4 and 7.5 present the analysis of the profitability of clients’ enterprises. In other words, this information presents an overview of the income capacity of the respondents. Accordingly, TSKI male entrepreneurs were found to be making more profit than their female counterparts. The lower profitability is primarily due to the fact that the sample contained a larger proportion of newer clients with a loan cycle of 1 to 2 years (see Figure 7.2). However, as can be seen in Table 7.5, a relatively larger proportion of households were earning over US$1 per day (which is the benchmark income threshold). This is a satisfactory outcome given that a minimum of two family members were income earners.

Table 7.4 Weekly profits

Weekly Profit	TSKI	Asia	TSKI	Asia
	Male	Male	Female	Female
<$10 %	13.33	34.91	35.42	35.17
$10-25 %	26.67	29.92	30.73	32.33
$25-50 %	26.67	16.01	18.23	22.64
>$50 %	33.33	19.16	15.63	9.86
No Response %	13.33	0.79	17.71	0.42

Table 7.5 Daily income per household member

Income (daily per HH member)	TSKI	Asia	TSKI	Asia
	Male	Male	Female	Female
<$0.50 %	31.25	43.42	53.97	46.38
$0.50-0.99 %	12.50	22.11	21.69	24.94
$1.00-1.49 %	31.25	11.32	7.41	12.51
>$1.49 %	25.00	23.16	16.93	16.17

Over 20% of TSKI clients used their profits from enterprises for debt servicing. This figure is relatively higher than the Asia aggregate (see Figure 7.6). A relatively higher proportion of their income was used for household expenditure and business related activities. However, the proportion of profit saved was very low, implying the dependency of capitalisation support for future business expansion. However, TSKI clients were saving higher proportion of their profits relative to their Asian counterparts.

Table 7.6 Expenditure patterns

Profit Uses	TSKI	Asia	TSKI	Asia
	Male	Male	Female	Female
To repay debts (other than loan) %	25.40	13.03	22.76	20.93
For emergencies %	25.40	20.60	9.44	17.53
Regular household expenses %	65.08	63.73	58.35	57.55
Regular business expenses %	53.97	42.96	28.33	38.57
Household assets %	20.63	5.81	10.90	6.76
Business assets %	14.29	7.57	13.32	9.27
For savings only %	14.29	1.58	12.35	7.44

7.3.8 Social and community contributions

Tables 7.7 and 7.8 illustrate the nature of community engagements of the clients.

Table 7.7 Clients who are involved in community activities

Activity	TSKI	Asia	TSKI	Asia
	Male	Male	Female	Female
Civic Activities %	25.40	35.21	21.55	39.35
Social Activities %	22.22	20.77	24.21	25.86
Worship Services %	30.16	69.89	34.62	47.72
Other Religious %	30.16	21.48	24.94	30.90
Funerals %	6.35	10.56	6.30	7.32
None %	36.51	11.80	30.02	15.73

Table 7.8 Clients who hold leadership positions

Leadership Position	TSKI	Asia	TSKI	Asia
	Male	Male	Female	Female
Civic Activities %	6.35	7.22	6.30	8.33
Social Activities %	14.29	4.93	8.47	8.07
Worship Services %	14.29	16.02	14.04	10.39
Other Religious %	7.94	4.75	7.51	6.28
Funerals %	1.59	1.06	1.21	1.64
None %	68.25	70.25	67.55	70.22

A substantially higher proportion of male and female Asian clients were involved in worship services. In contrast approximately 30% of the TSKI clients were not involved in any community based activities. Surprisingly, approximately 70% of the clients did not hold any leadership position within the community implying the client's social status prevents them from taking such positions with the community.

7.4 Analysis based on product groups

The analysis based on product was done in line with the MDG and along with social and economic impact. As mentioned in Chapter 2, stakeholders of microfinance believed that access to education, health, water and social services can be enhanced by appropriately designed saving and loan services. The integration of microfinance into MDGs recognised the role of microfinance in poverty alleviation making it a central development strategy. The details of MDG targets and their measurement indicators are given in Appendix I. The data collected through CIMS provided some benchmarks for measuring the progress made with the MDGs.

As discussed in Chapter 2, extensive evidence demonstrates that microfinance:

- *Eradicates extreme poverty and hunger*: helps to reduce poverty through increase in income, allowing poor to build assets and reduce their vulnerability.
- *Achieves universal education*: households that have access to microfinance spend more on education than non-client households. Improvements in school attendance and the provision of educational materials are widely reported in microfinance households. Participation in credit and savings programmes has enabled many families to send several children at a time to school, and has reduced drop-out rates in higher primary grades.
- *Promotes gender equality and women's empowerment*: Since clients are overwhelmingly female, microfinance has been widely credited for empowering women by increasing their contribution to household income, the value of their assets, and control over decisions that affect their lives.
- *Reduces child mortality, improves maternal health, and combats disease*: Microfinance contributes to improved nutrition, housing, and health, especially among women clients.

This section analyses the TSKI's achievements in the above areas relative to its

Asian counterparts. However, unlike cases of other providers of microfinance in Asia, TSKI's Trust Bank (or called K-Bank) was relatively new in 2005 and, as such, only solidarity groups and individual microfinance clients are compared.

7.4.1 Definitions of statistical tools

Apart from the basic statistics such as mean, ratio and percentages, some specific statistics used for the analysis are defined below.

Dependency ratio: Number of dependents divided by number of income earners in the household.

Utilities index: A value between 0 and 100% based on the number of utilities the client has access to out of a possible five: Water, Electricity, Toilets, Phones, and Mobile Phones.

P-Value: The P-Value provides a measure of the degree to which the values of one comparison group are "Similar" or "Representative" of the values of another. A P-Value of .10 suggests only a 10% probability that there is a "Statistically Significant Similarity" or a 90% probability of a "Statistically Significant Difference" between the groups being compared. In cases where the P-Value is less than .10, it is safe to conclude that a "Statistically Significant Difference" exists. However, whether the "Statistical" difference is important from a business perspective is left to the judgement of the reader.[1] For the purpose of this analysis, a p-value of .10 or less is considered to be evidence of impact or a "difference" being represented by the data for two sample means or proportions being evaluated for a given indicator. It is important to note that the P-values test the differences between TSKI and Asia aggregates.

7.4.1 Compliance of MDGs

In 2006, two new MDGs were adopted as follows:

1. To ensure that 175 million of the world's poorest families, especially the

[1] Sensitivity of P-Values: a. P-Values are lower when there is a larger difference in the values being compared for the two comparison, b. P-Values are higher when there is a small sample size for either one or both of the comparison groups, c. P-Values are higher when there is a high degree of variability (variance) associated with the data of either of the comparison groups and d. The P-Value calculations performed in this analysis assume sampling was done "Randomly".

women of those families, are receiving credit for self-employment and other financial services and business services by 2015.

2. Working to ensure that, from a starting point of 1990, 100 million of the world's poorest families move from below US$ 1 a day adjusted for Purchasing Power Parity (PPP) to above US$ 1 a day adjusted for PPP.

The TSKI's primary object was to extend the credit facilities to poor families (individually or group basis) for self-employment and other financial services and business development services to increase the income and maintain its stability. Therefore TSKI's objectives are consistent with the MDGs.

Table 7.9 presents the details of TSKI's and other implementation partners' achievements in relations to MDGs. It is important to note that the survey was completed before the adoption of new MDGs.

Table 7.9 Millennium Development Goals

Target	Individuals		Group		P-Value
	TSKI	Asia	TSKI	Asia	
% of Clients Living Below $1 per Day (Net Profit)	5.84	7.57	11.88	19.97	0.69
% of Girls in School	71.19	74.85	54.50	64.38	0.63
% of Boys in School	71.03	73.72	56.00	66.87	0.57
% of Women Who are Primary Decision Makers - Savings Use	82.86	81.97	83.56	73.02	0.57
% of Women Who are Primary Decision Makers - Other Money Use	82.86	81.97	81.88	71.60	0.58
% of Women Who are Primary Decision Makers - Always/Often	75.24	78.55	70.81	75.04	0.94
% of Women in Leadership	34.29	18.69	30.84	23.97	0.37

The percentage of clients living below US$ 1 per day was lower than the Asia aggregate, however, no statistically significant difference was observed between the two groups. The percentages of boys and girls were higher in the case of individual clients than the solidarity groups. However, both TSKI and their Asian counterparts showed similar distributions. The role of women was found to be prominent in the case of using money and saving, implying that that there are signs of women empowerment. However, women in leadership was comparatively low which has been a historical feature of the women from the Asian region. This suggests that leadership training will be an integral part of a successful poverty alleviation program.

7.4.2 Poverty impact

The poverty impact was measured using the utilities index which is a value between 0 and 100% based on the number of utilities the client has access to out of a possible five; water, electricity, toilets, phones, and mobile phones and also using the dependency ratio. Table 7.10 illustrates the distribution of the utilities index. Interestingly, individual clients showed better access to utilities than the solidarity groups. Although there were no statistically significant differences in distribution between the TSKI and Asia aggregates approximately 70% of the individual clients have access to four or more utilities.

Table 7.10 Access to basic services

Utilities in Household:	Individuals		Group		P-Value
	TSKI	Asia	TSKI	Asia	
% Clients with all five utilities	16.90	8.59	1.80	2.19	0.41
% Clients with four of five utilities	52.11	28.83	18.86	14.27	0.46
% Clients with three or fewer utilities	30.99	62.58	79.34	83.54	0.15

Table 7.11 Dependants

Measure	Individuals		Group		P-Value
	TSKI	Asia	TSKI	Asia	
Dependency Ratio	1.62	1.50	2.15	2.13	0.97
Average No. of Orphans Supported by Client	1.44	1.31	1.52	1.50	0.96
Percent of Clients Caring for Orphans	6.34	2.66	6.89	4.66	0.61

Table 7.11 presents some information on the dependants of the respondents. Although the difference between TSKi and Asia Aggregates was not significant, a typical TSKI individual client reported relatively more dependants. Furthermore, both individual and group clients cared for more orphans than the Asia group.

7.4.3 Economic impact

It is important to recognise that CIMS relied on the information provided by the clients. As such the application of more robust economic impact measures such as cost benefit analyses or input/output analyses were difficult to employ. Thus, alternative set of measures of economic impact assessment were employed. These measures included number of employees used by the clients in micro-enterprises, profitability and the usage of profit for business and non-business related activities. Some of these measures can be interpreted as indirect measures of capital accumulation in the long-run, thereby reducing the dependency on debt relief. The economic impact measures also included client expenditure patterns and the interactions with formal financial institutions.

Table 7.12 provides the information on the employment and the net profitability. Accordingly, on average, TSKI individual clients hired approximately five units of labour to support their enterprises. However, those who were affiliated with groups hired only 3 units of labour. These numbers were quite similar to the clients of other implementing partners in Asia. Interestingly, approximately 43% of individual clients of TSKI hire labour implying most of the individual clients of TSKI are micro-entrepreneurs. Furthermore, these clients earned relatively higher incomes than other groups.

Table 7.12 Economic impact

Measure	Individuals		Group		P-Value
	TSKI	Asia	TSKI	Asia	
Average number of employees	4.70	4.24	2.94	2.60	0.98
% of Clients with employees	42.25	22.70	10.78	6.86	0.76
Current Weekly Net Profit US$	60.35	48.39	28.35	26.47	0.64

Table 7.13 further examines the profitability on the basis of daily profit per household member. Inevitably, larger families with more dependants would report relatively lower profit per household member than small families and also households with more income earning members. Interestingly, approximately 50% of individual clients of the TSKI reported more than US$1 profit per day compared to 39% of their Asian counterparts. Furthermore, P-value for over US$ 1.49 per day profit category indicated that there is a statistically significant difference in profitability between the TSKI clients and Asia aggregates. However, members of

the TSKI's solidarity groups earned relatively lower profit compared to their Asian counterparts.

Table 7.13 Profit analysis

Profit (daily per HH Member)	Individuals		Group		P-Value
	TSKI	Asia	TSKI	Asia	
<$0.50	28.57	25.95	62.68	57.64	0.97
$0.50-0.99	22.22	32.82	20.42	15.29	0.12
$1.00-1.49	14.29	12.21	7.04	9.52	0.46
>1.49	34.92	29.01	9.86	17.54	0.10*
Average	1.74	1.84	0.83	0.91	0.98

Financial literacy is one of the key factors influencing the development of microfinance and income generation. Ability to deal with a formal financial institution provides an indirect measure of the financial literacy of the microfinance clients. As can be seen in table 7.14, over 57% of the TSKI individual clients dealt with formal financial institution by depositing at least half of their saving. However, group clients were less interested in dealing with the formal financial institutions. This may be due to dependency on microfinance centre activities or low level of financial literacy. Notably there was a statistically significant difference between the non-saver groups and also those who dealt with financial institutions to deposit at least half of their savings.

Table 7.14 Dealing with formal financial institutions

Deposits in Formal Banks	Individuals		Group		P-Value*
	TSKI	Asia	TSKI	Asia	
All of my savings	29.59	20.99	13.54	10.37	0.87
At least half of my savings	26.53	17.92	9.38	16.85	0.05*
Less than half of my savings	17.35	13.21	12.50	10.37	0.88
None of my savings	5.10	3.54	13.54	22.04	0.26
No savings at all	21.43	44.34	51.04	40.37	0.00*

Table 7.15 presents the usage of the respondents' profits. As generally expected, over 60% of the clients indicated that their income or profit was spent on household purchases. However, the approximately half of the individual clients spent their

profit to improve their enterprises by spending more on business related purchases.

Table 7.15 Usage of profits

Profit Uses	Individuals		Group		P-Value*
	TSKI	Asia	TSKI	Asia	
To repay debts (other than loan)	17.61	19.22	25.45	17.28	0.29
For emergencies	13.38	14.93	10.78	23.05	0.21
Regular household expenses	57.75	67.69	59.88	65.71	0.79
Regular business expenses	46.48	49.69	25.45	33.47	0.53
Household assets	14.79	6.54	11.08	6.72	0.64
Business assets	22.54	11.86	9.58	6.04	0.78
For savings only	21.13	9.61	8.98	4.66	0.84

Table 7.16 Payment patterns

Business Use of Savings	Individuals		Group		P-Value*
	TSKI	Asia	TSKI	Asia	
Loan repayment	26.06	16.97	22.16	15.78	0.84
Hire Employees	6.34	2.66	0.30	1.37	0.20
Buy inventory	16.20	18.20	5.99	23.73	0.02*
Purchase equipment	25.35	16.56	6.59	12.21	0.07*
Improve structure	11.27	6.54	3.89	4.66	0.07*
Other	6.34	12.07	6.89	6.58	0.35
None	5.63	4.91	7.78	10.84	0.54

Table 7.16 further analyses the business uses of client's savings. As mentioned before 20% of the TSKI clients used their profit for debt serving compared to 17 percent of the clients of the other implementing partners. Here, a relatively higher proportion of individual clients used their profit on business development activities, indicating individual clients have potential to engage in sustainable businesses. Significant differences were also observed between the TSKI clients and the clients in the Asia aggregate. The overall economic impact assessment indicates that the individual clients have greater potential to be included in the formal banking group of the microfinance structure implying they are in a better position to absorb the "mission drift" in microfinance services.

7.4.4 Social transformation

Social transformation measures the clients' progress in the community and the decision making process. Here the clients' spending on non-business related activities, health status measured by number of days missed work due to illnesses, and family spending decisions were used as the measure of social transformation.

Table 7.17 presents the uses of savings of clients. Accordingly, a substantial proportion of clients used their savings on education of their children. Given that education is one of the MDGs and generally believed to be generating a higher return on investment, it can be considered as a satisfactory outcome of the OIs microfinance operation. Notably, there was a significant difference between TSKI's clients related to their spending on food, education and health services.

Table 7.17 Savings utilisation

Non-Business Use of Savings	Individuals		Group		P-Value*
	TSKI	Asia	TSKI	Asia	
Food	39.44	21.88	29.04	30.04	0.09*
Education Costs	36.62	30.27	21.26	33.61	0.08*
Medical expenses	18.31	12.88	8.08	19.62	0.02*
Home improvement	16.90	6.75	5.99	4.53	0.40
Funerals	0.00	0.00	1.20	0.96	-
Other	2.82	7.98	2.99	3.16	0.34
None	6.34	5.73	8.08	10.56	0.62

Table 7.19 Clients who hold leadership positions

	Individuals		Group		P-Value*
	TSKI	Asia	TSKI	Asia	
% of Clients who missed work due to illness	14.29	22.22	19.26	20.09	0.39
Average No. of days of missed work by client	3.94	3.48	5.38	3.83	0.83

Table 7.19 analyses the number of working days lost due to clients' illnesses. The figures suggest that there in no significant difference between the groups and the clients were generally healthy.

Tables 7.20 and 7.21 illustrate the clients' contribution in household money use and making other major decisions. Although these measures are somewhat less important, they provide an indirect measure of clients' intellectual advancement and ability to influence decision making.

Table 7.20 Spending decisions

Decision Maker on Other Money Use	Individuals		Group		P-Value*
	TSKI	Asia	TSKI	Asia	
Yourself	42.55	31.55	39.81	30.10	0.95
Joint	43.97	48.45	41.98	36.57	0.44
Spouse	11.35	19.38	17.90	33.05	0.87
Parents	1.42	0.41	0.00	0.14	0.53
Other	0.71	0.21	0.31	0.14	0.91

Table 7.21 Client's contribution to household decision making

Major Household Decision Making (by Client)	Individuals		Group		P-Value*
	TSKI	Asia	TSKI	Asia	
Always	56.74	38.38	50.93	40.59	0.58
Often	18.44	35.89	20.19	36.63	0.86
Sometimes	24.11	19.09	24.53	18.25	0.87
Rarely	0.71	2.07	2.48	2.97	0.57
Never	0.00	4.56	1.86	1.56	0.07

7.4.5 TKSI's client satisfaction

As mentioned in Chapter 6, the CIMS survey was reviewed at TSKI level and recommendations were made to the CIMS helpdesk to incorporate a small change in the Asia survey form, and TSKI also determined specific questions (custom questions) which they added to the CIMS survey. Although these custom questions were not an integral part of addressing research questions, they are worthy of consideration to maintain the sustainability of microfinance programs. This section provides a summary of responses received from the TSKI clients.

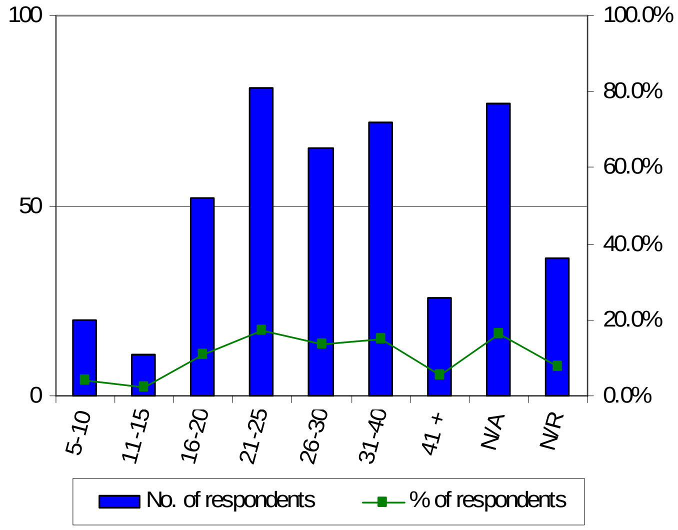


Figure 7.8: Preferences over the centre group size

Figure 7.8 presents the clients' preferences over the size of a centre group. 17% of respondents indicated that they prefer the centre group to consist of 21-25 members. 15.1% of respondents indicated that they prefer 31-40 members and 13.6% indicated that they prefer 26-30 members. However, approximately 20% respondents did not make their choice. 62% of respondents indicated that they preferred the frequency of centre meetings to be weekly. The high amount of N/A responses are represented by MEDP clients

The custom questions examined the effectiveness of livelihood skills training covering the areas such as candle making, hand-made paper, pottery making, handicraft, cosmetology, baking and art, meat processing, fish processing, other food processing and other skills training specific to the clients' residential areas. Only 5.2% (25) of respondents surveyed had attended livelihood skills training. Approximately 56% of participants said they utilized the training in their business and 48% of participants added a new product to their business as a result of the training. Over 80% of candle making participants experienced an increase in monthly income by approx US$ 35 (Pesos) after utilizing their new skills. Furthermore, 60% of meat processing participants experienced an increase in income of US$10—17 (Pesos300-500) a month after utilizing their new skills. The one participant who attended the handmade paper training and the one participant who attended pottery making training also experienced an increase in income after utilising their new skills in their business. Note, it is difficult to draw exact conclusions from these results due to the small number of livelihood participants surveyed. However, it is indicative that nearly half of the survey participants utilised their learnt skills in their business and 40% experienced an increase in profit.

The custom questions also contained two questions on the capacity building training covering the areas of product development, profitability analysis, breakeven analysis, business management, book keeping and other training related to small enterprises. Only 2.3% (11) of respondents surveyed had attended the capacity building training. They all reported that they have utilised the training in their businesses. However, it is difficult to draw exact conclusions from these results due to the small number of capacity building participants surveyed. It is indicative that over half of participants utilised the skills and improved their businesses and 64% of participants experienced an increase in profit as a result of the training. In response to the question “Are there any aspects of your business operations that you feel you can improve or further develop?”, 69% of respondents said that there were aspects of their business operations that they felt they could develop further. 38.4% were in business management, 34.6% in marketing/selling, 18.2% in costing of products, 14% in bookkeeping, 12.6% production flow process, 8.2% packaging/business image, 7.5% in food analysis, and 1.3% in bar coding.

The remaining questions examined the clients’ preferences over the lending packages. Over 60% of respondents indicated that they preferred the term of the loan to be 6 months and preferred the frequency of repayment to be weekly. Furthermore, over 67% of respondents indicated that they were satisfied with the current interest rate. Only a small minority (2.5%) felt that the interest on the loan was high. In response to the question, “How much collateral would you be willing to provide, if you could avail of a higher loan amount? (in terms of collateral required for the loan amount), 37.7% of respondents indicated they would be willing to provide 100% collateral if they could avail of a higher loan amount. Only 3.8% indicated that they would be willing to provide 200% collateral and 25.2% of respondents did not know how much they would be willing to provide.

7.5 Qualitative analysis

The previous sections analysed the OI's implementing partners using a quantitative approach. It is also important to consider, in-depth, the effect of microfinance on individual borrowers who seem to have benefited from this process. As discussed in chapter 4, the impact of microfinance project could also be assessed using a qualitative approach which is more appropriate as TSKI's microfinance programs impact clients in many aspects. Whilst most clients benefited financially, there may be significant other benefits being a member of TSKI related to change in their quality of life, and experiences of personal, spiritual and social transformation. The most economical way of investigating these changes is through qualitative assessments of individual clients. It is important to note from the outset that the clients' interviews were conducted following ethical standards, and clients' participation in the qualitative assessment was strictly voluntary. It is important to note the qualitative survey is a part of the CIMS added by the implementing partner.

