Impact Assessment of Microfinance in Sri Lanka - A Household Survey of Microfinance Clients in 5 selected GTZ partner MFIs

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Outline of Presentation

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Introduction

- GTZ - ProMiS Project for Development of Microfinance Sector in Sri Lanka
- ProMiS supports selected Microfinance Institutions with capacity building and training
- Interest in assessing the impact of participation in Microfinance programs of selected Microfinance Institutions on its clients
- Household survey of clients was conducted collecting information on
  1. household members
  2. household characteristics and housing
  3. consumption
  4. health and shocks
  5. income and income generating activities
  6. financial services

Methodological Approach

General evaluation approach in Microfinance

- In Microfinance impact evaluation Microfinance clients receiving micro financial services are compared with a control group of people not receiving micro financial services to analyze the impact of Microfinance participation on household characteristics and income generating activities
- Comparing clients with non clients will most certainly overestimate the impact of Microfinance due to inherent differences of Microfinance clients compared to non- clients (Selection Bias)
- Hence, finding a valid control group is the holy Grail of Microfinance impact evaluation

Methodological Approach

Impact Evaluation with Randomized Field Experiments

- A randomized field experiment can yield a valid control group
  - Control group and treatment group are specified randomly from the same population with the treatment group receiving micro financial services and the control group not receiving micro financial services
  - Both groups are observed for at least one loan cycle and compared in the end
  - In those randomized field experiments it has to be ensured that people in the control group will stay in the control group and cooperate with the researchers over the course of the experiment although they do not benefit from any financial services
- Caveats of randomized field experiments
  - Ethical objections due to withholding financial services from the control group and due to experiment in general
  - Control group with same characteristics and economical environments still hard to find
  - Randomized field experiments are very costly and time intensive

Methodological Approach

Impact Evaluation with Incoming Clients as Control Group

- Using incoming clients as a control group
  - Assumes that clients who joined the Microfinance program in the past are not inherently different in characteristics affecting the household's economic situation from incoming clients
  - Reduces upward selection bias when comparing clients and non-clients
  - Is less costly and can be conducted at one point in time
- Caveats of using incoming clients as control group
  - The assumption of inherent similarity between clients and incoming clients is questionable
  - Attrition poses a severe problem for the correct identification of the impact that can be assigned to participation in the Microfinance program (Survivor bias)
  - The control group of incoming clients contains future drop outs
  - Additional problems may arise when program characteristics of the Microfinance institution change over time

- In this study we decided to use incoming clients as a control group to compare to clients already participating in the Microfinance program. We try to minimize potential biases with the selection of Microfinance Institutions and clients
- Selection of Microfinance Institutions
  1. Microfinance Institutions that are running for more than 4 years and have not been changing their lending methodology considerably in the last 3 years
  2. Sample of MFIs is covering different institutional types of Microfinance Institutions and all regions in Sri Lanka
- Selection of Microfinance Clients
  1. Mature clients who have been clients of the MFI for more than 3 years and continued using the financial services offered by the MFI
  2. Recent clients who have been with the institution for more than 1 year but not more than 3 years

Methodological Approach

- A four-stage randomized sampling approach is applied

Step 1: Randomization of districts

- In each province one district in which a participating MFI is operating was selected randomly.
- Hambantota and Jaffna were selected by default as the MFIs Janashakti and TCCS Union Jaffna are only operating in those districts.

Step 2: Randomization of branches
Step 3: Randomization of GN/ DS Divisions if necessary (only for Janashakti)
Step 4: Randomization of clients in the selected areas

Methodological Approach

Step 1: Randomization of Districts - By MFI

	Sabaragamuwa Development Bank	BRAC Sri Lanka	Janashakti	Sanasa	TCCS Union Jaffna
Clients					
Mature	45	45	45	65	45
Normal	45	45	45	65	45
Incoming	50	50	50	70	50
Total	140	140	140	200	140
Districts	Colombo	Galle	Hambantota	Monaragale	Jaffna
	Kegalle	Batticaloa		Matale	
				Puttalam	
				Polonnaruwa	
Province	Western	Southern	Southern	Uva	Northern
	Sabaragamuva	Eastern		Central	
				North Western	
				North Central	

- A household survey is conducted with 760 Microfinance clients divided in control and treatment group
- The control group is composed of 270 incoming clients
- The treatment group is composed of 245 clients of two strata yielding a treatment group of 490 clients
  1. mature clients who have been clients of the MFI for more than 3 years
  2. recent clients who have been with the institution for more than 1 year but not more than 3 years

Methodological Approach

Survey and Questionnaire

- The survey consists of six parts
  1. Household roster collecting demographic information on all household members
  2. Household characteristics and the housing situation collecting data on housing, household assets, land holding and household decision making responsibilities
  3. Household consumption and household expenditures for monthly and annual consumption of goods and services
  4. Household health and experienced shocks in the last one respectively three years
  5. Income earning activities like agriculture, livestock and micro enterprises and household income in general
  6. Financial situation of the household and financial services it employed, including client information, qualitative data on the impact of participating in the Microfinance program and client satisfaction

Structure of Analysis

1. Micro entrepreneurs
   - Changes in situation of micro enterprise (Business volume, profits, growth, investments,..)
2. Households
   - Income, Consumption (absolute, relative, consumption patterns), assets and savings, health and health expenses, school enrolment of children, housing situation and changes in housing situation, satisfaction, vulnerability to risks and shocks
3. Social Aspects
   - Gender issues (power structure in household, empowerment of women), gender specificities in demand and use of financial products, impact of MF on household and micro enterprise, participation in social life
4. Factors influencing impact of MF
   - Wage size, method of lending and credit product, social services, regional differences

Impressions from the Household Survey

1. Limited social component of Microfinance programs
   - Not many social activities offered by MFIs
   - Family members do not recognize social activities from MFIs if they are offered
2. Very low participation in insurance schemes
3. Although MFIs are targeting poor clients, the better-off clients are benefitting most from Microfinance participation
   - Poor clients can only use/ join group schemes.
   - Higher income clients can accumulate savings for building up collateral, get higher loan amounts and use individual loan schemes

Outlook and Next Steps

- Interesting survey with a good approach to minimize all possible bias and circumventing the use of a randomized field experiment
- Number of surveyed clients good for analysis
- Analysis as outlined above, concentrating on effects and impact between treatment and control group within an MFI and on differences between different MFIs