7.5.1 Sample size and structure

A sample of six multiple clients were selected on a random basis to obtain reasonable mix of responses. This sample allowed the use of a structured interview and responses. From a practical point of view, constraints limited the sample to be set at six respondents. It is hoped that this group will be re-interviewed at a later stage so that their stories could be updated to reflect developments in their lives.

While the quantitative analysis was primarily based around collecting data where the responding clients were asked some closed questions, the qualitative analysis sought to drill down in greater depth to find the real impact of microfinance on their livelihoods by using a series of open-ended questions in a non-confronting environment.

When considering where to invest, donors tend to consider their previous experiences and seek to duplicate their success stories using a similar formula. This formula continues to be adapted and improved as greater knowledge of their clients becomes available. One of the easiest ways of visualising an ideal client is to actually review successful case studies including interviewing key borrowers to identify what makes them exceptional compared to other clients.

As part of this study TSKI was invited to select half a dozen individual borrowers to be interviewed by the authorised representative of OI. The clients chosen were interviewed after their local centre meeting. The interview was conducted using a question and answer approach, but respondents were given an opportunity to add additional information relevant to their own circumstance. (The basic questions are given in Appendix V).

The questions were structured in a way to provide for further evidence as to the hypothesis that the successful implementation of microfinance can significantly improve the quality of the life of the client. The structure of the interview was broadly as follows:

1. Gain rapport with the client through relationship building and open questions
2. Ask specific questions on income and quality of life
3. engage in further probing and interaction seeking to understand the client's personal circumstances
4. Confirm that information is recorded accurately and reflects the clients point of view
5. Show appreciation and retain the opportunity for further feedback at a later stage.

To ensure the integrity of the data provided at the interview, the following cross checks where used.

1. Traced the repayment record of the client back to the Trust Bank; in some cases this would include multiple loans
2. Observed their behaviour at local trust bank meetings
3. Received verbal references from the local loan officer
4. Where possible, visited their actual place of work and observed their activities.

7.5.2 Responses

Respondent 1: The first respondent was a TSKI Trust Bank leader who has a remarkable story of how microfinance has not only increased his monthly income by 600%; it has also enabled him to do what he enjoys most, that is, train and empower others.

He first heard about TSKI through a community information briefing in 2002. He soon joined a TSKI Trust Bank group and immediately borrowed AUD80 enabling him to place a deposit on a “tricad” (push bike with passenger cart). His monthly income from leasing the tricad was AUD53. On his fifth loan cycle, he has been able to borrow AUD265 and after investing in more tricads he now enjoys a monthly income of AUD318. In November 2005, he will receive his sixth loan of $ 397AUD, which he hopes to use to place a deposit on a tricycle (motorbike with passenger cart) which he then can further lease in order to generate even more income for him and his family. His family of four already enjoys a higher standard of living since he joined TSKI and he hopes to provide his family with a better house in the near future. He has two daughters currently attending primary school.

Figure 7.9: A tricycle purchased through a microfinance loan

When asked what he most enjoys about being a client of TSKI, he smiled as he shared about his role as a Trust Bank leader. He loves to serve others and enjoys assisting group members, even through the difficult times. The respondent has volunteered to lead a training session for other TSKI Trust Bank leaders and looks forward to facilitating the meetings, which will encourage and empower others in fulfilling their roles. ‘I want to share my experience with other leaders so that they may be able to learn how best to lead and motivate their group members, it is important that they receive advice and encouragement from Trust Bank leaders who are in the same position.’ The respondent admits that it is not easy being a Trust Bank leader as he encounters members with different personalities and problems. However, he enjoys the challenge and feels that he has grown from being a Trust Bank leader.

The respondent enjoys the friendships he has formed through the TSKI trust bank and also outside the TSKI operation. Before joining TSKI he hardly knew anyone in his local community, but now everyone knows him and he is regularly involved in his community by helping others to overcome the burden of poverty.

The respondent was one of TSKI’s first clients to open a deposit account at the new Kauswagen Bank in Leyte.

Respondent 2: In the 1990’s the second respondent’s family enjoyed a certain degree of economic stability. They owned a set of fishing boats and other equipment. By then fishing was their main source of income and they were doing well financially. However, with the ban of using certain types of fishing gear they lost their ability to earn income from fishing. Their lives then became difficult and it was a struggle to meet basic daily needs.

Both the respondent and her partner then found work in a local food processing business, however, not long after they started, the business went bankrupt and once again they found themselves without a source of income. Little did they know that the learnt skill of making process fish products would help them greatly in years to come.

In 1995, thinking of their future the family decided to leave Bantayan Island in Cebu to look for work, taking nothing but a few belongings, clothes and a small amount of cash. The couple with their children took a boat from Bantayan and set sail to the Island of Sicogon in Carles, Iloilo. The couple expected that life would change for the better but soon discovered it was even harder. After a period of living on the island, the couple decided to transfer to Estancia. There they rented a place to live in that was previously used to dry and process fish. This prompted the family to investigate ways of how they could establish a small dried fish processing business. This is when they decided to join TSKI and availed of their first loan of AUD80.

With their initial loan they bought a few kilos of fish from the local fishing port of Estancia. They processed the fish for drying and sold it with little profit to buyers within the local community. Slowly, the dried fish business gained ground. From the local market in Estancia they moved to marketing products in neighbouring cities Roxas, Iloilo and Cebu, and eventually began to market products in Manila. The family moved from buying fish per kilo to buying fish in bulk. They originally had no staff to assist outside their family and now they employ thirty staff from the local community.

As competition increased the couple thought of new and innovative products; thus the fish tocino and tapa products were born. At first they found it extremely hard to market their new products and initially their business suffered. However, this did not dampen the spirit of the respondent and she continued to produce the same product and allowed people to taste them for free so they would know that they were delicious. In no time, the products gained acceptance as a delicacy. The business grew after this and she began to market the fish tocino and tapa in neighbouring towns and cities, and later in Manila.

The couple is thankful that early on they joined the microfinance program of Taytay Sa Kauswagan, Inc. (TSKI) where they were able to source money to invest in their enterprise, especially in their fish tocino and tapa business. As a result of their persistence and dedication, the family was able to send their children to school. In fact, the eldest son has finished his marine course and a daughter has finished a degree in Customs Administration. They used to rent a small place in the community, however, now they have a house of their own.

The family who used to borrow rice from their neighbours are now the ones who help their neighbours and especially their workers to have food and medicine and other emergency needs during the lean season. To the respondent, poverty is not a hindrance to attaining your dreams. She says, "as long as you are patient, resourceful and industrious, nothing is impossible. It's only natural to fail sometimes, but failures also teach you a lesson. It's not how many times you stumble, but how many times you stand up after the fall. Above all, I never forget to thank God and return the blessings to Him. After all, everything I have comes from God."

The second respondent received the Citibank 2004 Micro-Entrepreneur of the Year Award for her outstanding achievements

Respondent 3: The third respondent is a dedicated solo mother who individually supports her three children and parents in her tiny two roomed house located in an urban community in Iloilo. Her three children enjoy the benefits of having a resourceful mother who takes every opportunity to improve her family's living conditions. She hopes one day that she will have the financial capacity to send her children to university.

The respondent heard about TSKI's group loan product through an information session held in her local community in 2003. She was eager to become a member as she was struggling to support her family with the income she received from her tiny retail store. Her sales revenue came to range between AUD2.65-$3.15 a day but this only provided her family with two meals a day. She knew with the extra capital she could increase her product offerings in her business and potentially increase her sales.

The respondent is now completing her third loan cycle. Initially she borrowed AUD80 on her first loan cycle, AUD159 on her second and AUD265 on her third. With the increase in capital for her business her average sales revenue now ranges between AUD10.60- 15.88. She is yet to calculate her net profit; however after attending training funded by an OI donor on cash flow management and bookkeeping, she is determine to compute this on the commencement of her fourth loan cycle.

The increase in sales has enabled her to provide more for her family and meet her children's daily school expenses. Her eldest daughter Joy, who is 16 and now finished school, is working locally as a babysitter as they do not have the finances to be able to send her to university. The respondent shared how she has encouraged her two younger children to join the school band as this could open up opportunities for them to attend university free of charge in the future.

Life has not been easy for the respondent and her family. April, her youngest daughter of 11 years, had a stroke two years ago and has been diagnosed with a brain tumour. Despite this difficulty, the respondent shared how she has been also blessed through the support of another NGO, Signpost International, who has provided the funds for the expensive medicines and doctors' appointments. Signpost International paid to concrete the floor of their little house as April has severe asthma.

The respondent is about to commence her fourth loan cycle. She will continue to invest the majority of her loan into her retail store, however, this time she also plans to purchase a steamer which will enable her to diversify her products range and make local cheeses. She learnt this skill from a TSKI livelihood skills training and hopes that the acquired skill can help increase her business profits.

The respondent was very thankful to be a member of TSKI. She enjoys the weekly group meetings and the opportunity that the members have to help and support each other. She also appreciates the benefits of micro-insurance and hopes that one day TSKI might be able to provide loans for education purposes. Geraldine shared how it is only by God's grace and faithfulness that she has survived and she thanks God for the blessings of the support that she has received.

Respondent 4: The fourth respondent is 33 years old and is a local resident of Zarraga, Iloilo which is located in the central islands of the Philippines. He is, by trade, a construction worker, who had hoped one day to start his own business to be able to better support his family. His dream became possible when he was encouraged by his friends and relatives to join the group loan program of TSKI. Upon knowing the benefits of the loan program he joined instantly. By June 2005 he received his first loan of AUD71. He used this as a capital to start his hog raising business.

The respondent was delighted to receive the loan as he felt it was the only opportunity that he had to provide for a brighter future for his family. As a member of the solidarity group program, his family was covered by micro-insurance. He paid AUD6.60 as a premium for the micro-insurance benefit. After a couple of weeks of joining the program his wife fell sick with pneumonia and suddenly died in July, 2005, leaving him the sole guardian of their only child, Ellias, who was ten months old and in need of maternal care. The respondent cried as he shared how he has lost his loving and responsible wife who inspired him to persevere in their daily struggles for survival.

With the money he received from the micro-insurance benefit of AUD1191, he was able to provide a noble burial for his wife and pay off their outstanding debts. He then deposited the balance of AUD371 in the Rural Bank in preparation for his son’s schooling. He is extremely grateful for the micro-insurance benefit as it lessened his financial burdens in this stressful and traumatic time. The respondent is not sure how he will continue to support his son. However, he hopes to continue as a client of TSKI and build-up his hog raising business to provide for their daily needs.

Respondent 5: The fifth respondent, who is well respected by her fellow TSKI group members and friends, is a Trust Bank leader of a TSKI group located in an urban community in Iloilo. She has been a TSKI member for over 18 months and is about to commence her fourth loan cycle.

She heard about TSKI’s group loan product through an information session held in her local community in 2003. She was eager to become a member as she realised it could assist her in generating more income through her business to be able to support her family. She used her first loan of AUD80 to increase the capital in her retail business. With her second loan, she decided to buy capital for her retail business and invest in a computer gaming business from which she now receives sales revenue of AUD13.23 a week. With her third loan of AUD264.91, she has launched into a third business to sell clothes to the local community.

From the increase in profits, she purchased a fridge for her retail store, and has also made home improvements such as replacing the iron roof and concreting the floor. She says the increase in profit has assisted in sending her children to school.

Even though it is difficult at times being a Trust Bank leader, the respondent reflects that she is learning a lot about leadership and management. Angelina was once shy, but now she can effectively manage the Trust Bank group with her acquired leadership skills that she has developed on the job. She enjoys encouraging the Trust Bank group members and has openly invited members to be involved in her clothing business. The respondent hopes that she will be able to provide her children with a better life and great education. With her next loan she will look to expand her businesses even further by purchasing a billiard table.

Respondent 6: The last respondent is committed to elevate her family from poverty. To achieve this she decided in 2000 to quit her contractual work with the Department of Agriculture to support the needs of her two growing children, by starting a small business. The respondent shared how she has suffered many hardships in life. However, this only inspired her to keep persevering in the difficult times, hence she was prepared to step out and try a new business that she hoped would generate more of an income for her family. She started by baking homemade delicacies such as breads and cakes. The production at first depended on the orders placed by her local customers however, her production capacity was limited by the amount of ingredients she had in stock.

When TSKI entered and presented their group lending program in her community she did not hesitate to join and was appointed to be the treasurer in the center. She used the loan of AUD$80 to buy equipment needed in the bakery. The sales from the business started to improve, but she did not stop there and soon seized another opportunity to grow. She decided to participate in the individual lending program of TSKI to avail herself of a greater loan of AUD800. This allowed her to open a small retail store where she could market her bread and diversify into selling other products.

Since the nature of the enterprise is production, Mrs. Victorioso began to cater to the local retail stores in the neighbouring communities. She employed two bakers and four delivery boys. She continued to diversify her breads and now sells Spanish bread, German bread, pan deleche, burger bread, cookies, peanut bread, cakes and pastries.

The respondent is very dedicated and determined to see her business grow. She knows that she needs to manage the business well in order to compete with her competitors. She ensures that her bread is of high quality and she values customer satisfaction. She aspires to spend her future loans for the expansion of her business and the construction of a display unit to sell and display her bread. She hopes to equip her staff by providing them with proper training. She also plans to hire more staff to meet increased production demands.

Even though competition is tight her business continues to grow. The secret to her success she says is having the self-confidence and courage to step out and reach her dreams.

7.6 Synthesis

The objective of this chapter was to analyse the survey data and address the specific questions outlined in Chapter 6. The analyses combined simple descriptive and relational research design and utilized quantitative and qualitative approaches to describe the clients, determine the inputs of TSKI, its results/outcomes in improving clients' economic and social environment and contrasted them against the other OIs implementing partners in the Asian region. The MDGs were used as the key benchmarks in measuring the success of capacity building, poverty alleviation and ultimate economic development and prosperity. The results also highlighted some of the issues and concerns regarding TSKI-PKK services, policies and processes, and clients' needs in order to strengthen and maintain the sustainability of TSKI's operation and to develop the organizational strategy and capability.

Based on the information gathered through the qualitative survey, it was evident that majority of program beneficiaries were women who had participated in the program for at least three cycles. Most of the success stories have emerged from the Ilo Ilo region which is considered as the hub of the TSKI operation.

7.6.1: Key findings

The key finding of the analyses are given below.

The substantial proportion of members were in the age group between 30 and 50, indicating the need of access to finance and for a source of income is mostly felt by the mature age group. Similarly, the results showed that women not only represented the majority of the membership, but also the seniority in dealing with TSKI or microfinance. The majority of them were married, had high school education, and had a source of income before program participation, most of whom were engaged full-time in producing various products like food and handicrafts. A typical member could be profiled as married with school aged children or dependents and, in the majority of cases, participated in the microfinance program with the objective of increasing household family income to meet the day-to-day expenses. In contrast to the Asian cohorts, the majority of TSKI members have access to clean water, electricity and sanitation. The education and health of the family members appear to be major objectives of the members. It was also apparent that those who were participating in longer loan cycles have been reaping the higher economic and social benefits of participation due to increases in household income. However, such achievements were attributed to women participation because, the majority of men were quite early in the loan cycles.

Although they were expected to attend training, only a minority had attended training programs sponsored or co-sponsored by TSKI, however, a majority of the trained members attended livelihood training programs. Training services have been slowly expanding and there are TSKI clients who valued training as one of the valuable services. They have availed of skills developed through training, expanding and maintaining the sustainability of their businesses.

The result of analyses by products highlighted few statistically significant results. For instance, TSKI clients have been earning statistically higher income and at least half of their savings were deposited with a formal saving bank indicating that the clients have appreciated the value in dealing with a financial institution. This can be considered as a significant development in the savings habit of the rural clients as they have tendency to use alternative savings methods such as buying gold, other valuable assets and accumulate note and coins instead of dealing with formal financial institutions.

Statistically significant differences were also observed in the payment patterns of TSKI clients. Compared to their Asian cohorts, TSKI clients used their savings for purposes such as buying inventories, business equipment and investing in improving the structure of their enterprises.

With the significant improvement in the clients' social conditions, the majority of clients spend their savings on food, education (including educating their dependants) and meeting medical expenses. These results are consistent with the findings of Cranwell and Kolodinsky (2002). The study has proven that indeed, microenterprise development can help improve the personal life and change the attitude of clients after their participation in the program. The change in the social conditions of the clients is also an indication that the various interventions of microfinance programs resulted in a strong sense of efficacy on the part of the clients, which enhances their accomplishment and personal well-being. The transformational activities or the iterative spiral process mentioned in the process of economic development through financial development, also helped in the change and, possibly, maintenance of new behavior.

Although most of the other economic and social impact did not show any significantly different results, the data in respect of TSKI clients showed either they were on par with their Asian cohorts or better in almost every aspect considered in this study. This indirectly shows that TSKI operation has met the objectives of their principal.

Undoubtedly, the microfinance operation has led to an increase in gross monthly income. The improvement in the clients' housing and economic condition supports previous studies conducted by David (2002) that rural microfinance projects in the Philippines helps in the reduction of poverty, creation of employment opportunities and in the enhancement of rural incomes of the bottom 30 percent of the rural population or the poorest of the poor. It is also consistent with the findings of Dusaran and Pabulayan (2002 & 2004) that microfinance programs helped increase the household and individual income of the clients, enabling them to acquire new assets, and improve their quality of life.

Relationship analyses revealed that age, length of program membership, and level of education of the respondents is significantly related to number of program loans availed. The older the clients and the longer their program membership, the more program loans they shall have availed. The relationship between program loans and level of education is inverse, the lower the educational attainment the more likely that they will avail of more program loans. A positive relationship was also found between age of clients, length of program membership and cumulative amounts of loan availed. This implies that an accumulated loan is likely greater among clients who are older and those with longer program membership. The results also show that the clients' economic and social conditions do not vary according to their loan utilisation.

Some variations were observed in the improvement of clients' participation in community activities. Similarly, analyses suggest that TSKI clients consider the program as their steady source of capital. Consistent with the findings of Lamberte (2000), small borrowers are indeed more inclined to look for source of funds from group lending programs while more entrepreneurial and medium and large borrowers tend to look for individual borrowing from the banks and also seek other services offered such as savings and insurance. Undoubtedly, many of them further believe that credit service is a big help in providing their household needs and in sending their children to school. This confirms that microfinance would be an effective way of reading MDGs.

Having completed the analysis of qualitative questions, one must consider the key characteristics and performance exhibited by the respondents in effectively participating in a microfinance lending program and gaining successful outcomes. Overall, three main factors namely, determination, faith and entrepreneurial nature could be considered as the key factors contributing to their success.

Determination: The capacity to overcome adversity to remain focused and to retain an overall commitment to success. In many cases the desire to provide for a better future and education for their extended family is a driving force in their desire to succeed.

Faith: The clients exhibited a strong believe in God which reflected in how they dealt with their life experiences. This manifested itself in an inner strength and peace that allowed them to overcome obstacles where others appeared to fail.

Entrepreneurial nature: It was apparent that in the majority of cases the clients had a natural entrepreneurial ability. The program appeared to draw out these natural abilities and helped them enhance their skills for a structured training and education process.

From the above findings it can be concluded that the ideal client for microfinance for TSKI would be somebody with the above three attributes. That is, a determination to keep going and to potentially become a lifelong client of TSKI; and a deep-seated faith in religion which exhibited itself in fundamental values of honesty and integrity. Finally, clients with natural entrepreneurial skills which when harnessed and supervised appropriately would lead to flourishing business opportunities.

CHAPTER 8

CONCLUSIONS

Microfinance is considered as one of the effective ways of achieving Millennium Development Goals (MDGs). The industry evolved with a successful distribution of capital from the wealthy to the poor in a manner which encourages accountability and responsibility from the recipient, while at the same time allowing donors to see appropriate stewardship of their capital. This is measured through the achievement of financial independence of the group being studied. The role of implementing agencies in facilitating this efficient and accountable transfer of capital is seen to be crucial to the ongoing development of microfinance. The interrelation between donors and these agencies requires a high degree of trust and mutual accountability, in many cases, built up through years of hard work and experimentation.

The policy framework and legislative environment for microfinance is still evolving. For instance, some countries are still developing the regulatory environment to monitor the transparency of the industry. Furthermore, there are some growing concerns on the level of efficiency of the delivery of microfinance in making an impact on projects or at least making an impact on alleviation of poverty. In order to contribute to the latter, this study investigated TSKI, which is a major microfinance operation in the Philippines, to ascertain whether it is consistent with the wider international practices, particularly in achieving the MDGs. The study is aimed at addressing the main research question, “To what extent is the microfinance experience in the Philippines consistent with wider international practice?”, using a survey tool developed by the donor agency to monitor the quantitative and qualitative aspects of the microfinance operation and benchmark them against similar operations within the Asian region. The presentation of the dissertation comprises eight chapters, including the introduction and conclusion.

8.1 Chapter summaries

As outlined in Chapter 2, microfinance services have become an increasingly popular tool of poverty alleviation. The policy makers, regulators, donors, implementing partners and all others who are involved in poverty alleviation, economic growth and development have formed a common opinion that microfinance is an essential safety net element. At the initial stages, the traditional banking sector did not wish to be involved in this industry due to some concerns about the strategic, operational, and economic issues affecting their businesses. For this reason a significant proportion of the microfinance industry was left with the NGOs. By gradually adopting technology and sound business strategies, NGOs began to flex their muscles providing microfinance services in many countries, prompting the interest of traditional banks in retail microfinance services. Interestingly, the NGOs have transformed themselves into regulated financial institutions to face the stiff competition from the private banking sector creating a debate on ‘mission drift’. This growth in the industry has transformed the microfinance industry from a group of welfare institutions to a formal industrial organisation facilitating the analysis of industry using standard theoretical industrial organisation models such as SCP analysis.

Chapter 2 also highlighted the relevance of transaction cost theory and agency cost theory to the microfinance industry. In economic terms, the nature of the microfinance donors and implementing partners can be interpreted as a principal-agent relationship prompting the applicability to transaction costs and agency costs. In order to maintain the sustainability while increasing the outreach, the industry needs consideration of the transaction costs and agency costs. It was shown, under such situations, impact assessment will have a significant role in the strategic intent under both theoretical and practical contexts. This formed the foundation for this impact assessment study.

The chapter also highlighted that, as in many other industries, the microfinance industry also has its inherited issues. Among them funding issues appeared to be prominent. Some of these issues also have led to the formation of two camps of microfinance activists called ‘minimalists’ and ‘multipurpose’. However, it was shown that the role of microfinance in poverty alleviation is undisputable with some evidence of successful microfinance operations with a record of improving the living standards of the poor in less developed countries.

Chapter 3 analysed the microfinance industry using the SCP approach and then used it to compare the MFIs in the industry to banks. While the SCP framework was very useful in analysing industrial organisations, it has a few limitations when applied to the emerging industries such as microfinance. This was mainly because there were some limitations in applying the concept to microfinance due to the problem of access to a market, broadening the scope of microfinance and widening the outreach while maintaining the competitiveness. The conflicting views of ‘minimalists’ and ‘multipurpose’ on microfinance also limited the usefulness of the SCP approach.

Nevertheless, the most contentious debate within the microfinance industry is the distinction between loans to be repaid and grants for social and community development. Polarisation exists between the ‘sustainability camp’ who regard the financial sustainability of the implementing partner as the key measurement of success, and the ‘targeting the poorest’ group who by their very nature are less profitable due to factors of higher business risks and lower volume.

Regardless of this debate, there is a need for improvement in industry performance through adoption of measures to improve the efficiency and productivity of microfinance services. If the concern is the low net interest income, high interest costs or low margins on lending then the MFIs should focus on adopting more value adding services to the product range which, as the literature suggested, will eventually lead to a better impact on microfinance clients.

The ultimate evidence of sustainability, improved performance, productivity and efficiency will be MFIs upgrading themselves into regulated financial institutions. This may be the case for supply side development of the microfinance industry. The process and the objectives of microfinance are completely fulfilled if clients were also taken out of poverty and improve their living standards, because the role of microfinance in poverty alleviation is undisputable.

Chapter 4 extended the discussion on the commercialisation aspects of microfinance drawing on some MFIs as examples. Then the discussion was focused particularly on the MFIs in the Philippines to show the relative influence of TSKI in the microfinance industry in the country. The chapter also presented a general background to TSKI's operating structure and its key financial performance.

It was shown that, since its inception in 1986, TSKI has grown from a very small operator to one of the largest microfinance providers in the rural Philippines, expanding its outreach from central province of the Philippines to southern regions including Mindanao. TSKI is a unique example of successful project integration to achieve both commercial and social objectives through a single MFI provider. The diversified range of products and services ensured the expansion of the outreach and TSKI's ability to meet the needs of its clients to lift their living standards and remove them from the poverty trap. The financial information exhibited the strong growth prospect of TSKI and its rapid shift towards a regulated financial institution.

Chapter 5 presented a comprehensive overview of the impact assessment methodology. Unlike in the historical cases, the modern impact assessors have tended to use a mixture of assessment methods to capture a wide range of economic and social impacts of intervention through microfinance activities. Industry interest in impact assessment has created a new segment in the microfinance industry for impact assessments with a number of alternative tools such as SPI-CERISE, (Social Performance Indicators initiative: www.cerise-microfinance.org), AMA of USAID, ACCION, AIMS of SEEP Network, CGAP-Ford tool and IKM (Impact–Knowledge–Market) of PlanetFinance.

It was shown that client impact monitoring, which is the main focus of this study, provides a profile of all clients on entry to the program and tracks objective indicators as well as client insight about change. Indicators could be tracked using MIS which allows for filtering by a range of clients, portfolio and product variables. The literature highlighted fungibility and attribution effects as the two significant challenges faced by the assessors of impacts. However, the scientific impact assessments are extraordinarily difficult to implement and are costly. Thus opportunity cost aspects of funding for impact assessments should be considered when considering sustainability of the MFIs. The 'mission drift' may also need to be considered before choosing a mixture of impact assessment tools. While one must note the challenges of the impact assessments, it is important to recognise that CIMS used in this study does not require rigorous scientific approaches.

The objective of Chapter 6 was to revisit the research questions and describe the CIMS methodology employed to generate and analyse the information. Following the literature review on the microfinance industry, Chapter 6 identified the research questions to be examined. Following a specific description of CIMS, the features of the TSKI sample and the method employed to generate data were described. This followed a description of quality assurance measures adopted and the method of analysis. The chapter also outlined the limitations and the ethical considerations relevant to the survey. The result of these exercises are presented in Chapter 7 and 8.

8.2 The research questions

The first research question to be addressed in this research was, “To what extent does donor funding through the local implementing agency, TSKI, impact on the long-term financial sustainability of their clients in the Philippines (3 criteria: income, health and quality of life)?’ To test this question the responses were analysed using both qualitative and quantitative techniques. Firstly, over 470 randomly chosen clients of TSKI were surveyed to investigate the effect of the microfinance loan received by them on their personal circumstances. Secondly, clients representing a small sub sample of six clients were interviewed in-depth to examine the effects of these loans on their personal livelihoods. From the synthesis of the information gathered it was concluded that the majority of TSKI clients who benefited from the group lending process have confirmed varying degrees of improvement in their social and economic status. In addition, the in-depth interviews of key clients revealed that, in addition to quantifiable financial improvement, there had been significant impact on both the client, their extended family and the local community. However, the individual clients of TSKI showed better performance in almost every category, showing that the individual clients had better entrepreneurial abilities to alleviate themselves out of poverty and enjoy better economic and social wellbeing. Interestingly, with a 98% repayment record, TSKI was able to prove that it could recycle loanable funds to help other clients, creating multiple benefits effects of microfinance. Undoubtedly, these are signs of greater self-sufficiency of clients with the capacity to become net savers and users of other financial services such as micro-insurance.

The second question under investigation was, “To what extent does donor funding through OI’s worldwide network impact on the long-term financial sustainability of their clients in terms of three criteria specified in question one?’ To address this question, the data from TSKI was compared with the other IO’s implementing partners in the Asian region representing India, Philippines, Indonesia and East Timor. The purpose of using the average responses on an Asian basis was to reduce the impact of local outliers due to variations in geographical positioning. The objective here was not to develop a league table of successful microfinance organisations and let them compete amongst each other for donor funds, but to trace overall trends which could be identified across a wider data base. Based on the quantitative analysis, it was concluded with significant confidence level that, the majority of performances of TSKI fell within the main band of the international results.

The final question examined was, “To what extent does TSKI results (Philippines) reflect OI’s wider international experience?” Particularly, this study explored the following specific questions related to TSKI’s operation.

i. Is there some correlation between donor funding and long-term improvements in the financial sustainability of the clients within the sample data in the Philippines?
ii. Is there evidence within the sample data in the Philippines of some correlation between the client’s improvement in income and their family’s health and education?
iii. Do the results of the sample in the Philippines correlate with the international data provided by OI?

Based on the pertinent findings of the study, the following conclusions could be drawn:

1. The TSKI clients are in their prime age, still productive and could be potential economic partners of their spouses. Clients have good education and with existing income-generating activity, which is consistent with the organization’s criteria for selection of members. With the encouraging number of new entrepreneurial male clients, TSKI is expected to show some better performance over the years to come.

2. Despite partial investment of loans, all the clients are currently engaged in income-generating activities or businesses. Their choice of business is consistent with the TSKI's and its donor's expectations that focus on investment in income generating activities.
3. Some improvements were observed in the extent of clients' participation in decision-making and in community activities after program participation. This means the transformational activities conducted by TSKI and the active participation of the clients' in different TSKI activities have led to improvements in the clients' level of empowerment.
4. Since most of the clients used their income/profit generated from their TSKI loans to improve their housing conditions and acquire additional assets, it can be concluded that the credit program of TSKI has helped improve the economic condition of its clients. Microfinance projects can help in the reduction of poverty, assist creation of employment opportunities and enhance rural living standards. It also helped the increase of household and individual income of the clients, acquire new assets, and improve their access to basic amenities to maintain a quality of life.
5. In general, older clients are more likely to have longer program membership and greater cumulative loans. Similarly clients with low educational attainment are also more likely to avail themselves of program loans through solidarity groups.
6. Individual clients with longer program participation are more likely to invest their program loans wisely and invest the majority of their business income on developing the enterprises further and improve their economic and social standing. However, there is no evidence that economic and social condition vary according to the mode of loan use.
7. Like many other Asian communities, Filipino clients consider improving houses and educating their children as a symbol of improvement in economic and social status, which is an encouraging sign in terms of achieving MDGs.

8 TSKI has successfully combined commercialization and solidarity group based lending. Certainly there is potential for a movement/transfer of clients from the solidarity groups to individual commercial lending

programs (i.e. centres to Trust Bank).

The above findings confirm that there is a correlation between donor funding and long-term improvements in the financial sustainability of the clients within the sample data of the Philippines. Similarly, the quantitative analyses confirmed that the sample data in respect the TSKI uninhibited correlation between the microfinance programs of some other providers and the client’s improvement in income, their family’s health and education.

As discussed in Chapter 7, the quantitative results confirmed that in some cases the TSKI clients have shown better performance on some economics and social indicators and in other cases they were on par with the rest of the Asian cohorts. The overall results confirmed that the sample in the Philippines strongly correlate with the international data gathered by OI in respect of other implementing partners.

The above results confirmed that the TSKI has effectively contributed to reaching MDGs through the provision of microfinance services. As such, the TSKI operation is consistent with wider international practice. However, there are some limitations to this opinion which will be described later in this chapter. Nevertheless, the overall results confirm that TSKI has performed well in meeting almost every aspect of MDGs on for its clients.

8.3 Limitations and recommendations on CIMS

From our literature review it was clear that many organisations have attempted to develop their own questionnaires to measure and monitor the success of their microfinance operations. The main difficulty with CIMS has been the lack of scale and compromise among the practitioners to objectively compare the results with a wider database. There is also difficulty in comparing a single sample over a different time period due to mission drift. This has led to significant inefficiencies and waste of resources.

CIMS was developed in consultation with implementing partners based on many years of practical experience of collecting data. The data is coordinated at an international level and is checked and calibrated for accuracy through similar systems and processes as described in the TSKI experience. Part of the development of CIMS has been a commitment to the concept of continuous improvement based on feedback from respondents. However, to retain the integrity of the existing data, it is essential that only minor modifications are made to this process to ensure that comparisons can be made among the existing data and the future observations.

To allow for local issues and to support the endeavors of the local implementing partner, additional questions were added to the questionnaire. This enhanced the integrity of the data as it provided insights pertinent to local situations and which, to some extent, may explain any variances from the anticipated results. It also assisted the local management's commitment to thinking that CIMS was being tailored to their own local requirements

Having considered the practical usage of CIMS at TSKI, some wider issues of the usage can be highlighted. These include issues such as the training and development of both loan officers and borrowers, the provision of additional services to existing clients, the use of advanced technology and, finally, the need to efficiently focus on the core strengths of the organisation. All of these will assist the MFI in ensuring that client impact is multidimensional and transformational.

8.3.1 ClMS and its future

A major benefit of conducting CIMS to the microfinance institutions is that it can become an integral part of operations management in measuring the efficiency of the organisation in meeting specific objectives. The process of measuring key operational results at least once year can assist the management in making vital strategic decisions related to the organisational mission and objectives.

CIMS is valuable as it is a continuous process and after implementing CIMS for a certain period of time one would expect to see that:

1. The CIMS results would become more accurate over time with staff getting more experienced. If CIMS is an integral part of operations, operating staffs would have gained experience in distribution, interviewing clients, data collection, analysing and decision making.
2. The organisation would continue to develop a culture of accountability.

Reliable and regular access to data that measures client impact against operational missions and objectives will keep a MFI on tract and enable them to regularly review their performance.

3. The organisation would be able to identify trends and client needs quicker and with greater accuracy. CIMS conducted on a regular basis will enhance the MFI's understanding of the client impact data and they would be easily able to discern new or emerging client trends from the data and also identify future products and services.

Overall, CIMS is a relatively simple monitoring tool because it is capable of comparing results across different time periods and regions, and uses a simple terminology that borrowers and operating staff could understand. Similarly it has ample room for further development. The CIMS can also help better coordination relationships between the principals and implementing partners and also operating staff and clients.

8.3.2 Areas for further development

Since CIMS has only been implemented for over 2 years by OI's implementing partners, it is still evolving and adapting to suit the needs of the different operational environments. More benefits can be traced from the CIMS if it is eventually integrated into the MFI's standard systems.

However, the MFI would require the capacity and the technology to conduct its own analysis of the results. This is a significant commitment in terms of management time, implementation of additional IT and associated resources. Naturally, CIMS is more suitable for larger MFIs. It is also important to be sensitive to the likely impact of the publishing of CIMS surveys. While it is important for governments and donors to be able to track the effectiveness of their funding initiatives, there is a real danger that local MFIs will seek to produce better results than would be actually the case in an attempt to attract further funding and to avoid any adverse reporting. CIMS seeks to mitigate this potential agency risk through a data selection process independent of local management control. This seeks to eliminate any local bias.

Agency risk is a common issue in all aspects of commerce and demonstrates the need for the microfinance industry to develop credible impartial systems and processes to effectively measure and manage the performance of the local implementing partners. As confidence grows in these results it is anticipated that larger institutions will enter the market offering wholesale finance to local MFIs based on their previous trading history.

8.4 Beyond CIMS

Receiving funds without training on basic business, health or social principles can make borrowers worse off and only perpetuate the cycle of poverty. To see long-term financial and social transformation it is essential that the local MFI continues an ongoing commitment to regular client training program which would complement the existing lending operations.

As indicated in the CIMS results, only 33% of TSKI's clients receive regular training. The primary reason for not attaining and sustaining the desired training levels has been the rapid growth of the organization. There is a real danger that, with the best of intentions, offering funding to borrowers with little commercial experience can lead to adverse outcomes for all concerned due to the lack of business skills.

Apart from the initial orientation training, clients can possibly attend livelihood skills training, business development training and other specific training. However, some client training appears to be inconsistent and not all clients have the opportunity to attend training.

This would appear to be primarily due to the growth pains of the local MFI rather than an intentional decision to limit the funding of active training of borrowers. Currently this is not a particularly desired outcome; however it is a practical reality of most fast growing organizations. Feedback from the CIMS questionnaire by participants have supported the suggestion that additional training would lead to better business outcomes, including a higher retention of clients and reduced default ratios.

8.4.1 Building staff capacity

As it would be costly and unsustainable to contract external resources to conduct regular staff training, it is recommended that the loan officers and field staff are trained and equipped to conduct regular client training. In order to both maintain and increase field staff training effectiveness, intensive regular and ongoing professional and personal development training, support and motivation is required. The importance of investment into equipping and building capacity of the field staff in participatory, experiential and adult learning styles is essential.

8.4.2 Building client capacity

The use of existing successful clients, who have graduated through the local solidarity groups, to mentor these new inspirational entrepreneurs is a positive way of reinforcing key training initiatives and common sense, business skills which would be invaluable to the new clients on their first loan cycle.

8.4.3 Direct retention benefits: client and staff

Building the capacity of staff and providing ongoing training and development would assist in retaining quality staff. This would see training as a valuable aspect of their work. Staff also would see the transformational affect that the training has on the lives of their clients and be even more motivated in their work. Providing finance to clients without holistic training can dishearten the most committed and passionate staff who believe in their role in alleviating poverty. It is essential that the organisation attracts and attains high caliber staff that can maintain the overall culture and dynamism of the organisation. Whilst the local implementing partner may not be able to compete financially for quality staff they may compensate for this through the development of a positive culture, commitment to ongoing training and the development of clear career progress strategies.

The loss of key staff within an implementation partner can also have a highly damaging effect on the achievement of overall objectives. Moreover, it also impacts on the loss of relationships with their end clients. This can lead to adverse behaviours by borrowers and to a breakdown of communication between the local client groups and the implementing partner's central decision making unit.

In the competitive market of microfinance such as in the Philippines, it is vital that the implementing partner provides ongoing and relevant training to their clients. To give the working poor a chance in growing and sustaining regular income, training needs to be innovative and outcomes oriented. The use of technology to provide training may be an area for MFIs to develop further. In particular, as the cost of this technology continues to reduce, it may also be possible for enlightened borrowers or organisations which manufacture this kind of technology to provide practical product support, rather than financial dollars for borrowing purposes.

Organizations such as TSKI should consider the use of video-conferencing in their branch officers to inform and educate their clients about enterprise development. This should provide access to the highest level of online training without the additional face to face contact and ensure that the training offered is of a consistently effective standard. This requires the local MFI to be able to identify their own skill sets and to be prepared to supplement these with proven third party product, possibly on an online basis. The allocation of a fixed amount of time at each centre meeting for training (say for example, 15minutes) would again reinforce a culture of professionalism. It would also reduce the dilution of culture and clarity of mission from the head office MFI down to the local solidarity groups. This is particularly important at a time of high growth and potential large staff turnover. This should also lead to a reduction in transaction costs and a more consistent and repeatable outcome, which again increases the credibility of the organisation in the eyes of donors and government institutions.

8.4.4 Technology, resources and opportunities

As the cost of using technology reduces and becomes readily available it may be convenient for the regional MFI's to use them as an effective way of communicating both internally with the loan officers and also externally with their clients. Currently such technologies are only available in urban areas of the Philippines and this is a distinct disadvantage for rural-based MFIs. However, it is worth noting that a considerable donor investment has to be made for a successful technology adoption and again this demonstrates the need for donors to look beyond pure financial donations and to focus their energies on activities that will produce sustainable long term growth.

8.4.5 Transferable ideas

It is natural for MFIs to face strong competition and seek to lead in their particular area of their expertise. However, this may lead to unnecessary duplication of costs and resources leading to inefficiencies. This in turn may lead to a general lack of confidence in the microfinance profession. Therefore, it is essential that MFIs cooperate and collaborate rather than compete with each other, as this will lead to greater efficiencies, lower transaction costs through shared services and innovative ideas which would increase the confidence from the wider investment community. Furthermore, it may lead to a growing willingness from the investment community to provide funding in a structured and sustainable manner. To ultimately provide a positive and sustainable solution to poverty and to achieve the MDGs by 2015, there is plenty of potential within an efficient microfinance framework.

8.4.6 Innovative initiatives and opportunities

Wholesale facilities and central support systems could be made available to help and enable borrowers to be more efficient. There are approximately 25,000 sari sari stores (local convenience stores) throughout the TSKI network selling similar goods, but apparently buying products from different sources with no group buying power or credit facilities. As much as the loans are used to purchase products for resale, if credit facilities could be negotiated then the need for excess liquidity could be negated. This could be achieved through the setting up of a wholesale distribution network managed by the implementing partner to provide products to the end borrowers. This should also improve the quality of lending as it will become very apparent if a borrower is defaulting or utilizing loans for non-business purposes.

MFIs still face similar business issues to the wider market including outsourcing, need to work through the most efficient ways of outsourcing, collaborating and cooperating, divesting of non-core activities and being prepared to be scrutinized by wider market participants. Be prepared to be transparent and operational efficient.

8.5 Alignment of Management's commitment to CIMS

It is imperative from the start that the MFI's local management is committed to the entire client impact assessment process. Potentially CIMS can add significant value to an organisations strategic planning process and results can be used to make informed decisions to benefit clients and the operating environment.

Many organisations successfully implement client impact assessment, however, fail to take it to the next step. Without management's commitment, data analysis and decision making the MFI will forgo the opportunity to use the data and results to make positive and important business changes to benefit their clients and organization.

MFIs have found that CIMS is most successful when the management team actively use the CIMS data to make decisions that benefit both the client and the organization. Even better still are the MFIs that use the CIMS data to set their strategic and organizational goals.

It is vital that management openly communicates the CIMS results with their staff to encourage staff and create organisation-wide awareness of the impact their program and services are having on their clients. This in effect encourages staff in their roles, however, also makes them aware of areas as an organisation that they can better addresses client needs. This will motivate them for further CIMS involvement and reduce the general attitude that management and staff may have on the integrity of the data. An organisation of openness and transparency is created which can accept data in a non-judgmental manner and see it as a basis for continuous improvement rather than a reflection on previous activities where improvement is required.

8.6 Client Retention

There is a substantial fixed cost in sourcing, attracting and training new borrowers into the network MFI. These costs which are not all financial take time to recoup and in many cases, it is not until the third or fourth loan that clients become profitable.

Although the data was not sufficient to make some valid judgment, there were some leakages of clients after the fourth or fifth loan cycle. This could be for a number of reasons, including clients becoming financially self sufficient, securing access to funding from other financial institutions, and loss of interest or business failure. Therefore, it is essential that a more formal process be instigated as to why clients are leaving the programs and what facilities they are looking for from the MFI to remain associated to it. A number of organisations use an exit interview strategy to seek to answers those questions. The process being applied entails the client completing an exit form before they can officially exit the program and receive their program savings.

To increase client retention the MFI could also emphasise implementing or improving the training, diversifying the product range, making sense of involvement creating ownership of the organisation, providing leadership opportunities and personal development and absorbing the efficient clients within the organisation to fill development roles (empowerment). A positive example of this has been the establishment of the TSKI eco village where clients have the opportunity to display and sell their products at trade fairs.

8.7 Limitations

In spite of the above finding this research has some limitations.

1. The data collection. The process of data collection was completely controlled and owned by the IO and its implementing partners. For this reason the CIMS application was limited only to microfinance operations of the OI. This has somewhat hampered the credibility of the acceptance of the results. This has also prevented the comparisons among different microfinance donor agencies.

2. Similarly, the Asian consolidated group included the information related to TSKI operation as well. Although this make the Asian data grouping more meaningful, it may have impacted on deductions made by comparing TSKI data with Asian averages.

3. Although TSKI maintained three key operations such as individual clients,

solidarity group clients and Trust Bank clients, the sample did not contain any Trust Bank clients because the banking operation of TSKI was relatively new and, as such, robust information could not be gathered. This has prevented the comparison of commercialization aspects with the Asian cohorts.

4. Despite the survey being carried out in two quarters, a proper comparision could not be done to examine the progress of the changes in the CIMS measure over the period of time. However, it will be an opportunity for future researchers.

5. This study integrated MDGs into the focus in the belief microfinance help to achieve the MDGs. However, microfinance is not the single most important factor contributes to achieving desired targets. This studies showed that the role of microfinance in reaching MGDs can not be ignored. This means microfinance should form an integral part of any policy framework targeting to reach MDGs.

8.7 Suggestions for future research

The outcomes of this dissertation set the foundation for a number of future research opportunities. These opportunities can be classified not only in terms of the further development of CIMS and its application to microfinance industry but also in terms of the processing of date in alternative qualitative and quantitative modeling to measure the sustainability of the operations and set benchmark for the benefit of the industry partners. This indeed will help all stakeholders involved in micro finance operations.

As shown in this dissertation, The CIMS methodology in particular comprises an effective tool of generating a comprehensive set of data that could be used in a number of ways to measure the impact of microfinance on its ultimate recipients. Despite there are a number of measures of Key Performance (such as those generated by CGAP), the application of such indicators in to an industry such as microfinance is costly and, in some cases, impracticable due to escalating costs and in the absence of a uniform set of accounting, reporting/compliance and performance standards for the industry. For instance, in some counties accounting standards for microfinance are yet to be introduced and in some other cases the government policy and regulatory reforms on microfinance are still at the draft stages. This mean there is a potential for CIMS to provide a low-cost alternative solution to solve the measurement issues related to impact of microfinance. This will be only successful if all providers of microfinance services are participated in the CIMS. This will be a potential future research opportunity.

Similarly, the data generated through the CIMS over a long period of the can be analysed using time series, cross-sectional profiles or pooled cross-sectional analysis) including more advanced econometric modeling such as efficiency frontiers and general equilibrium models. However these researches are yet to be emerged.

One of the limiting factors of the successful implementation of CIMS, and microfinance in general, is the limitation in training of both field staff and the recipients of the microfinance services. This research provides some useful information to be used as the ex-post and ex-ante analysis of the effectiveness of training in making a better impact of microfinance.

Any future research in microfinance or impact assessment should also consider the cost benefit analyses of alternative models of microfinance. Currently this topic is hotly debated without any empirical justification. A comprehensive cost benefit analysis should include not only the commercialization aspect and sustainability of the operation but also examination of the cost and benefits of operational processes.

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APPENDICES

APPENDIX I
MILLENNIUM DEVELOPMENT GOALS, INDICATORS AND TARGETS

Goal	Indicator	Target
1. Eradicate extreme poverty and hunger	• Percentage of the households of all countries with access to quality financial services (including credit, savings, insurance and transfer and other services) • Percentage of households with life, health, motor vehicle or household insurance • Percentage of enterprises reporting credit refusal in last year • Percentage of country households able to access appropriate, secure, wealth-growing pension products • Percentage of country households with a residential mortgage	1. Halve, between 1990 and 2015, the proportion of people whose income is less than $1 a day 2. Halve, between 1990 and 2015, the proportion of people who suffer from hunger
2.Achieve universal primary education	• Percentage of students able to access appropriate financial services for education needs • Percentage of financial institutions offering secure and reasonable education savings services to poor and low income people • Availability of education savings incentive programs• Percentage of the children of microfinance clients attending school • Percentage of women reporting refusal of credit for education purposes in last year	3. Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling
3. Promote gender equality and empower women	• Percentage of women able to access appropriate financial services for business, consumption and wealth creation needs • Percentage of financial institutions that permit poor women sole title on savings accounts • Percentage of financial institutions that permit poor women to take out loans in their own name • Percentage of financial institutions that tailor their products specifically to meet the needs of women• Percentage of female children of microfinance clients attending school • Percentage of women reporting credit refusal in the last year	4. Eliminate gender disparity in primary and secondary education, preferably by 2005, and to all levels of education no later than 2015
4. Reduce child mortality		5. Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate
5. Improve maternal health		6: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio
6. Combat HIV/AIDS,	• Percentage of poor people able to access appropriate, affordable and	7. Have halted by 2015 and begun to reverse the spread of HIV/AIDS

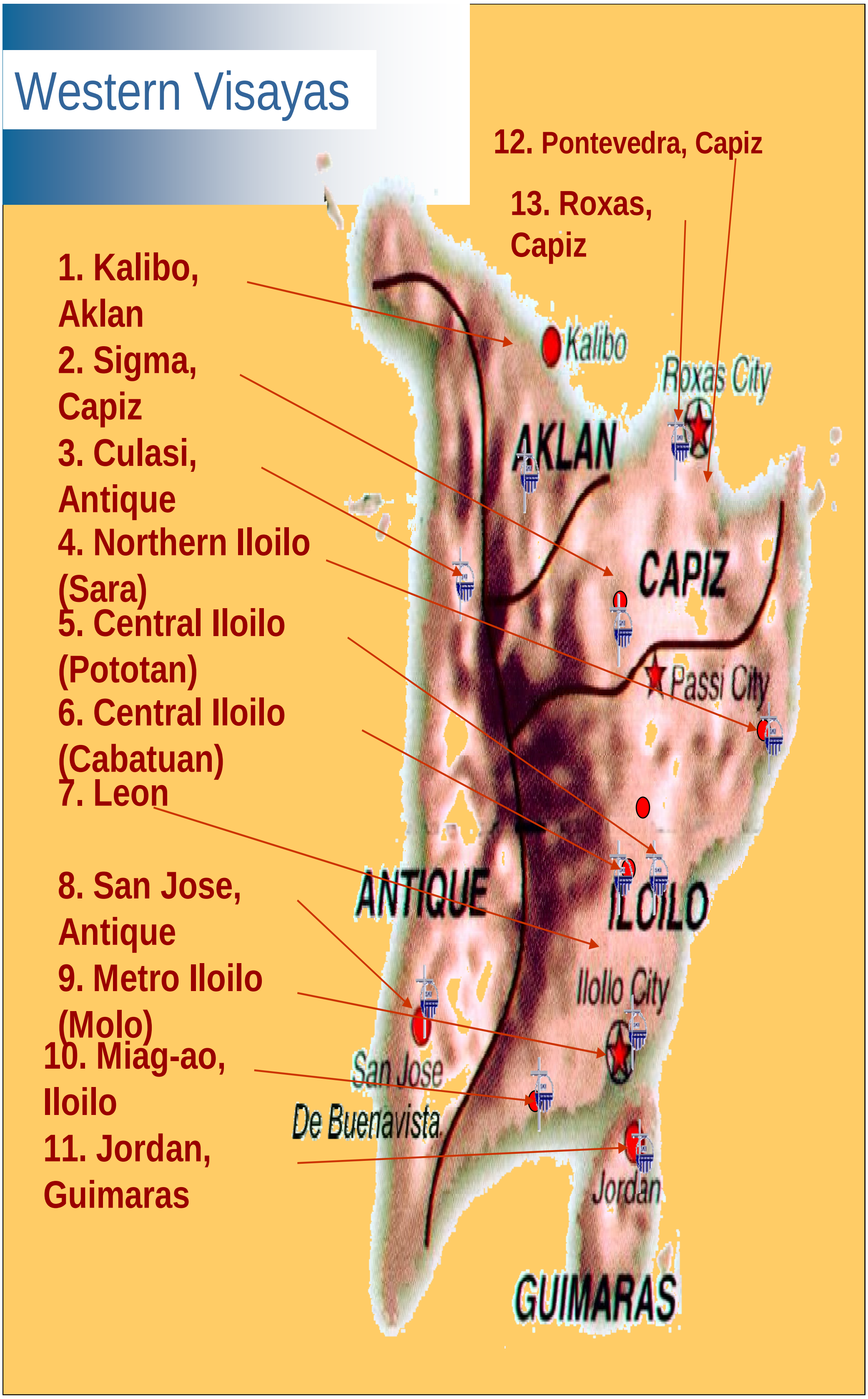
malaria and other diseases	quality health insurance• Percentage of poor people able to access appropriate, affordable and quality credit in times of medical crisis • Percentage of households with secure and quality savings services to use in health emergencies • Percentage of microfinance clients with loan insurance in the event of medical emergency • Percentage of financial institutions providing credit to private doctors and medical clinic start ups that intend to serve poor and low income client groups • Percentage of households with poor credit history resulting from family health issues	8. Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases
7. Ensure environmental sustainability	• Percentage of financial institutions offering microfinance and other financial services that promote environmentally sustainable businesses and alternatives • Percentage of slum dwellers, and other poor and low income people who can access microfinance for home improvements	9. Integrate the principles of sustainable development into country policies and program and reverse the loss of environmental resources 10. Halve by 2015 the proportion of people without sustainable access to safe drinking water and basic sanitation Target 11: Have achieved by 2020 a significant improvement in the lives of at least 100 million slum dwellers
8. Develop a global partnership for development	• Percentage of Least Developed Countries receiving adequate support to develop inclusive financial sector infrastructure • Percentage of countries with statistics on access to financial services by households • Percentage of foreign owned financial institutions serving the bottom income population segments with financial services.	12. Develop further an open, rule-based, predictable, non-discriminatory trading and financial system (includes a commitment to good governance, development and poverty reduction – both nationally and internationally) 13. Address the special needs of the Least Developed Countries (includes tariff- and quota-free access for Least Developed Countries' exports, enhanced program of debt relief for HIPCs and cancellation of official bilateral debt, and more generous ODA for countries committed to poverty reduction) 14. Address the special needs of landlocked countries and small island developing states (through the Program of Action for the Sustainable Development of Small Island Developing States and the twenty-second General Assembly provisions) 15. Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term 16. In cooperation with developing countries, develop andimplement strategies for decent and productive work for youth 17. In cooperation with pharmaceutical companies; provide access to affordable essential drugs in developing countries 18. In cooperation with the private sector; make available the benefits of new technologies, especially information and communication technologies

APPENDIX II

OPERATIONAL PROFILE OF TSKI

TSKI & K Bank Branches:

Western Visayas
Eastern Visayas
Central Visayas
Southern Tagalog
Western Mindanao


Western Visayas
12. Pontevedra, Capiz
13. Roxas, Capiz
1. Kalibo, Aklan
2. Sigma, Capiz
3. Culasi, Antique
4. Northern Iloilo (Sara)
5. Central Iloilo (Pototan)
6. Central Iloilo (Cabatuan)
7. Leon
8. San Jose, Antique
9. Metro Iloilo (Molo)
10. Miag-ao, Iloilo
11. Jordan, Guimaras
Kalibo
Roxas City
AKLAN
CAPIZ
Passi City
ANTIQUE
ILOILO
Iloilo City
San Jose
De Buenavista
Jordan
GUIMARAS

Summary of Clients

No	Branch	Total # of Clients
1	Metro Iloilo (Molo)	3,067
2	Northern Iloilo (Sara)	4,888
3	Central Iloilo (Pototan)	4,997
4	Central Iloilo (Cabatuan)	5,958
5	Miag-ao, Iloilo	5,424
6	San Jose, Antique	6,077
7	Jordan, Guimaras	5,127
8	Roxas, Capiz	1,342
9	Culasi, Antique	3,231
10	Kalibo, Aklan	5,687
11	Sigma, Capiz	7,269
12	Leon, Iloilo	4,494
13	Pontevedra, Capiz	5,698
	Total	63,259
1	K Bank Jaro, Iloilo City	3,812
2	K Bank Roxas City, Capiz	5,306
	Total	9,118
	Grand Total	72,377

TSKI
Branches:

Western Visayas

Eastern Visayas

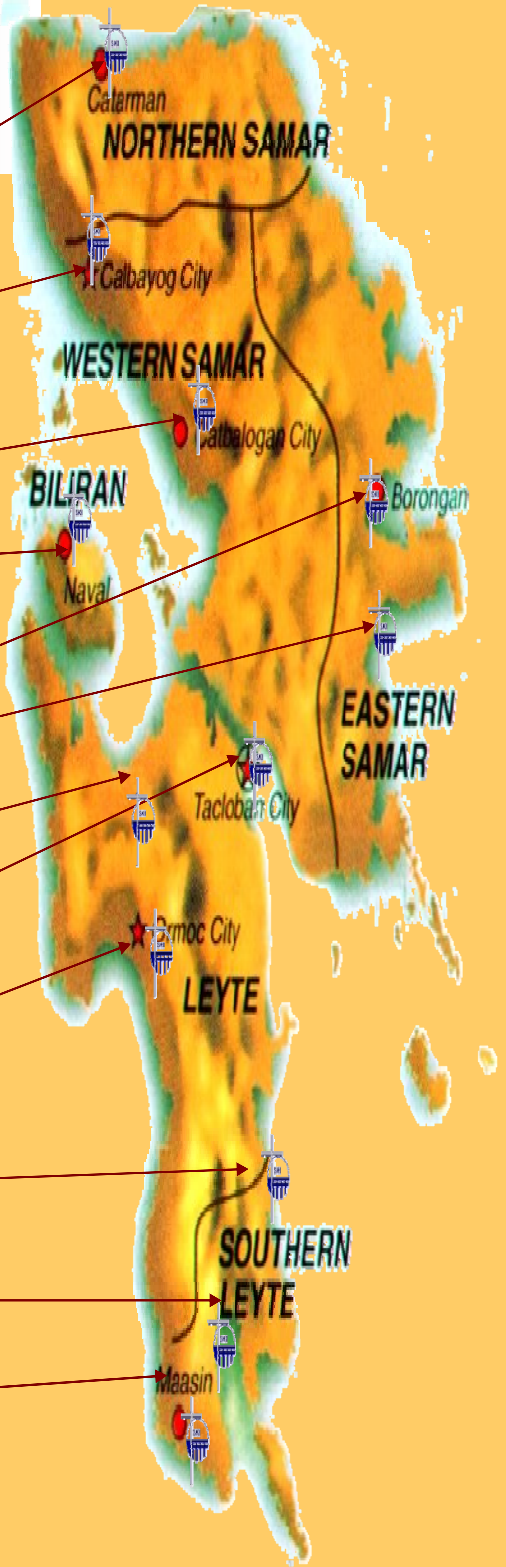
Central Visayas

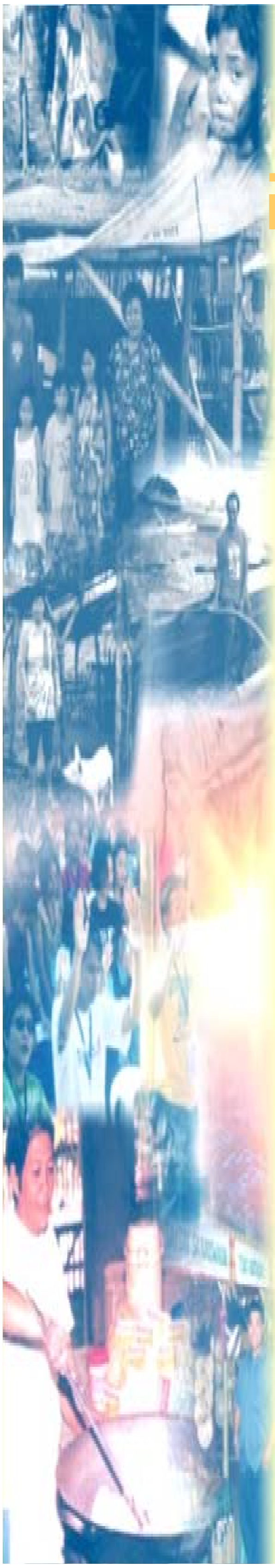
Southern Tagalog

Western Mindanao

Eastern Visayas

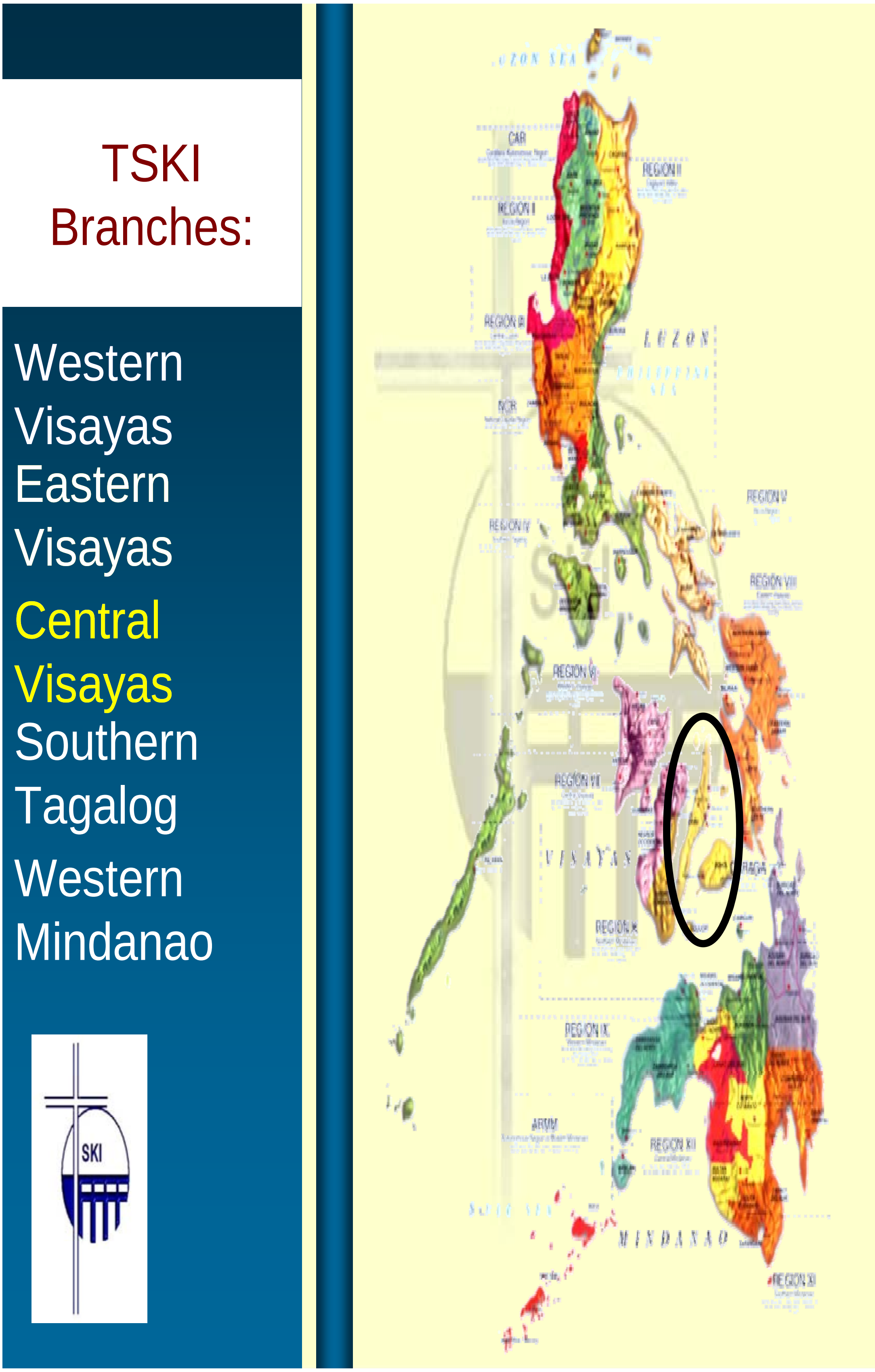
14. Catarman, Samar
15. Calbayog, Samar
16. Catbalogan, Samar
17. Naval, Biliran
18. Borongan, Eastern Samar
19. Guiuan, Samar
20. Carigara, Leyte
21. Tacloban, Leyte
22. Ormoc, Leyte
23. Dulag, Leyte
24. Bontoc, Southern Leyte
25. Maasin, Southern Leyte

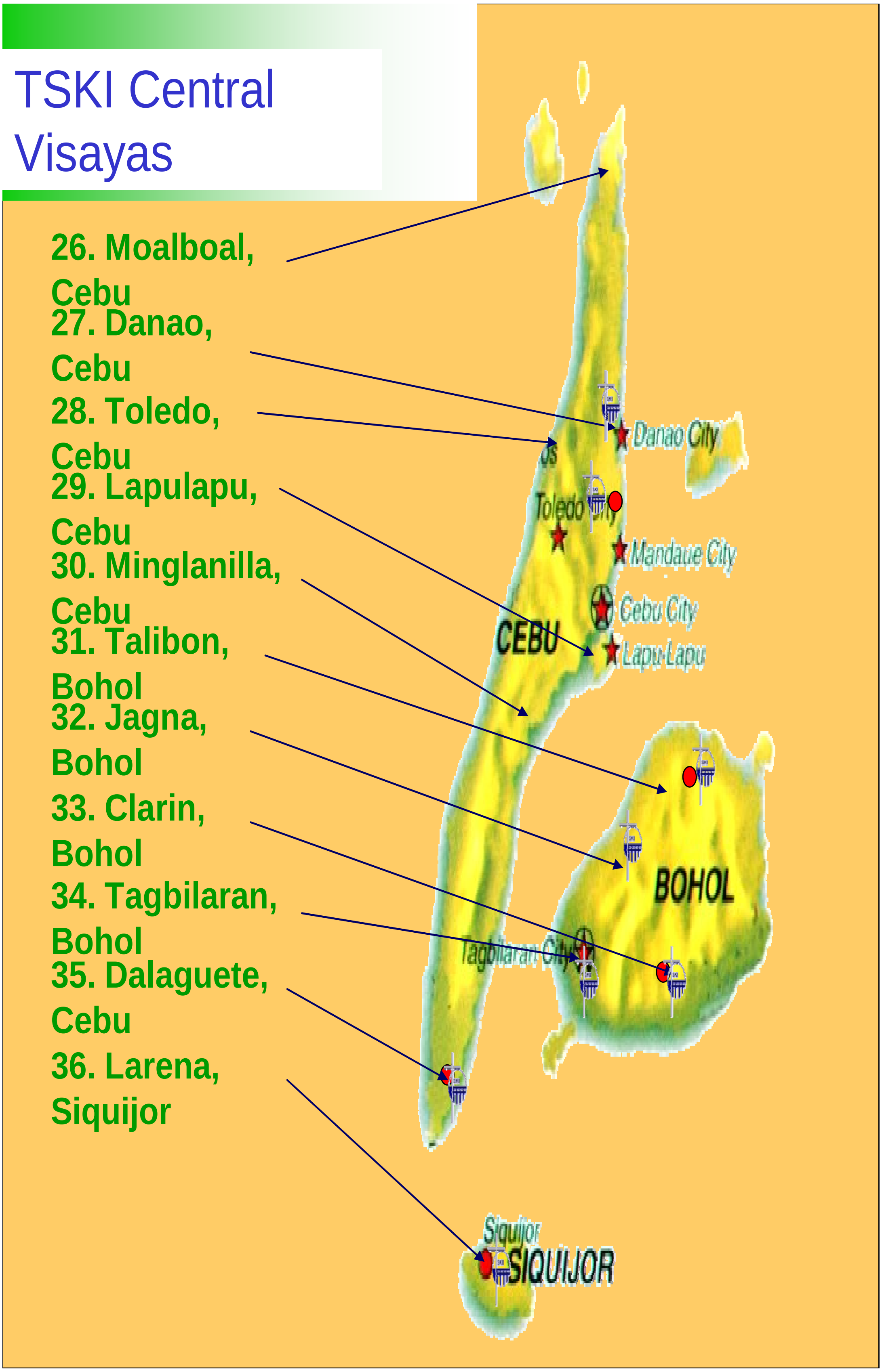


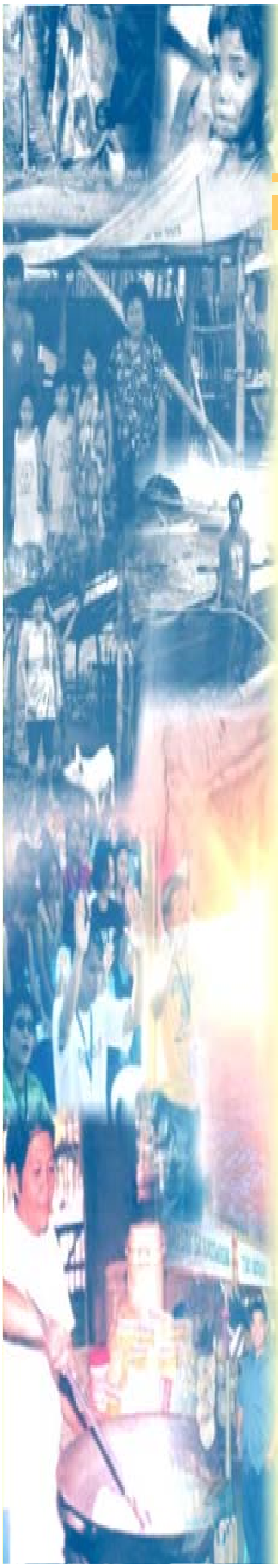


Summary of Clients

No.	Branch	Total # of Clients
14	Catarman, Samar	4,808
15	Calbayog, Samar	3,827
16	Naval, Biliran	4,805
17	Tacloban, Leyte	3,314
18	Ormoc, Leyte	5,089
19	Carigara, Leyte	3,408
20	Bontoc, Southern Leyte	4,287
21	Maasin, Southern Leyte	3,431
22	Dulag, Leyte	4,952
23	Catbalogan, Samar	3,540
24	Guiuan, Samar	3,527
25	Borongan, Samar	3,858
	Total	48,846
3	K Bank Tacloban, Leyte	5,498
	Grand Total	54,344


TSKI
Branches:
Western
Visayas
Eastern
Visayas
Central
Visayas
Southern
Tagalog
Western
Mindanao
SKI
CAR
REGION I
REGION II
REGION V
REGION VI
REGION VII
REGION VIII
REGION IX
REGION X
REGION XII
ARMM
NCR
LUZON
VISAYAS
MINDANAO


TSKI Central Visayas
26. Moalboal, Cebu
27. Danao, Cebu
28. Toledo, Cebu
29. Lapulapu, Cebu
30. Minglanilla, Cebu
31. Talibon, Bohol
32. Jagna, Bohol
33. Clarin, Bohol
34. Tagbilaran, Bohol
35. Dalaguete, Cebu
36. Larena, Siquijor
Danao City
Toledo City
Mandaue City
Cebu City
Lapu-Lapu
CEBU
BOHOL
Tagbilaran City
Siquijor
SIQUIJOR

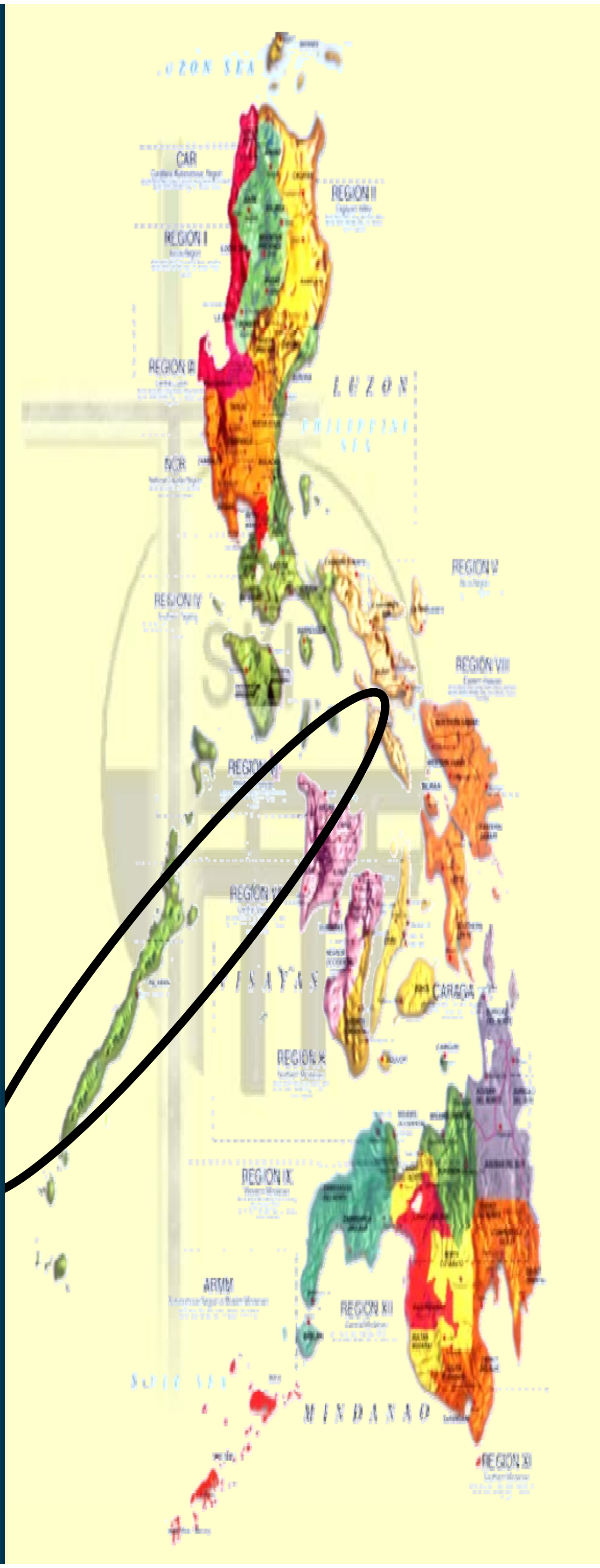


Summary of Clients

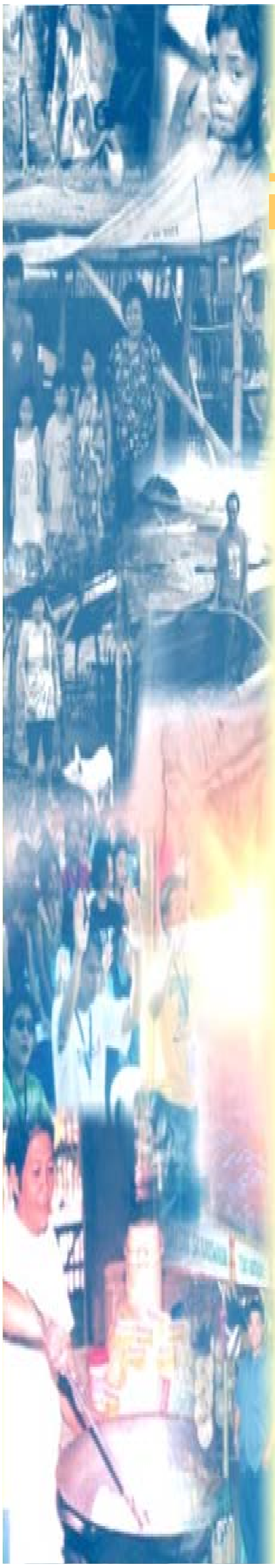
No	Branch	Total # of Clients
26	Danao, Cebu	4,820
27	Minglanilla, Cebu	1,589
28	Dalaguete, Cebu	2,810
29	Jagna, Bohol	4,226
30	Talibon, Bohol	5,010
31	Tagbilaran, Bohol	1,579
32	Larena, Siquijor	2,524
33	Clarin, Bohol	3,519
34	Lapulapu	4,411
35	Toledo, Cebu	2,094
36	Moalboal	2,135
	Total	34,717
4	K Bank Minglanila, Cebu	3,358
5	K Bank Tagbilaran, Bohol	3,952
	Total	7,310
	Grand Total	42,027

TSKI Branches:

Western Visayas
Eastern Visayas
Central Visayas
Southern Tagalog
Western Mindanao

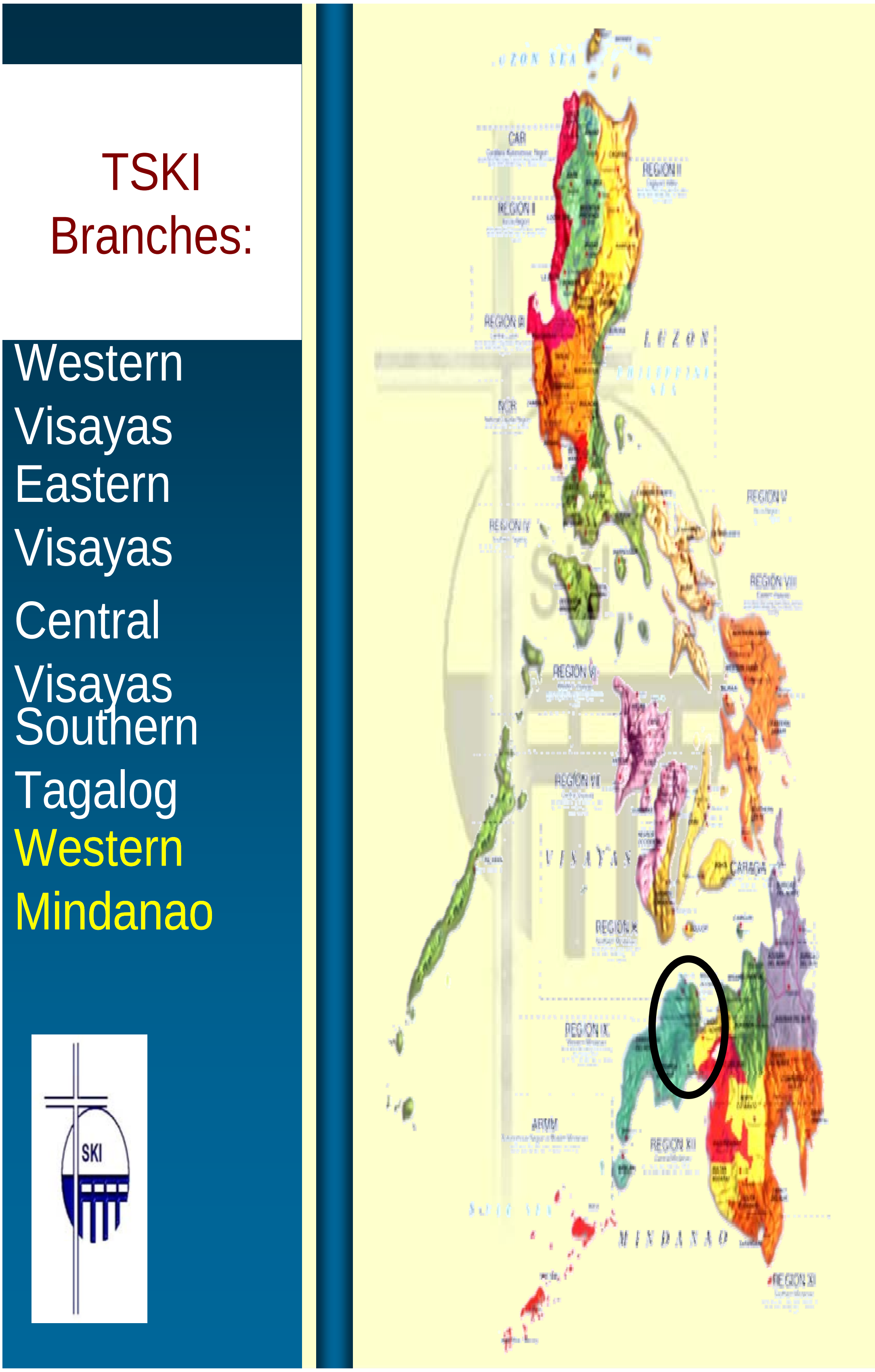



Southern Tagalog
37. Calapan, Mindoro
38. Roxas, Mindoro
39. Odiongan, Romblon
40. Coron, Palawan
41. Puerto Princesa, Palawan
Calapan City
Mamburao
ORIENTAL MINDORO
OCCIDENTAL MINDORO
ROMBLON
Romblon
Roxas
PALAWAN
Puerto Princesa City



Summary of Clients

No.	Branch	Total # of Clients
37	Odiongan, Romblon	4,667
38	Puerto Princesa, Palawan	5,335
39	Roxas, Mindoro	4,438
40	Coron, Palawan	2,172
41	Calapan, Mindoro	5,525
	Total	22,137


TSKI
Branches:
Western
Visayas
Eastern
Visayas
Central
Visayas
Southern
Tagalog
Western
Mindanao
SKI

Western Mindanao

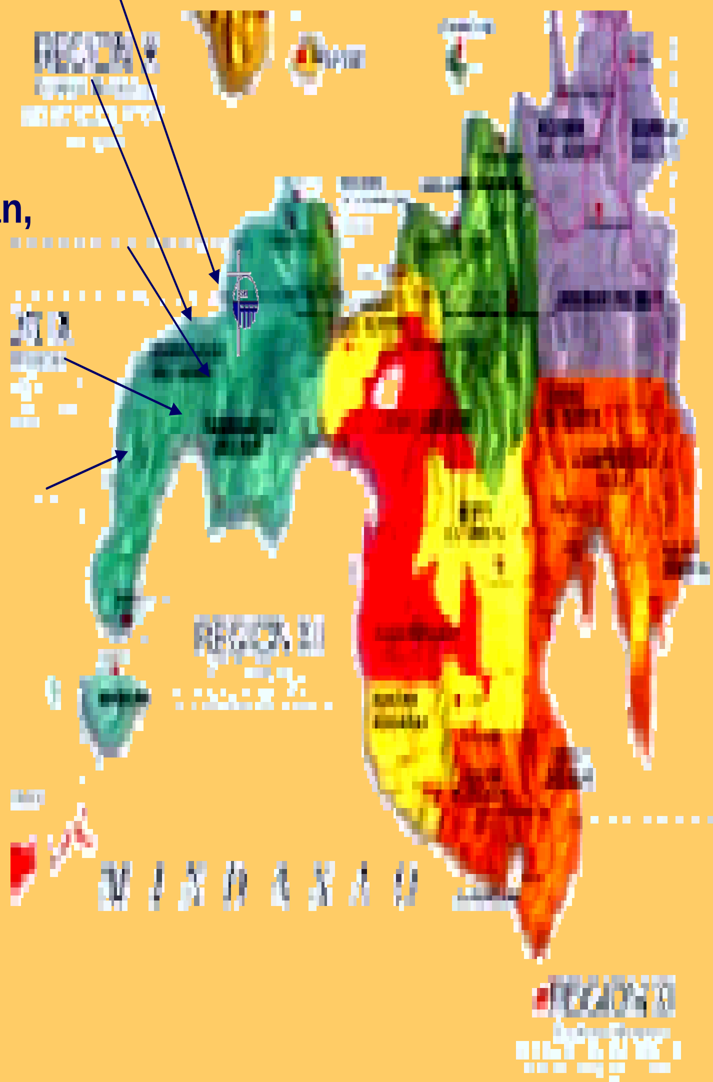
42. Dipolog, Zamboanga

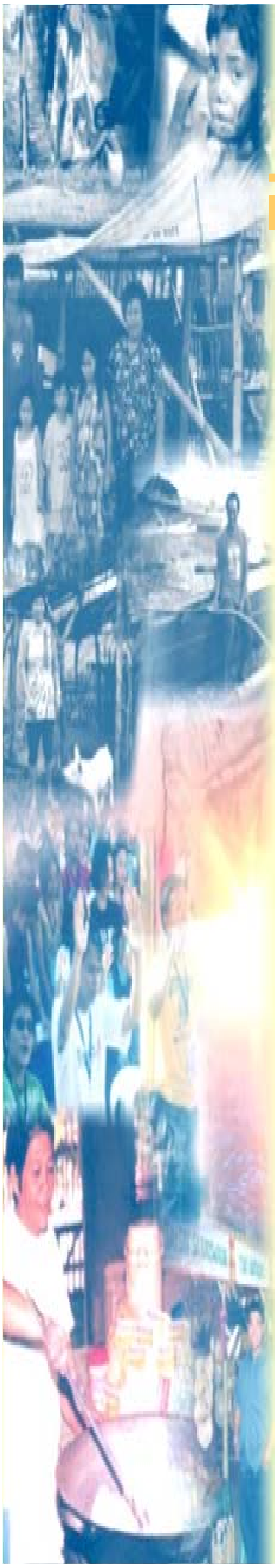
43. Molavi, Zamboanga

44.Sindangan, Zamboanga

45.Buug, Zamboanga

46. Ipil, Zamboanga





Summary of Clients

No.	Branch	Total # of Clients
42	Dipolog City	3,029
43	Ipil	3,160
44	Sindangan	3,614
45	Molavi	3,812
46	Buug	2,246
	Total	15,861

Total Number of Clients

Areas	Total No. of Clients
Western Visayas	63,259
Eastern Visayas	48,846
Central Visayas	34,717
Southern Tagalog	22,137
Mindanao	15,861
NGO Total	184,820
K- Bank	21,926
Grand Total	206,746

APPENDIX III

Client Impact Monitoring Survey Instrument

Abreviations:	
N/R	No Response
D/K	Don't Know
N/A	Not Applicable

Client Impact Monitoring System (CIMS®) Form (Asia - v02-08.0)
TSKI

Excel Seq. No. [ ]

PRODUCT TYPE: 1. MEDP Loan [ ] 2. PKK Group [ ]

CLIENT STATUS: 1. New [ ] 2. Renewing [ ] 3. Returning [ ] 4. Existing [ ] 5. Non-Client [ ]

CLIENT LOCATION: 1. Urban [ ] 2. Semi-urban [ ] 3. Rural [ ]

GENDER: 1. Male [ ] 2. Female [ ]

GRADUATED? 1. Yes [ ] 2. No [ ] 3. N/R [ ]

DISPLACED MIGRANT? 1. Yes [ ] 2. No [ ] 3. N/R [ ]

Date (dd/mm/yyyy) ____________

Interviewer (code) ____________

Branch (code) ____________

Interviewer QC Date ____________ *Initials* [ ]

Branch Manager QC Date ____________ *Initials* [ ]

Head Office QC Date ____________ *Initials* [ ]

MIS Date Entry Date ____________ *Initials* [ ]

DEMOGRAPHIC INFORMATION

1. Client Name ____________ 2. Client # ____________ 3. Group Account # ____________

4.1 Loan Amt. ____________ 4.2 Loan Term (weeks) ________ 5. Loan Cycle (current) ________

6.1 Savings Acc. Bal. ________ (not including mandatory TSKI savings) 6.2 How many months have you had a voluntary Savings (A/C) ________

7.1 What is your date of birth (dd/mm/yyyy)? [ ] or 7.2 What is your age? [ ] Enter "N/R" if no response provided by client

8. What is your marital status? *(read responses) (mark only one)*
1. Married [ ] 2. Single [ ] 3. Divorced [ ] 4. Separated [ ] 5. Living Together [ ] 6. Widowed [ ] 7. No response [ ]

9. What is the last level of schooling that you have **completed**? *(read responses) (mark only one)*
1. None [ ] 2. Primary [ ] 3. Secondary [ ] 4. Vocation/ Tech. College [ ] 5. University [ ] 6. Don't know [ ] 7. No response [ ]

10. What is your religion? *(read responses) (mark only one)*
1. Christian [ ] 2. Catholic Christian [ ] 3. Orthodox Christian [ ] 4. Muslim [ ] 5. Hindu [ ] 6. Other [ ] 7. None [ ] 8. No response [ ]

11. How many people live in your household? (Enter "N/R" if no response) *Enter Number* [ ]

12. How many of them earn a regular income and contribute to household expenses? (Enter "N/R" if no response) *Enter Number* [ ]

13. How many of them are dependents that require financial support? (Enter "N/R" if no response) *Enter Number* [ ]

14. Of the dependent children, have any of them lost both their parents *(orphans)*? *(Enter "0" if none)* Yes [ ] No [ ] No response [ ] *If Yes, Enter Number* [ ]

HOUSING

15. What best describes the place where you live? *(read responses) (mark only one)*
1. Self or spouse owns house/ apt. [ ] 2. Self/ spouse rents house/ apt. [ ] 3. Share family house [ ] 4. Squatting [ ] 5. Other [ ] 6. No response [ ]

16. What is the primary material that your house is made of? *(read responses) (mark only one) (probe if necessary)*
1. Concrete or Cement Bricks [ ] 2. Wood [ ] 3. Sheet Metal [ ] 4. Mud Brick or Adobe [ ] 5. Other [ ] 6. No response [ ] 8. Bamboo [ ]

17. Do you have any of the following utilities **inside** your house? *(read responses) (mark all that apply)*
1. Water [ ] 2. Electricity [ ] 3. Toilet [ ] 4. Telephone [ ] 5. Mobile Phone [ ] 6. None [ ]

CHILDREN'S EDUCATION

18. How many children ages 5-18 yrs. live in your house? (Enter "0" if none, "N/R" if no response) *Number Boys* [ ] *Number Girls* [ ]

19. How many of them attend school or vocational training? (Enter "0" if none, "N/R" if no response) *Number Boys* [ ] *Number Girls* [ ]

BUSINESS ACTIVITY

20. What type of business do you operate? (Do NOT *read responses, probe) (write in type of business:)* ____________
1. Manufacturing [ ] 2. Trade or Retail [ ] 3. Food Services [ ] 4. Transport [ ] 5. Other Services [ ] 6. Agriculture or Animals [ ] 7. N/A [ ] 8. No response [ ]
(mark only one box)

21. How many employees do you have who are paid in cash and work at least half time? *(not including client, Enter "0" none, N/R no response)* *Enter Number* [ ]

22. What is your current *sales revenue? (copy from loan application form if available)* *Weekly* [ ] *Or Monthly* [ ]
N/A [ ] Don't know [ ] No response [ ]

23. What is your current *net profit? (copy from loan application form if available)* *Weekly* [ ] *Or Monthly* [ ]
N/A [ ] Don't know [ ] No response [ ]

24. Overall, how has your average profit changed in the last three (3) months? *(read responses)*
1. Increased [ ] 2. No change [ ] 3. Decreased [ ] 4. N/A [ ] 5. Don't know [ ] 6. No response [ ]

25. How did you use the profit from your business over the past three (3) months? *(Do NOT read responses) (Probe; mark all that apply)*
1. To repay debts (other than loan) [ ] 2. For emergencies [ ] 3. Regular household expenses [ ] 4. Regular business expenses [ ] 5. Household assets [ ] 6. Business assets [ ] 7. For savings [ ]
8. Loan repayment [ ] 9. Hire employees [ ] 10. Buy inventory [ ] 11. Purchase equipment [ ] 12. Improve structure [ ] 13. Food [ ] 14. Education costs [ ]
15. Medical expenses [ ] 16. Home improvement [ ] 17. Funerals [ ] 18. Other [ ] 19. N/A [ ] 20. Don't know [ ] 21. No response [ ]

26. Do you or your household members receive money from others living in:
1. Another country [ ] 2. Another city [ ] 3. None [ ] 4. Don't know [ ] 5. No response [ ]

27. If yes, how often? *(read responses) (mark only one)*
1. Every month [ ] 2. Every 3 mos. [ ] 3. Every 6 mos. [ ] 4. Annually [ ] 5. Irregularly [ ] 6. N/A [ ] 7. Don't know [ ] 8. No response [ ]

Page 1 of 3

SAVINGS

28. How has your total voluntary *savings*changed in the past six (6) months? *(NOT including TSKI compulsory savings) (read responses)*
1. Increased [ ] 2. No change [ ] 3. Decreased [ ] 4. None since last loan [ ] 5. Don't know [ ] 6. No response [ ] (skip to #32)

29. How much of your total savings is currently with a bank or formal financial institution? *(NOT including compulsory savings) (read responses)*
1. All of my savings [ ] 2. At least half of my savings [ ] 3. Less than half of my savings [ ] 4. None of my savings [ ] 5. No savings at all [ ] 6. Don't know [ ] 7. No response [ ]

30. On what BUSINESS items have you spent any of your Savings in the last three (3) months? *(Do NOT read responses) (Probe; mark all that apply)*
1. Loan repayment [ ] 2. Hire employees [ ] 3. Buy inventory [ ] 4.Purchase equipment [ ] 5. Improve structure [ ] 6. Other [ ] 8. Don't know 7. None [ ] 9. No response [ ]

31. On what NON-Business items have you spent any of your Savings in the last three (3) months? *(Do NOT read responses) (Probe; mark all that apply)*
1. Food [ ] 2. Education Costs [ ] 3. Medical expenses [ ] 4. Home improvement [ ] 5. Funerals [ ] 6. Other [ ] 8. Don't know 7. None [ ] 9. No response [ ]

DECISION-MAKING

32. Who makes most of the decisions about how to use your savings? *(Do not read responses) (mark only one)*
1. Yourself [ ] 2. Spouse [ ] 3. Joint [ ] 4. Parents [ ] 5. Other [ ] 6. No response [ ]

33. Who makes most of the decisions about other money and spending? *(Do not read responses) (mark only one)*
1. Yourself [ ] 2. Spouse [ ] 3. Joint [ ] 4. Parents [ ] 5. Other [ ] 6. No response [ ]

34. How often do you help make major household decisions? (such as support of relatives, children's education, marriage, etc.) *(read responses)*
1. Always [ ] 2. Often [ ] 3. Sometimes [ ] 4. Rarely [ ] 5. Never [ ] 6. No response [ ] *(mark only one)*

HEALTH (I will now ask you about the health of you and your family)

35. How many days of work did you miss in the last month because you were sick? (Enter "0" for none) No response [ ] *Enter Number* [ ]

36. How many days of work did you miss in the last month because you cared for a sick family member? (Enter "0" for none) No response [ ] *Enter Number* [ ]

37. Over the past six months, have any family members died? Yes [ ] No [ ] No response [ ] *If Yes, Enter Number* [ ]
(WORD THIS QUESTION AS SENSITIVE AS POSSIBLE)

COMMUNITY INVOLVEMENT

38. In which activities do you *regularly*participate? *(read responses) (mark all that apply)*
1. Civic Activities [ ] 2. Social Activities [ ] 3. Worship Services [ ] 4. Other Religious [ ] 5. Funerals [ ] 6. None [ ]

39. On average, how often do you participate in each activity? *(mark responses only for appropriate categories)*

1. Weekly [ ]	1. Weekly [ ]	1. Weekly [ ]	1. Weekly [ ]	1. Weekly [ ]
2. Bi-weekly [ ]	2. Bi-weekly [ ]	2. Bi-weekly [ ]	2. Bi-weekly [ ]	2. Bi-weekly [ ]
3. Monthly [ ]	3. Monthly [ ]	3. Monthly [ ]	3. Monthly [ ]	3. Monthly [ ]
4. N/A [ ]	4. N/A [ ]	4. N/A [ ]	4. N/A [ ]	4. N/A [ ]
5. No response [ ]	5. No response [ ]	5. No response [ ]	5. No response [ ]	5. No response [ ]

40. In the past year, to which activities did you donate money or in-kind goods? *(read responses) (mark all that apply)*
1. Civic Activities [ ] 2. Social Activities [ ] 3. Worship Services [ ] 4. Other Religious [ ] 5. Funerals [ ] 6. None [ ]

41. Do you hold a leadership position in any of these activities? *(read responses) (mark all that apply)*
1. Civic Activities [ ] 2. Social Activities [ ] 3. Worship Services [ ] 4. Other Religious [ ] 5. Other [ ] 6. None [ ]

CLIENT TRAINING & SATISFACTION

42. Do you regularly receive training from "TSKI"? 1. Yes [ ] 2. No [ ] skip to Q45 3. N/A [ ] 4. No response [ ]

43. If yes, have you received training on any of the following over the past six (6) months? *(read responses) (mark all that apply)*
1. Business Management [ ] 2. Business Ethics [ ] 3. Personal Relationships [ ] 4. Spiritual Life or Prayer [ ] 5. Health Education [ ] 6. Other [ ]

44. Overall, how would you rank the quality of the training provided by TSKI? *(read responses)*
1. Very good [ ] 2. Good [ ] 3. Fair [ ] 4. Poor [ ] 5. None [ ] 6. Don't know [ ] 7. No response [ ]

45. Over the past six (6) months, how have the following changed? *(read each item and corresponding responses)*

a. Your self-confidence	1. Better [ ]	2.The same [ ]	3. Worse [ ]	4. N/A [ ]	5. Don't know [ ] 6. No response [ ]
b. The strength of your relationship with God	1. Better [ ]	2.The same [ ]	3. Worse [ ]	4. N/A [ ]	5. Don't know [ ] 6. No response [ ]
c. Your overall quality of life	1. Better [ ]	2.The same [ ]	3. Worse [ ]	4. N/A [ ]	5. Don't know [ ] 6. No response [ ]

46. What are the TWO things you would most like to see changed at TSKI?
1.

2.

47. Would you recommend TSKI to a friend or relative? *(read responses) (mark only one)*
1. Yes [ ] 2. Only if Changes are Made [ ] 3. No [ ] 4. N/A [ ] 5. Don't know [ ] 6. No response [ ]

48. Finally, what are the TWO things you like best about TSKI?
1.

2.

Page 2 of 3

TSKI SPECIFIC QUESTIONS

49. Please indicate if you have attended any of the following TSKI trainings. (If you have not attended any of the trainings below, please proceed to question 55)

a. Livelihood Skills/Skills Summit Training [ ] N/A for Not Applicable or list training here: ____________

b. Capacity Building/Business Development Training [ ] N/A for Not Applicable or list training here: ____________

c. Leadership Training [ ] N/A for Not Applicable or list training here: ____________

d. Others [ ] N/A for Not Applicable or list training here: ____________

50. Have you been able to utilize the skills you have learned from the training to better manage or enhance your business?

1. Yes [ ] 2. No [ ] 3. Not Applicable [ ] 4. No Response [ ]

51. If yes, how have you been able to directly apply these skills? (N/A for Not Applicable)

52. In applying these skills have you since experienced an increase in business profit?

1. Yes [ ] 2. No [ ] 3. Not Applicable [ ] 4. No Response [ ]

53a. If yes to Q52, What was your monthly income before the training? [ ]

53b. If yes to Q52, What was your monthly income after the training? [ ]

54. **(For Livelihood Skills/Skills Summit Training Attendees Only)**
Where you able to start a new business or add a new product to your current business as a direct result of attending the livelihood skills training?

1. Yes [ ] 2. No [ ] 3. Not Applicable [ ] 4. No Response [ ]

55. Are there any aspects of your business operations that you feel you can improve or further develop?

1. Yes [ ] 2. No [ ] 3. No Response [ ]

56. If yes, in what areas of your business do you need to develop or require assistance with? Please mark all that apply

1. Business Management [ ]
2. Bookkeeping/Recording and Accounting [ ]
3. Marketing/Selling [ ]
4. Costing of Products [ ]
5. Production Flow/Process [ ]
6. Packaging/Business Image [ ]
7. Food Analysis [ ]
8. Bar Coding [ ]
9. Other [ ] List: ____________

57. Please indicate your preference, in regards to the current features of the PKK program? (for group loan clients only)

a. Frequency of meetings: 1. Once a week [ ] 2. Bi-Monthly [ ] 3. Once a month [ ] 4. Not Applicable [ ] 5. No Response [ ]

b. Term of loan: 1. Three months [ ] 2. Six months [ ] 3. One year [ ] 4. Not Applicable [ ] 5. No Response [ ]

c. Mode of payment: 1. Monthly [ ] 2. Bi-Monthly [ ] 3. Weekly [ ] 4. Not Applicable [ ] 5. No Response [ ]

d. Number of members per centre: 0. 5 - 10 [ ] 1. 11 - 15 [ ] 2. 16 - 20 [ ] 3. 21 - 25 [ ] 4. 26 - 30 [ ] 5. 31-40 [ ] 6. 41+ [ ] 7. Not Applicable [ ] 8. No Response [ ]

e. Interest Rate: Are you satisfied with the current rate? 1. Yes [ ] 2. No [ ] 3. Not Applicable [ ] 4. No Response [ ]

58. How much collateral would you be willing to provide, if you could avail of a higher loan amount? (in terms of percentage of loan amount)

1. 100% of loan amount [ ] 2. 200% [ ] 3. 300% [ ] 4. Not Applicable [ ] 5. Don't Know [ ] 6. No Response [ ]

End of Survey – Thanks!

APPENDIX IV

Client Impact Monitoring System Procedure Manual

Prepared by the Product Development Division

OPPORTUNITY INTERNATIONAL

Client Impact Monitoring System (CIMS)

SKI

Procedures Manual

A Client Impact Monitoring Tool provided by

OPPORTUNITY INTERNATIONAL
Product Development Division

Version 1.0 06 September 2005

1 Introduction

1.1 Introduction to CIMS

Gathering information to know our clients and monitoring the impact we have on their lives are vital ingredients in informing a Microfinance Institution how it is fulfilling its mission.

An efficient, up to date record of client information will allow us

- ☑ to continually update and be aware of our clients' needs (e.g. older clients continue to be more sophisticated in their demands for our products and services)
- ☑ to monitor and react to client satisfaction to improve our products and services, and
- ☑ the amount of impact the program is having on the lives of our clients and their families

This project is very important for TSKI and an excellent, previously unavailable source of information and analysis for our organisation. We want to maintain our poverty alleviation focus by improving our responsiveness to client demand and enhancing our understanding of client impact through the creation of this new institutional learning system.

This Client Impact Monitoring System (CIMS) will ultimately be integrated with our MIS to provide management and staff with timely information for management decision-making to continue to meet the needs of the clients. Creating a feedback loop between clients and management is fundamental to ensuring that our goals are achieved.

Following the steps outlined in this manual carefully will enable us to make best use of accurate, timely, and informative analysis helping us and our senior managers to help clients in ever more innovative and successful ways.

The CIMS questions have been field-tested by 15 Opportunity International partners on three continents, so we know it works!

Good luck, and do remember if you have any questions or suggestions contact the CIMS Co-ordinator in Head Office.

1.2 Why do CIMS?

We must not forget that our basic mission is to help the poor. CIMS will help us with this, as well as providing a wealth of other benefits to help make our business more sustainable, in turn helping our clients better themselves.

Here are just some of the benefits of CIMS:

- ☑ CIMS will help tell us how well we are **helping the poor transform their lives** and hence fulfilling our mission
- ☑ CIMS data will enable us to evidence 'tangible' successes to improve our chances of obtaining **greater funding and sustainability** in future
- ☑ It will help us **know our clients** much better in future, acting as a record or 'shared memory' ultimately available to all our staff
- ☑ It will help us identify what our clients like about us, and what they don't like so much, enabling us to **identify their 'needs'**, and hence change and **improve the way we serve** them
- ☑ Senior managers will be able to use the data to identify **opportunities for new products and services** that will further help existing clients and attract new clients in future
- ☑ As more and more MFIs and commercial banks start to compete in our market, identifying clients' needs and offering the right products and help will give us that **'vital edge' over the competition**
- ☑ It will provide us with standard measures allowing us to **compare our success** to other organisations world-wide

4 of 4

1.3 Who should read this manual?

So, who needs to read each part of this manual? If you have time, in order to fully understand how CIMS works, you should read the complete manual.

The following table details the sections which are *essential* reading depending on how you are involved in CIMS;

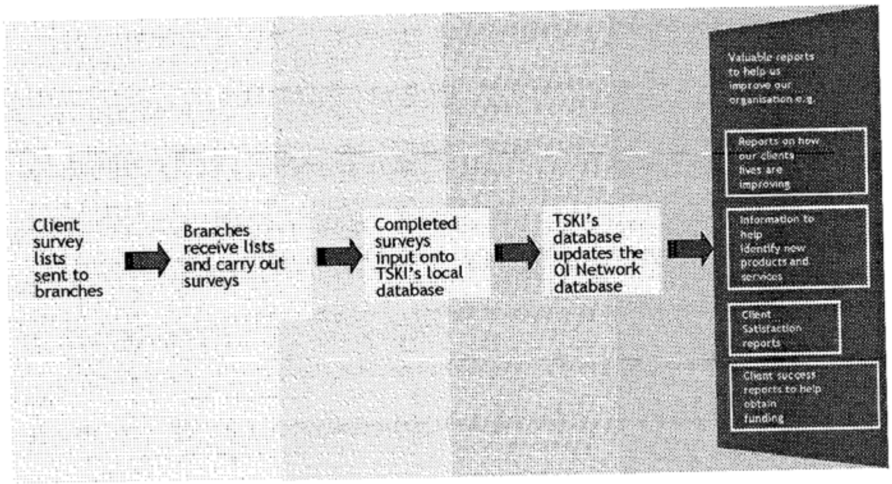
Who	Please read...
ED or Senior Manager responsible for CIMS	Sections 1,2, and 7
MIS team member (MIS Area Supervisors)	Sections 1,2, and 6
CIMS Co-ordinator	The whole manual!
Branch Manager	Sections 1,2, 4, 5 and 7
CIMS interviewer (Program Unit Supervisors)	Sections 1,2, 4 and 5

Whatever role you are to play in the success of CIMS, have a look at the survey form and familiarise yourself with the wealth of useful information that will be available to help you know your clients better.

2 The CIMS process

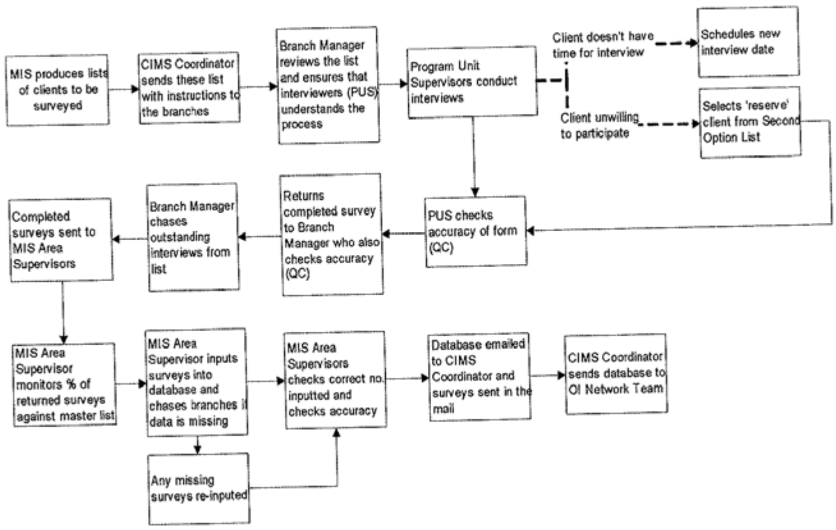
2.1 Process overview

Basically, completing the CIMS survey and recording the data is a simple process. A little time is required to answer the survey questions, so you should always check with your client that they have time available. As you can see, a little extra time with our clients will enable informative reports to be produced that will help TSKI to know our clients better and hence offer them more help in future!

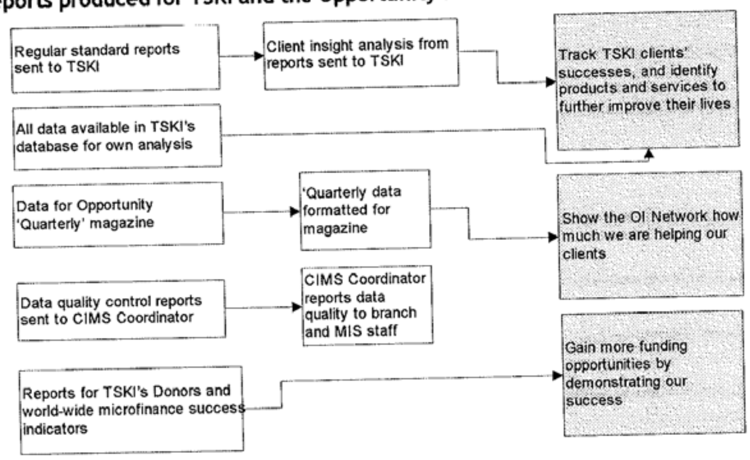


2.2 The end to end (E2E) process

The following diagrams show the end to end process, right from a client getting a product application agreed; through to the types of benefits and reports TSKI should see from CIMS Each staff members' responsibilities in the CIMS process are detailed in the following sections.



Reports produced for TSKI and the Opportunity Network Work



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3 CIMS Co-ordinator

As the person appointed by your Senior Manager with looking after the CIMS process, you are charged with ensuring that everyone in your organisation understands what they have to do, when by, and monitor that the CIMS process works smoothly - a vital role!

3.1 Getting ready for CIMS

How do I decide how many and which clients need to be interviewed for CIMS

- The number of clients to be interviewed will be dependent on the total number of clients TSKI has in each product group. Send an email to the CIMS Helpdesk listing the total number of clients, their respective product groups and their maturity. New clients are on their 1-2 loan cycle, intermediate clients are on their 3-5 loan cycle and mature are on 6+ loan cycle.
- You will be told how many interviews must be conducted in order for meaningful reports to be produced about our clients. Add a margin to this figure to ensure that the target number is reached.
- Check this figure with the Operations Manager who may desire more clients to be surveyed for other purposes.
- Ensure that intermediate and mature clients are adequately represented. To conduct a thorough analysis at least 30 clients should be interviewed per category (where possible).
- Don't worry! About determining the sample size as this will be fully explained to you by the helpdesk.

3.1.1 Requesting client lists from MIS

- After you add a margin to the recommended survey sample size and have determined the amount of clients that need to be interviewed per product and loan maturity; divide this figure over the five areas of operations.
- Request MIS to produce a list of randomly selected clients per area and ensure that these are divided evenly over the number of branches represented in the area. It is vital to the CIMS process that these clients are randomly selected.
- Send the appropriate list to each Branch Manager for them to distribute to the Program Unit Supervisors nominated in each branch to conduct the survey. Inform the Branch Managers that is their responsibility to ensure all the survey forms are completed correctly and sent to the MIS Area Supervisors within the set time frame.
- Keep a **copy of each list** and send the area lists to the respective MIS Area Supervisors so they can monitor which surveys have been completed.
- Send a supply of up to date CIMS survey forms with the Client interview lists. If you are posting paper copies, send them a few extras to allow for mistakes!

IMPORTANT:

✓ Always check to make sure you are sending the most up to date CIMS survey form. Refer to the CIMS helpdesk if you are not sure.

3.1.2 Sending CIMS Database to the MIS Area Supervisors

In order to distribute the workload, five MIS Area Supervisors will be responsible for inputting the surveys after they gather them from their respective areas of management. It is important that the excel spreadsheets are titled to easily identify the area from which the information has been gathered.

- Make sure you save the Excel spreadsheet as "TSKI_[AREA #].xls and then email it to the respective MIS Area Supervisors.

3.1.3 Receiving completed CIMS survey forms

- Review the completed survey sheets and list that have been ticked off and sent into head office by the MIS Area Supervisors. The MIS Area Supervisors will email the Databases directly to you.
- You should keep a record of the % of completed surveys returned by each branch, just in case any branch has problems and is unable to complete enough / any CIMS surveys.
- Check the PC database that the MIS Area Supervisors have emailed to you and see that the number of records entered corresponds with the number of survey forms that you have received.
- Keep a record of the number of forms that have not or could not be entered onto the PC (% input).

3.2 Sending CIMS Client data to the Helpdesk

Every 6 months you should send a copy of the CIMS PC data records to the **CIMS Helpdesk.**

To send the data:-

- Open the Excel file on your PC
- Ensure the **"Export Data Description"** details for each Excel file which is found at sheet 2 of every data entry template is completed.
- Save the Excel spreadsheet as "TSKI_[AREA #].xls"
- You should e-mail a copy of the MS Excel file(s) to cims@opportunity.net

As the data you have received is from the five areas of TSKI's operations, it is important that all five excel spreadsheets are sent to the CIMS Helpdesk.

CARE: make sure no two Excel files received from different offices are numbered identically before sending them to the Helpdesk, otherwise the records may be lost!

3.2.1 Getting Reports back from the CIMS Helpdesk

Once our data is received and processed we will receive several reports back, see section 6 for more details of the reports.

To assist us with quality control and governance of the CIMS process for our Senior Manager, a report will be sent to us showing:-

PERFORMANCE REPORTS

1. The total number of surveys recorded; by branch office, and individual interviewer
2. The number of records that contain inaccurate or insufficient data; by branch office, individual interviewer, and data entry person
3. Whether any client(s) have been interviewed repeatedly instead of a random selection of different clients

- Report No.1 can be used to praise those branch offices which complete the required number of interviews, or to allow Branch Managers to introduce performance targets against number of completed and accurate (using report no. 2)surveys.
- Report No.2 could be used to assess accuracy rates of both Interviewers and Data input staff.
- Report No. 3 could be used to ensure that a diverse representative client sample is being interviewed

3.2.2 Adding to Client Satisfaction Reason Codes

Our Client Data Inputters use tables of numbered answers to complete the "What TWO things would you most like to see changed" and "What TWO things do you like best" questions at the end of the survey.

- Answers will sometimes be given that cannot be allocated a number from the tables provided, and the Data Inputter will refer these to you.
- Please record all these NEW reasons and contact the **CIMS Helpdesk** with a note of them using the CIMS Change Request form.
- New reasons will be added to the tables and allocated new numbers by the helpdesk and sent to you for use by your Data Inputters in future.
- This will give your organisation and in-depth understanding of what your clients want from you in future, so it's really important!

3.2.3 Adding new Products and other new fields to the survey form

Complete a **CIMS Change Request form** and send it to the Helpdesk to request any changes to TSKI's client survey forms. A change should be requested in the following situations:

1. When TSKI has introduced a new product as we must include it on the CIMS surveys in future!

   Please record the new product 'title' and contact the **CIMS Helpdesk** with a note of it and requesting inclusion on the next update of the CIMS survey form. The helpdesk will inform TSKI how long this will take, supply us with a new survey form, and advise us when to begin to use it.

2. If you have any other additions or changes to the questions asked in the survey, please contact the **CIMS Helpdesk.**

When will this happen?

- All updates to the CIMS forms will normally be completed and distributed to TSKI semi-annually at the same time as reports are produced
- If changes to the "Partner Tab" questions are urgent, it may be possible to process these quicker. Please contact the CIMS Helpdesk to find out

It may not be practical to include all change requests into the CIMS survey. The Helpdesk will discuss each one with you individually and agree a solution for you

NOTE: Do not begin inputting survey forms that include any new question(s) until you receive a new data input template from the CIMS Helpdesk.

4 Branch Manager/ Area Supervisors

As a Branch Manager you are a very important part of the CIMS process! - supervising your staff and making sure that CIMS surveys are completed in an accurate and timely way, and returned to the MIS Area Supervisors.

Every 6 months you will receive details of clients who must be interviewed. The list will be divided up by Program Assistant, product type and client maturity. You will be able to easily determine the amount of interviews that each CIMS interviewer (Program Unit Supervisor) will need to conduct.

As a Branch Manager it will be your responsibility to train and educate the Program Unit Supervisors in conducting the survey. All Program Unit Supervisors before commencing interviews are expected to read this manual, read the information sheet and undertaken the CIMS quiz before they go out on field. Please ensure that the PUS understands their responsibilities, the nature of the interview and the timeframe when the interviews need to be completed by.

4.1.1 Receive Survey Lists

- Every 6 month branches will be sent a list of clients (by product type) to be interviewed from the CIMS Co-ordinator.
- If the PUS cannot contact a client on the list a replacement client should be selected from the Second Option List provided to the branch.
- You will also receive copies of the latest CIMS survey form (if paper copies, then ensure you have been sent sufficient for all the interviews plus a few extra to allow for errors)
- Distribute these forms to CIMS Interviewers **as quickly as possible** to give them time to arrange interviews with the clients. It is preferable that the clients are interviewed after their regular centre meeting. However, if necessary the PUS may arrange to meet the client outside this time. It is important whilst interviewing the client that the client feels comfortable.

4.1.2 Completed Survey forms

- The completed survey forms should be returned to the MIS Area Supervisor within **one week** of receiving the client interview list. You should follow up with each Program Unit Supervisor if surveys have not been completed in this time
- When you receive forms back, check them for accuracy of completion:
    - Check that no fields have been left blank
    - Check that all MANDATORY fields have been completed (see Section 5.1.2, all mandatory fields are detailed there)
    - Can you see any fields that simply do not make sense? (e.g. a client with no savings "none" box ticked, but the details of how savings are spent boxes are completed in the following questions)

- If any mandatory fields are blank, are you able to complete the data from MIS data? If not, return the form to the Program Unit Supervisor **as soon as possible** to complete the information.

Survey forms are void if MANDATORY fields are not completed!

- Tick off completed surveys on your copy of the Client Interview list. (to monitor that you get them all back complete)
- Mark next to any client name on the list if the form contained any inaccuracies.(to monitor how well the interviewers are completing the forms)
- Complete and sign the Quality Control (QC) box on each survey form when you have checked it
- Once completed send forms to the MIS Area Supervisor
- Interviewers may request **new fields** to be added to the survey forms (e.g. a new loan type that is not included in Question 1.) All such requests should be passed to your CIMS co-ordinator who will in turn request that the **CIMS Helpdesk** adds the new field to the next version of your survey form

5 The CIMS Interviewer (Program Unit Supervisors)

The gathering of **accurate and timely** CIMS client information is your responsibility. The usefulness of this client data in helping better serve clients in future, is entirely dependent on you getting accurate and truthful answers to the straightforward questions on the CIMS form.

Make sure you read and fully understand this section and complete the CIMS quiz before you begin.

Every 6 months you will receive a list from your Branch Manager with the names of clients to be interviewed.

Interviews should be conducted within 1 weeks of receiving the client list

- For PKK clients check to see when this client attends their centre meeting and arrange with the Program Assistant to attend the centre meeting that week. For individual clients make arrangements to visit them during the week to conduct the survey.
- Using your knowledge of the client, arrange a convenient time to meet with them and conduct the CIMS interview (combining this with other reasons for meeting them as often as possible so as to minimise your time and effort).
- If a client is unable to answer the questions on the arranged date, do your best to re-arrange the interview within the original 1 week period.
- If a client is unwilling or unable to answer the CIMS questions, ask your manager to select an alternative client from the Second Option list that you have been given and contact them to arrange an interview.
- If you need any help with completing the survey form, refer to Section 5.1 below.
- On the same day that you complete the Survey, go back over the form and review it.
    - Have you missed anything out?
    - Did you forget to ask a question?
    - Are all the mandatory fields completed? - **CIMS Forms cannot be processed if you don't complete all mandatory fields!**
- Hand the completed survey form back to your Branch Manager as soon as you have checked it.
- Well done and thanks

IMPORTANT: It is important that the client understands the reason why we are conducting the survey. Clients should not feel like they are being tested or interrogated whilst being interviewed.

Communicate to the client that the survey will assist TSKI to better understand their needs and ultimately enable us to serve them better.

5.1 Completing the CIMS Survey Form

The CIMS Questionnaire will measure:

- **the impact TSKI is having on clients' lives,**
- **level of poverty,**
- **client satisfaction, and**
- **their suggestions as to how we can improve as an organisation.**

The questions are divided into 11 sections: type of client, demographic information, housing, children's education, business activity, savings, decision-making, health, community involvement, client training and satisfaction and TSKI partner tab.

5.1.1 Tips for interviewers

Take a minute to read and take these bullet points in, they are **very important!**

1. Most questions have directions to you (the interviewer) in *italics*. **READ THEM CAREFULLY** before you ask each question!
2. If a question does not have *"Do NOT read responses"* in *italics* then read all the options to the client so they can choose the most appropriate answer
3. If more than one response is allowed to a question the CIMS form says *"mark all that apply"*. If a question does not say that, **ONLY mark one response down!**
4. If a question is not applicable to the client mark "N/A" on the form
5. If the client does not (wish to) respond to a certain question, mark "N/R" on the form.
6. **It is VERY IMPORTANT to mark 4. and 5. (above) correctly. NO questions should be left blank.**
7. If a new client is being interviewed, some questions will need to be re-phrased slightly e.g. "since you last loan" should be re-phrased "in the last 3 months"
8. And finally, all **MANDATORY fields must have a response written in. The survey cannot be used if you leave any mandatory fields blank - so you will have wasted your time!**

5.1.2 Survey Questions

If there are any specific things for you to remember when asking each question, they are detailed below in the "notes" column. This column is blank if the answer should be obvious!

TIP: You may like to save time with the client by completing some parts of the application beforehand.
E.g. you should know most of No.'s a - j, and also the client's name, number, loan amount and term as a minimum.

Now get a copy of the CIMS survey form, and refer to it whilst you go through the following notes on completion:-

No.	Description	Notes	Mandatory?
a	Client Type	Tick as many product types as the client uses with you. If the correct 'product type' is not on the survey form, make a note, and hand it to your manager (a new field will be requested on the form for you in future)	Yes
b	Client Status	If client is new, ask if they have ever had a product with you before? If yes, then mark "renewing" not "new" New - Brand New Client (1st Loan Cycle) Renewing - Client who is in between loan cycles waiting for their next loan release or who has left the program and are waiting for their savings to be released. Returning - A previous client of the institution who is currently taking a loan after having rested for a period of time. Existing - Currently making loan repayments Non-client - Client who has already left TSKI	Yes
c	Client Location	Refer to your Branch Manager if you are not sure	Yes
d	Gender		Yes
e	Graduated	Only "yes" if the client is progressing to a better type of loan e.g. Trust bank ⇨ PKK client, or PKK client ⇨ to MEDP client	Yes

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No.	Description	Notes	Mandatory?
f	Displaced migrant	Client displaced from their natural home?	Yes
g	Survey Date	**"Dd/mm/yyyy" please!**	Yes
h	Interviewer code	Your staff identification number	Yes
j	Branch code	Branch Code. Ask your Branch Manager if you are unsure.	Yes
	DEMOGRAPHIC INFORMATION		
1	Client Name		Yes
2	Client Number	Allocated by your MIS system	Yes
3	Group Account	If a Group loan	Yes if a loan
4	Loan Amount	For the latest loan	Yes if a loan
5	Loan Term	For the latest loan - in weeks	Yes if a loan
6	Loan Cycle	Current Loan Cycle	Yes if a loan
7	Age		Yes
8	Marital status	If client married but living separately, mark "separated"	Yes
9	Level of schooling	Highest level of schooling that the client has achieved	Yes
10	Religion		Yes
11	No. of people in house	= people who live in the same house and eat together at least once a day	Yes
12	Income earners	No. who earn a regular income	No
13	Financially supported dependents	e.g. children or elderly or sick relatives	No
14	Orphans	Are any of the dependent children orphans?	No
	HOUSING & ASSETS		

No.	Description	Notes	Mandatory?
15	Place where they live?	One answer required	Yes
16	Type of material	One answer required	Yes
17	Utilities		Yes
18	Age of Children	Make sure to enter boys/girls separately	Yes
19	Education	Ensure that the number represents the amount of children that are attending school at the time of the interview	Yes
20	What business type	If the type does not fit one of the boxes, write the new business type in the space provided.	Yes
21	No. of employees work at least ½ time	This may change over time, so make sure to get the most up to date situation	No
22	Current sales revenue	The clients own business income only	No
23	Current net profit	Do not deduct household expenses from profit figure	No
24	Average profit change over the last 3 months		Yes
25	How profit from last loan used	Only asking here about how business profit has been used. Do not to read the responses	Yes
26	Receive money from...	Does anyone in the family receive money from friends or relatives overseas?	No
27	How often	If yes to 26. you must find out how often	No
28	Voluntary savings changes since last loan	Do **not** include compulsory TSKI savings here	Yes
29	Any Savings in a bank?	Do **not** include compulsory TSKI savings here either. Probe to find out how much held. Hand write the amount in pesos next to the answer you tick	Yes
30	Any savings spent on	...bought from SAVINGS only. Record all (multiple)	Yes

No.	Description	Notes	Mandatory?
	business items	answers	
31	Any savings spent on non-business items	Probe (don't read the available options) Record all (multiple) answers	Yes
32	Decision making - savings	Probe and don't read the available answers!	Yes
33	Decision making - spending	Probe and don't read the available answers!	Yes
34	Household decisions	Read response	Yes
35	Sick Days	The client's business was effected due to personal sickness	Yes
36	Compassionate leave	The client was unable to work because they were taking care of a sick family member	Yes
37	Death in the family	Word this question as sensitively as possible	Yes
38	Types of community activity	Multiple answers possible	No
39	Community participation	Mark how often the client participates in the community activities marked in question 38	No
40	Money or good donated since last year	Capture whether they have donated money or goods to one of the community activities	No
41	Leadership position	If the client is a nominated centre leader the 'other' response can be marked	Yes
42	Training	This does not include Centre Orientation Session (COS) training	Yes
43	Types of Training	Read Response	Yes
44	Quality of Training	Read Response	Yes
45	What has changed since your last loan	This question is for **existing and renewing Loan clients** only. Read each item and corresponding response.	No (mark N/A)

No.	Description	Notes	Mandatory?
46	2 things most like changed	Probe to find out the most important things for the client. If they say more than 2 reasons, get the client to prioritise them, and write them ALL down on the form.	Yes
47	Would they recommend TSKI to a friend?	**Read response**	Yes
48	2 things like best	Probe to find out the most important things for the client. If they say more than 2 reasons, get the client to prioritise them, and write them ALL down on the form	Yes
49	TSKI specific training	Ask the client if they had attended any of the listed training. If they had attended one of the trainings please ask the client for the exact name of the training that they attend. For example, Skills Summit included individual trainings in meat processing, candle making, soap making training etc	Yes
50	Skills utilised		Yes
51	Skills applied	If yes to 50, please give details of how the skills were applied	Yes
52	Increase in business profit	If yes to 50, ask if the client has experienced an increase in business profit	Yes
53a	Monthly income before	If yes to 52, write this amount in pesos	Yes
53b	Monthly income after	If yes to 52, write this amount in pesos	Yes
54	New business or product	Ask only those clients who attended the Livelihood Skills Training ONLY	Yes
55	Business Development	Ask all clients	Yes
56	Business Development	If yes, to question 55.	Yes
57	PKK Preferences	Ask PKK clients only	Yes
58	Collateral		Yes

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5.2 CIMS Interview do's and don'ts

This section gives you some brief hints and tips about asking appropriate questions while conducting the CIMS interview.

Remember, the CIMS survey is a set of questions you will use regularly and as a part of your interactions with your clients every year. Do not present CIMS to the client as something special or out of the ordinary - make them feel at ease.

While following the rules of asking the CIMS questions exactly as they are written, you must also keep the interview on a conversational level. Your job is to maintain a comfortable rapport and motivate the client to answer accurately and completely.

Checklist: Interviewers should ALWAYS:	Checklist: Interviewers NEVER:
☑ speak clearly; and use correct grammar in the language of the interview; ☑ perform several tasks simultaneously: read questions, record answers, follow instructions. ☑ judge nonverbal and verbal cues of Client so as to know when to administer reinforcement and clarification. ☑ exercise self-discipline and make sure you do not improperly influence responses. Be neutral. **Interviewers are also expected to:** ☑ respond professionally to unexpected questions and situations. ☑ remain neutral by keeping personal opinions out of the interview process. ☑ motivate reluctant Clients to participate in the interview. ☑ deliver the questionnaire in a flowing, conversational manner that reflects self-assurance and ease with the task of interviewing. ☑ probe incomplete responses in an unbiased manner for more useful results. ☑ Clarify contradictory responses.	☒ Get involved in long explanations of the study such as trying to explain sampling in detail. ☒ Deviate from the study introduction, sequence of questions, or question wording. ☒ Try to justify or defend what you are doing. ☒ Suggest an answer or agree or disagree with an answer. ☒ Try to ask questions from memory. ☒ Rush the Client. ☒ Patronize Clients. ☒ Dominate the interview. ☒ Let another person answer for the intended Client. ☒ Falsify interviews. ☒ Improvise. ☒ Turn in a questionnaire without checking it over to be sure every question has been asked and its answer recorded. ☒ Change the wording or sequence of the questions

5.2.1 Using probing questions to find information

During an interview, clients will occasionally provide incomplete answers to the questions you ask. When this happens, you must "probe" or ask additional questions to tease out more information. Probing is one of the interviewer's most critical responsibilities.

If the client is quiet, do not simply assume that she has little to say. And don't be in a rush to complete the interview. Take the time you need to get complete answers.

The tricky part is that it is easy to make mistakes when probing for more information by anticipating what the Client is going to say or asking leading questions.

Example 1: Probing Techniques

Show Interest. An expression of interest and understanding such as "uh-huh," "I see," and "yes," conveys the message that their response has been heard and more is expected.

Pause. Silence can tell a Client that you are waiting to hear more.

Repeat the Question. This can help a Client who has not understood, misinterpreted, or strayed from the question to get back on track.

Repeat the Reply. This can stimulate the Client to say more, or recognize the inaccuracy.

Ask a neutral question.

For clarification:	"What do you mean exactly?" "Could you please explain that?"
For specificity:	"Could you be more specific about that?" "Tell me about that. What, who, how, why?"
For relevance:	I see. Well, let me ask you again." [REPEAT QUESTION AS WRITTEN]. "Would you tell me how you mean that?"
For completeness:	"What else?" "Can you think of an example?"

Example 2: Improper Probing

Question:	"On average, how much do you currently save in a ROSCA (informal savings) each week?"
Answer:	"Oh, I gave one hundred to my rosca collector today."
Improper Probe:	"So that means you save one hundred, 7 days a week, and save 700 per week?"
Better Probe:	"Could you be more specific? Do you save every day of the week? Is it always the same amount? What is the average amount per day, and per week?

REMEMBER - Ask the questions in a normal way as a part of your normal dealings with clients. There is no hidden agenda, and answering the questions will help you give clients a better service in future!

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6 The MIS Team

6.1 Initial data collection

As a member of the MIS Team, you have an important role to play in **randomly** selecting the clients to be interviewed for CIMS.

- You will need to have access to TSKI's MIS system and be able to generate a report detailing all of the products (PKK AND MEDP).
- A report or list should be generated every **6 months** containing the latest client details (note: your CIMS Co-ordinator will tell you when this list is required and if it is required more often than this).
- The CIMS Co-ordinator will inform you of the exact number of clients needed to be selected per area of operation. Please evenly divide this amount over the branches represented in each area and provide the CIMS Co-ordinator with the following details for the client list. i.e. If there are 10 Branches per Area and 150 clients are to be interviewed in each area, please randomly select 15 clients per branch to be interviewed.
- The client list will need to contain as a minimum:

1. Client Product Type (e.g. Individual loan or Group loan)
2. Client Name
3. Client Number
4. Client Group Number (if applicable)
5. Branch dealing with the client
6. Name or number of the branch / Program Assistant who deals with the client

Your CIMS Co-ordinator will ask you to **randomly** select the clients. This will ensure that we can gather a wide range of client representation in the final CIMS data. Once you have prepared the lists for the respective Area and branches please forward this email to the CIMS Co-ordinator.

6.2 MIS Area Supervisor Data Capture/ Inputter

Collecting surveys from branches and inputting client information onto the CIMS database and is a vital link in the CIMS chain.

As an MIS Area Supervisor it will be your role to collect all surveys from the branches and record the data from the CIMS forms accurately and quickly, so that TSKI can make the best use of the right information to help our clients improve their lives.

6.2.1 Receiving completed CIMS survey forms

- Your CIMS Co-ordinator will send you a list of the clients that are to be surveyed by the branches under your area of management.

- All branches will be informed to send the completed surveys to you. **Please contact the branches** during their collection process to ensure that you receive all the surveys by the due date.

- You may wish to collect all the forms together before inputting them into the database, or alternatively you may get them and input them as soon as they are received - you decide what's best.

- When you receive the forms from the branch look over the survey forms to check all the boxes have a response in them.

  Check the forms for accuracy of completion:
  - Check that no fields have been left blank
  - Check that all MANDATORY fields have been completed (see Section 5, all mandatory fields are detailed there)
  - Can you see any fields that simply do not make sense? (e.g. a client with no savings "none" box ticked, but the details of how savings are spent boxes are completed in the following questions)
  - Mark off completed surveys on your copy of the Branch Client Interview list. (to monitor that you get them all back complete)

- If any mandatory fields are blank, are you able to complete the data from MIS data? If not, return the form to the Branch/PUS **as soon as possible** to complete the information.

Survey forms are void if MANDATORY fields are not completed!

- Mark next to any client name on the list if the form contained any inaccuracies (to monitor how well the interviewers are completing the forms).

- Complete and sign the Quality Control (QC) box on each survey form when you have checked it and inputted the survey into the database.

- You should keep a record of the % of completed surveys returned by each branch, just in case any branch has problems and is unable to complete enough / any CIMS surveys.

Each **Branch Manager** should check to see that all interviews have been completed before passing the completed surveys to the **MIS Area Supervisors.** The MIS Area Supervisor should also ensure that they have received all the surveys from the branches and check this off the list that they have been given from the CIMS Co-ordinator.

6.2.2 Entering Surveys into Database

- Familiarise yourself with the Excel programme for inputting data. The client survey forms follow this format very closely to make it easy for you to transfer the data quickly.

- Refer to Section 6.3 for more detailed information on how the Excel software works.

- Enter the data into the PC and click the "Save / Validate Reponses" button at the bottom of the screen.
- You will be required to write the Excel Sequence number on the top right hand corner of each paper survey. This number is automatically generated after a form is inputted and saved in the system.
- Once the surveys have been inputted onto PC, return the form(s) to the CIMS co-ordinator located in head office. Check the PC database to see that the number of records entered corresponds with the number of survey forms you are sending to the CIMS co-ordinator. Email or send a copy of the saved database to the CIMS co-ordinator.
- Keep a record of the number of forms that have not or could not be entered onto the PC (% input).
- Remember accuracy is paramount, so take your time!

6.3 CIMS database

Database Installation:

Installation of the database should be complete as long as you are able to open the Excel file. Contact the CIMS Co-ordinator if you encounter any difficulties in opening the file.

6.3.1 General Guidelines

1. CIMS Surveys were designed to be fully completed during one-on-one interviews with clients. Only some questions are optional, depending on the client's responses. However, responses are not always provided and some questions might be skipped.

   Most drop-down lists therefore include an "N/R" or No Response option, which can be selected to reflect a missing response on the CIMS form.

2. Data validation is done during the "Save" operation. You can press the save button as often as you wish to validate data. If incorrect, a message is provided to describe the problem and the field is highlighted for your attention.

All surveys entered into the CIMS template are assigned an Excel Record Number (at the bottom of the main screen "Excel Record No. x of x". **Write this number on the top of every survey form you input - you will need this if you want to find a record and view / modify / or delete it**

CIMS Data Management Panel Buttons

Enter New Survey	**Click this button on the "CIMS Data Entry Panel" (next tab), to open a new record for the database and begin entering data from a CIMS form.**
*** Modify Survey**	Click this button if you want to select a previously entered survey for editing/modification and re-saving to the database.
*** Delete Survey**	Click this button to select a previously entered survey for deletion.
Export Database Contents	This button does not need to be used.

* Note: It is easy to find previously entered surveys in the Modify Survey and Delete Survey Selection List, if you write the Excel Record number for each survey on the completed paper forms.

6.3.2 Inputting Data

1. It is possible to enter all data using only the keyboard. This is to improve data entry efficiency with fewer mouse clicks. The most efficient method of entering data is to use a combination of the "Tab" key, the "Next Tab ==>" button, and the number pad

Be careful not to use the arrow keys or PageUp keys when you are inside of a drop-down-list since this will cause data selections to change.

2. Some answers require the entry of a "Blank" value. Blank values, in these cases, represent data that are Not Applicable "N/A" (e.g. no. of boys in school, where the client actually has no boys).
   The "Blank" values are included at the BOTTOM of the drop-down lists and they appear as a blank spaces (e.g., no text in the space). Simply click on the blank space at the bottom of the list to select it as the answer.

3. It is a good practice to "Save/Validate Data" button after entering data in each screen, this will validate the data you have just entered and will take you to the next required data entry field.

4. If any answers do not fit the options available in your software, make a note of the answer and hand it to your CIMS Co-ordinator who will contact the **CIMS Helpdesk** and get a new variable added to the form and software. (e.g. a new 'business type' that is not one of the 6 pre-selectable types, and is handwritten in the space available)

6.3.3 Data Validation Rules:

1. All data entered into the template is validated before it is committed to the database.
2. Validation rules ensure data consistency is achieved.
3. Most drop-down-lists have an "N/R" item (meaning, No Response) to allow for missing responses on the paper survey form. **This should only be used as a last resort after referring the missing data to the branches**
4. Some drop-down-lists have a blank value at the bottom of the list. These blank values are required in some cases (i.e., number of boys in school in cases where the client has no boys). Blank values will always appear at the BOTTOM of the drop-down list as blank spaces. To select this simply click the blank space.
5. Some data items are **mandatory** (indicated by an asterisk " * ") and there is no "N/R" option for these. **DO NOT** begin entering data if any of these items are missing on the paper form.
7. If **weekly sales** or profit values are on the paper CIMS survey form enter them into the "weekly" spaces on the template, the template will automatically calculate the monthly amounts. If **monthly sales** and profit values were recorded, enter these into the monthly data entry location.

6.3.4 Client Satisfaction Questions (at end of the form)

Refer to the separate list containing numbered "likes" and "dislikes" to complete these fields.

Enter a number in the field using the lists as follows:

1. Find an answer on the list that matches as closely as possible the suggestions on the paper CIMS survey.
2. type that number into the template

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3. If a code number does not exist for the answer on the form, enter "Other" (last number)
4. Make a note of the client's suggestion and send this to your **CIMS Co-ordinator.**

6.3.5 Finishing and filing the forms

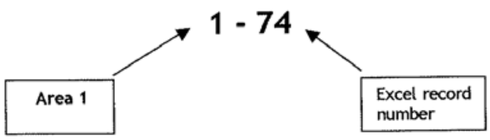
When you have completed inputting the data, write the...

- **"Area Number"** -

and

- **"Excel Record Number"** (this is displayed at the bottom of the grey Excel screen whilst the client record is open)

...On the top right of each survey form like this:



6.4 Trouble Shooting Instructions

Macros and Security

1. If you have having difficulty running the macros for this spreadsheet, it may be a result of the security settings on your machine preventing you from running macros. Please follow these instructions to set your security to enable macros:

Use the Tools menu option to select "macro" ==> "security" then click on the "Trusted Sources" tab and ensure the "Trust all installed add-ins and templates" check box is checked.

2. If you are warned that Excel's security level is set to "high" preventing the macros from running then: From the "tools" menu, select "macro" then "security" and set the security level to "medium". Refer to your CIMS Co-ordinator to make sure it is OK to leave the security level at "medium"

3. Be sure to click on the "Enable Macros" button upon opening this spreadsheet, otherwise the macro that runs the data entry process will not work.

Any other problems

If your input spreadsheet appears not to be working properly, STOP inputting records and refer to your CIMS Co-ordinator immediately.

If he is unable to assist, the CIMS co-ordinator will contact the **CIMS helpdesk** for assistance. Until the problem is resolved DO NOT input any further records - they may be lost, or possibly corrupt your entire database!

7 CIMS Reports and what to use them for

This section summarises some of the reports that CIMS will initially be able to provide to TSKI, and some of the valuable uses they can provide. It will be further expanded as new reports are developed over time.

CIMS information will become a key decision making tool for TSKI's senior managers once client information is gathered over a representative period of time (e.g. 1 year), and will be able to inform and substantiate Senior Management decisions regarding improving our clients lives, developing new products and services etc.

With this in mind, it would benefit TSKI to make suggestions as to the type of new client reports that we are looking for. All such requests should be directed to the **CIMS Helpdesk** who will help us produce the necessary report using either:

- Our local database (normal - produced with the assistance of your MIS team)
- The combined global data at Opportunity International (if required)

Reports from the CIMS Helpdesk will be produced following receipt and processing of your organisation's CIMS database.

Initially reports will provide us with information on:

Transformation Reports and Analysis of how clients are transforming their lives including improvements in: ☑ Housing and assets ☑ More successful business activities ☑ How involved they are in transforming their communities	**Client Satisfaction** A constantly growing list of clients' views on TSKI with ☑ things they like (e.g. to allow TSKI to praise our staff), and more importantly, ☑ desired changes which we can use to improve our products and services These reasons will be tables in order of appearance in the CIMS survey, and by the weight of their importance to TSKI
Poverty Assessment A means of assessing how our organisation's activities are helping the 'poor' raise their standards of living. E.g. ☑ Increased education ☑ Increasing no. of earners and improved asset levels in families ☑ Standard of housing This will form a part of a global comparison report that will also be used to assess poverty improvement world-wide	**Client Aquisition & Retention** Helping us to assess how sustainable our organisation is: ☑ How many new clients in the last... (e.g. 6 months) ☑ How many clients use us repeatedly ☑ How many do we lose? Valuable knowledge can be gained from this when viewed together with the client satisfaction reasons given (e.g. by clients who subsequently leave your organisation)

Global data reports sent to TSKI will be accompanied by key observations and possible conclusions that could be drawn from trends in the data. This analysis will be provided by the CIMS Helpdesk with the aim of:

- ☑ Identifying areas where organisations are being particularly successful in improving clients lives, so that individual organisations can learn from this
- ☑ Identifying areas where no improvements are being made, and attempting to use the data to understand why
- ☑ Clear client satisfaction indicators to help us improve your services, and again learn from successes in other organisations where applicable
- ☑ Identifying opportunities for new products and services that will enable you to out-reach to both new and existing groups of clients, and at the same time help you sustain your business by growing your client base.

8 What to do if you need Help

In the first instance you should always contact your CIMS Co-ordinator at TSKI's head office (BDS Department). They may decide to seek the assistance of the helpdesk if the query is complex.

CIMS Co-ordinator - Ma. Ria Suriaga-Jalipa

riasjalipa_mrsj@yahoo.com.ph Telephone: 033 320 4038

The **CIMS Helpdesk** is operated by expert Opportunity International Network staff with an in-depth knowledge of the CIMS survey, and it's processes.

They can be contacted via e-mail at:

cims@opportunity.net

They will always endeavour to provide an answer to you within 24 hours.

When contacting the helpdesk, please ensure you give:

- Name
- Organisation
- Position in the organisation
- e-mail address
- telephone, and fax number, and the best time of day to contact you
- A brief description of your query

CIMS

CIMS PROCEDURE/ RESPONSBILITY LIST

Area: ______________________

Area Manager Name: ______________

Area Manager Responsibilities		*Tick when complete*
1	Read letter from Mr. Angel de Leon	
2	Read sections 1,2, 4 and 7 in manual	
3	Complete Area Manager Quiz	
4	Hold CIMS training for Branch Managers and Program Unit Supervisors under your Area of management. Do this by the 12/13th of September.	
5	Ensure all Branch Managers and PUSs are aware of their responsibilities and understand the CIMS process.	
6	Follow up with MIS Area Supervisors on the 21st of September if they have received all surveys from the branches. Assist the MIS Area Supervisors in chasing the branches to complete the surveys ASAP.	

*Sign when completed*_______________

CIMS

CIMS PROCEDURE/ RESPONSBILITY LIST

Branch Name: ________________________
Branch Manager Name: _______________

Branch Manager Responsibilities		Tick when complete
1	Read letter from Mr. Angel de Leon	
2	Read sections 1, 2, 4, 5 and 7 in manual	
3	Complete Branch Manager Quiz	
4	Check Client Survey List	
5	Inform Program Unit Supervisors about CIMS and get them to follow the steps outlined below	
6	Correct the PUS CIMS quiz and clarify any misunderstandings	
7	Ensure that the PUS does one practice before going out on field	
8	Review and check completed surveys, sign the QC box on the top right hand corner if all fields have been filled in.	
9	Ensure that all surveys are completed and send these to your MIS Area Supervisor by the 21st of September	

Sign when completed_______________

CIMS Interviewer/Program Unit Supervisor Responsibilities		Tick when complete
1	Read letter from Mr. Angel de Leon	
2	Read sections 1, 2, 4, and 5 in manual	
3	Complete CIMS Interviewer/ PUS Quiz	
4	Clarify any misunderstandings with your branch manager	
5	Check Client Survey List	
6	Practice one quiz with someone in the office/or a client before beginning to interview	
7	Review and check completed surveys, sign the QC box on the top right hand corner, once you have ensured all fields have been answered	
8	All surveys are to be completed and sent to your MIS Area Supervisor by the 21st of September	

PUS Name _______________Sign when completed__________________

PUS Name _______________Sign when completed__________________

CIMS

CIMS PROCEDURE/ RESPONSBILITY LIST

MIS Area Supervisor Name: ________________________

MIS Area Supervisor Responsibilities		Tick when complete
1	Read letter from Mr. Angel de Leon	
2	Read sections 1, 2, and 6 in manual	
3	Complete MIS Area Supervisor Quiz	
4	Familiarize yourself with the database and set aside time to input the survey data	
5	Review Branch Client Lists	
6	Call all branches on Monday the 19th to inform them that you are expecting the forms to be sent to you latest by the 21st. Get an update on their progress and request that they call to inform you when they are sending the surveys. If you have not received a call by the 21st of September, call the respective branches to find out when you will receive the forms.	
7	Upon receiving the surveys from the branches check these against your list and ensure that surveys are complete. If there are any surveys missing or significant errors contact the branch and get them to complete these ASAP.	
8	When you complete inputting a survey into the database, sign the QC box on the top right hand corner of the survey sheet and write the excel sequence number.	
9	Keep a record of the amount of surveys you have received back from the branches and the accuracy of completion. Email this record to head-office when you send the completed database.	
10	Quality check your own work once you have finished inputting the surveys	
11	Complete inputting the data by Wednesday the 28th and email this to Sarah Antognelli in Head Office. Ensure that all hard-copies of the surveys are kept in Excel Sequence order and send these to head-office also by this date.	

Sign when completed ________________

CIMS QUIZ

Branch Manager

1. Whose responsibility is it to ensure that the survey forms are completed correctly and sent to the MIS Area Supervisors by the 21st of September?
   a. Executive Director
   b. Program Assistant
   c. Branch Manager
   d. Program Unit Supervisor

2. The acronym CIMS stands for
   a. Customers Important Monitoring Session
   b. Client Impact Monitoring System
   c. Client Improvement Management System
   d. Client Impact Monitoring Survey

3. As a Branch Manager it will be your responsibility to train and educate the ______________________ in conducting the survey.
   a. Executive Director
   b. Program Unit Supervisors
   c. Clients
   d. Program Assist

4. When is the last date that the branches must complete all the surveys by?
   a. 21st of September - Thursday
   b. 25th of December
   c. 21st of September - Friday
   d. 21st of September - Wednesday

5. The completed survey forms should be returned within _______________ of receiving the client interview list.
   a. 1 week
   b. 2 weeks
   c. 5 weeks

6. _____________ the completed surveys on your copy of the client interview list to monitor that you get them all back complete.
   a. Mark
   b. Tick
   c. Circle
   d. Any of the above

7. It is preferred that PKK clients are interviewed after their _______________
   a. Dinner
   b. Centre Meeting
   c. Breakfast
   d. Final loan repayment

CIMS QUIZ

8. If the PUS cannot contact a client on the list a replacement client should be selected ____________________

   a. From the Second Option List provided to the branch
   b. Randomly as they visit the branch
   c. From the MIS data base

9. The ________________________ is responsible for arranging the interviews and interviewing the nominated clients for the CIMS.

   a. Branch Manager
   b. CIMS Co-ordinator
   c. Program Unit Supervisor
   d. Area Manager

10. Once the forms are completed they are to be checked and sent to the ____________________.

    a. MIS Area Supervisor
    b. CIMS Co-ordinator
    c. Executive Director
    d. Area Manager

11. Once the PUS and the Branch Manager have checked all surveys. The Quality Control (QC) box must be signed. This box is found?

    a. On the MIS database
    b. On the last page of the survey
    c. On the first page of the survey - top right-hand corner of the survey
    d. On the first page of the survey - top left-hand corner of the survey

Enumeration:

12. What are three things you must do when you receive the survey forms back from the PUS?

    1.

    2.

    3.

CIMS QUIZ

Program Unit Supervisor (CIMS Interviewer)

1 Who is responsible for gathering accurate and timely CIMS client information?
a) Branch Manager
b) Program Unit Supervisors
c) MIS
d) PA

2 The interview should be conducted within ___________ of receiving the client list.
a) three days
b) two weeks
c) one week
d) ten weeks

3 A completed survey form will be considered invalid if this field is missing
a) mandatory field
b) electromagnetic field
c) completion field
d) target field

4 The CIMS survey is divided into how many sections?
a) 12
b) 2
c) 11
d) 5

5 If a question is not applicable to the client it should be marked __________ on the form.
a) NOT
b) Never
c) N/A
d) Never mind

6 If the client has no response to a question, the box that should be marked on the survey form is _____
a) Never mind
b) No Response
c) Not Realistic
d) None of your business

7 If a client doesn't know the answer for a question it should be marked as __________ on the form.
a) No idea
b) Left blank
c) Not sure
d) Don't know

8 In the CIMS manual the section that will best help you in completing the survey questions is ____________. In this section there are notes that you can follow to assist you in completing the survey.
a) Section 1.2
b) Section 3.1.2
c) Section 5.1.2
d) Section 4.1.2

CIMS QUIZ

9 You need to write your staff's identification number in the following field
   a) staff ID
   b) interviewer code
   c) staff code
   d) branch code

10 The questions 22-25 refer to the business income of the client's
   a) business only
   b) business and husband's business
   c) business and salary of other family members

11 If the client hasn't attended any of the trainings listed in question 49. The interviewer should skip to question
   a) 51
   b) 61
   c) 50
   d) 55

12 If the PUS cannot contact a client on the list a replacement client should be selected ____________________
   a) from the Second Option List provided to the branch
   b) randomly as clients visit the branch
   c) from the MIS data base

13 His/her job is to maintain a comfortable rapport and motivate the client to answer accurately and completely during the interview.
   a) CIMS interviewer
   b) Anchorman
   c) Reporter
   d) Manager

14 It is vital that the interviewer understands how to use _______ techniques whilst interviewing the clients
   a) note taking
   b) probing
   c) smiling
   d) listening

15. Enumeration:
   (a-d) interviewers should always ____________ during the CIMS interview

a)

b)

c)

d)

CIMS QUIZ

(e-i) What are the probing techniques?

e)

f)

g)

h)

i)

16 Match the following for the client status (***New, Renewing, Returning, Existing, Non-client***)

a) A brand new client; i.e. they have not previously been a client of the institution and are waiting for their first loan release ____________________

b) An existing client of the institution; on the day of interview they are in between loan cycles, waiting for release of a follow-on loan after completing the last loan cycle; The client is still classed a 'renewing' even if there has been a delay in disbursement by the institution.

____

c) A previous client of the institution; and are taking another loan after having "rested" for a period of time (one loan cycle or more) i.e. they were "inactive" and became "active" again.

____

d) An existing client of the institution; on the day of interview they are in the middle of a loan cycle i.e. currently making repayments. ________________________

e) Someone who is not currently a client of the TSKI, they may have just finished their last loan cycle. ____________________

Select <u>ALWAYS</u> or <u>NEVER</u> for the following statements below

17 Speak clearly; and use correct grammar in the language of the interview. _____

18 Try to justify or defend what you are doing. _____

19 Deviate from the survey introduction, sequence of questions, or question wording. _____

20 Respond professionally to unexpected questions and situations. _____

21 Motivate reluctant clients to participate in the interview. ________

22 Probe for incomplete responses in an unbiased manner for more useful results. _______

23 Change the wording or sequence of the questions. _______

24 Try to ask questions from memory. ______

25 Get involved in long explanations of the study such as trying to explain sampling in detail. ___

26 Interrogate the client and if she or he answers the questions incorrectly tell them that you will report them to the Branch Manager. ____

27 Ensure the client understands the nature of the survey and that TSKI is looking for ways to serve them better ________

CIMS QUIZ

Identify whether the statement is TRUE or FALSE

29 The CIMS questionnaire will measure the impact TSKI is having on client's lives and level of poverty. ________________

30 The questionnaire does not measure client's satisfaction in the program. ______________

31 The CIMS survey is divided into 5 sections. __________________

32 Every six months the Branch/PUS will receive a list of clients from the CIMS coordinator to be interviewed. __________________

33 It is vital that the client understands the reason why we are conducting the survey. ____________

34 We should not tell the client that the survey will assist TSKI to better understand their needs and ultimately enable us to serve them better. ______________________

35 If the question is not applicable to the client mark "N/A" on the form.____________

36 If a client is unable to answer the questions on the arranged date, the interviewer should do his/her best to re arrange the interview within the original one week period __________________

37 The client listing is provided by the branch manager __________________

38 Whilst interviewing the PUS must make sure they read responses for the questions marked 'read responses' and do not read the responses for the questions marked 'do not read the responses.

____

39 All questions must be answered on the survey form even if they are answered with N/R, D/K, N/A

____

40 Survey forms with blanks will be considered VOID _______________

41 Group Account # means provide the PKK Centre number of the client ___________

42 The CIMS survey has four pages _______________

43 Some of the trainings that clients could have attended under the Skills Summit training are soap making, meat process and candle making _____________

44 Before forms get sent to the MIS Area Supervisors they must be Quality Checked (QC) and signed by the Branch manager and the interviewer _____________

45 For question 25 the PUS should read the potential responses out to the client _______________

46 For question 25 the PUS should listen to the client's response and tick the appropriate box

____

Well Done End of Quiz. Please correct the Quiz with your Branch Manager.

After this do a practice interview and you are now ready begin to survey the selected clients

CIMS QUIZ

MIS Area Supervisor

MIS QUESTIONNAIRE

1. Who is the person responsible in collecting all surveys from the branches and record the data from the CIMS forms accurately and quickly.
    a. Manager
    b. Bookkeeper supervisor
    c. PUS
    d. MIS area supervisor
2. This document is designed to be fully completed during the one on one interview with the client.
    a. CIMS Surveys
    b. Tally Sheet
    c. Data List
    d. Questionnaire
3. This is done during the "save" operation.
    a. Data Validation
    b. Save As
    c. Delete
    d. Data Processing
4. You need to click this button if you want to select a previously entered survey for editing/ modification and re-saving to the database.
    a. data validation
    b. modify survey
    c. survey processing
    d. save as
5. This button does not need to be used by the MIS Area Supervisor
    a. delete survey
    b. modify survey
    c. export database contents
    d. enter new survey
6. You need to click this button to select a previously entered survey for deletion.
    a. save
    b. delete survey
    c. enter new survey
    d. none of the above
7. Click this button on the "CIMS data survey panel" to open a new record for the database and begin entering data from the CIMS form.
    a. enter new survey
    b. enter and save
    c. modify the data
    d. save as

CIMS QUIZ

8. A _______ response is considered as not applicable (N/A) when inputting the data into the database. However this is not the case for mandatory survey questions.
   a. blank look
   b. blank value
   c. blank sheet
   d. none of the above
9. This is displayed at the bottom of the grey excel screen while the client record is open.
   a. file
   b. excel record number
   c. command buttons
   d. database
10. The person responsible to see that all the interviews have been completed before passing the completed surveys to the MIS area supervisor.
    a. Area Managers
    b. PUS
    c. Branch Managers
    d. PA
11. When the MIS Area Supervisor completes inputting the survey data into the database he/she needs to write the:
    a. Area number and excel record number
    b. Control number
    c. A& B
    d. None of the above

Sequence number: 2- 16

12. The number 16 in the above sequence number represents the
    a. staff identification number
    b. area number
    c. survey number allocated by the database
    d. database code
13. The number 2 in the above sequence number represents the
    a. staff identification number
    b. area number
    c. survey number allocated by the database
    d. database code
14. When entering written answers I should
    a. Write the exact response in the database
    b. Summarize the response
    c. Search for a code that represents this response in the 'CIMS Reason Codes' document
    d. Leave this section blank
15. I should first call the branch on the ____ to see how they are progressing with the surveys, then if I haven't heard from them by the _____ I should call them on this day to ensure that I will receive the surveys in time.
    a. 19th, 21st
    b. 19th, 28th
    c. 21st, 28th
16. I should email the database and send all completed surveys to head office by __________

APPENDIX V

Qualitative Client Interview Guide

CLIENT INTERVIEWS - *Write in detail about the clients. How long have they been a client of TSKI? Have they attended any training provided by TSKI? How they are going to apply the training? Provide information on their businesses, families and standard of living.*

1. The Client. Describe the client's home situation, with emphasis on the client's needs.
   How many household members earn an income?
   How many dependents does the client support in the home?
   What are the names, ages and grade levels of the client's children?
   How and why did the client join TSKI?

2. Business Activities. Describe the client's business. Where is the business located?
   What is involved in the running of the business day to day?
   Are there seasonal factors that affect the business? Who are the main customers and competitors?
   How and when did the client start this type of business? Did they receive training?
   What was the sales income and net profit per week prior to joining TSKI?
   What is the current sales income and net profit per week?
   How has the business grown, changed, improved in the last 2 years?
   How has the client spent past and present loans?
   How has the client spent her profit from the loans?
   How much has the client saved? How does she hope to spend her savings?
   How many extra employees are involved in the business since they received the loan?
   How does the client plan to spend future loans?
   What does the client hope to improve in her business and family life in the future?

3. Training questions.
   How did the client hear about the training?
   Why did they want to attend the training?
   What key things has the client learnt from the training?
   How are they going to apply want they have learnt in their business?
   (Ask further questions regarding the specific training that the client attended).
   The following information would also be good to include:
   Education.
   What level of education and training has the client had?
   Number of school-aged children (age 5-18) in the household?
   Number that attend school?

What level of education does the client expect her children to complete?
Has this expectation changed since joining TSKI?
In what ways is education now more affordable?
Living Standards. Describe the client's dwelling.
What materials is the house made of?
How many rooms? How are they used?
What improvements has the client made to her standard of living in the past 2 years?
What amenities does the house have, e.g. electricity, water, toilet or telephone?
What improvements would the client like to make in the future?
Health. Describe the general health of the member and her family, for example typical diet, frequency of illness experienced, main health concerns? Describe the medical care available to the client and her family. How affordable and accessible is the health care for the client?
How has this changed in the past 2 years?
Other Transformation Indicators.
What community and religious activities does the client participate in? How has her life changed for the better since joining TSKI?
What does the client most like about being part of TSKI?
How has the members' participation in household decision making changed?
How has the members' self-confidence changed since TSKI?

APPENDIX VI

Commonly Used Acronyms

ADB:	Asian Development Bank
ASA:	Association for Social Advancement
AUD:	Australian Dollar
AUSAID:	Australian Aid for International Development
BDS:	Business development Services
BED:	Business Enterprise Development
BRI:	Bank Rakyat Indonesia
BRAC:	Bangladesh Rural Advancement Committee
BWTP:	Banking With The Poor
CARD:	Centre for Agricultural and Rural development
CDA:	Cooperative Development Authority
CGAP:	Consultative Group to Assist Poor
CIDA:	Canadian Aid for International Development
CIMS:	Client Impact Monitoring System
ES:	Efficient Structure
FIDA:	Farmers Integrated Development Assistance
GBAR:	Grameen Bank Replication
GPU:	Gami Pubuduwa Upadesaka
IFAD:	International Fund for Agricultural Development
IP:	Implementing Partner
MFI:	Microfinance Institution
MGDs:	Millennium Development Goals
MIT:	Massachusetts Institute of Technology
MSI:	Microfinance Success Institute
NGO:	Non-Governmental Organisation
OI :	Opportunity International
OMB:	Opportunity Microfinance Bank
OSS:	Operational Self Sufficiency
PAR:	Portfolio at Risk
PKK:	*Proyekto Kauswagan sa Katalingban*
PPP:	Purchasing Power Parity
RFM:	Rural Financial market
SBS:	Samurdhi Banking Societies
SCP:	Structure Conduct Performance
SHG:	Self Help Group
SME:	Small and Medium Enterprise
TSKI:	*Taytay Sa Kauswagan Inc.*
TSPI:	*Tulay sa Pag-unlad Inc.*
USAID:	United State Agency for International Development
WB:	World Bank
WOCCU:	World Council of Credit Unions