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Perceptions of the Impact of Microfinance on Livelihood Security

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Abstract

This study examined the impact of three microfinance projects, in Kenya, Uganda and Rwanda, supported by the Irish aid agency Trócaire, on the livelihood security of project beneficiaries. The perceptions of Trócaire as a donor; three of its partners working in the area of microfinance; and project beneficiaries, on the impact of the projects on the livelihood security of the beneficiaries were assessed. The findings from the study indicate that the donor and its partners who are implementing the projects are not assessing the overall impact of their projects. The donor is not aware of the impact of its support of microfinance projects, while the implementing agencies are mainly concerned with the financial performance of their organisations, and the impact on clients' financial well-being.

Academics and microfinance practitioners, advocate for much wider impact assessments of microfinance projects, other than financial impact, if the true impact of microfinance is to be understood. They argue that instead of using traditional financial impact assessments, assessments should be broadened to include social, cultural and political impacts on clients, their families and indeed the wider community. This study highlights that all three projects are having positive social and non-financial impacts but the implementing agencies are not assessing such impact. All three projects are having very positive social impacts, and while individual staff members within the implementing agencies are aware of these, the implementing agencies themselves are not documenting or assessing such impact. Therefore, the donor and all three partners are undermining their support of microfinance by not assessing the wider impacts of the projects. The role of microfinance in poverty alleviation is subsequently being underrated by not assessing the wider impacts of microfinance interventions, even though positive impacts are clearly taking place.

1. Outline of the Topic

The focus of this research paper is on the perceptions of the impact of microfinance on the livelihood security of clients of three microfinance projects supported by Trócaire[1]. The study set out to assess the perceptions of Trócaire as a donor agency, the perceptions of the three implementing agencies[2] and the perceptions of project clients on the impact of the projects on the livelihood security of the clients. A sustainable livelihoods framework was used to assess the impact of the projects on the five livelihood capitals of clients.[3]

1.1 Microfinance

Microfinance, according to Otero (1999, p.8) is "the provision of financial services to low-income poor and very poor self-employed people". These financial services according to Ledgerwood (1999) generally include savings and credit but can also include other financial services such as insurance and payment services. Schreiner and Colombet (2001, p.339) define microfinance as "the attempt to improve access to small deposits and small loans for poor households neglected by banks." Therefore, microfinance involves the provision of financial services such as savings, loans and insurance to poor people, living in both urban and rural settings, who are unable to obtain such services from the formal financial sector.

A microfinance institution (MFI) according to Microfinance Information eXchange (MIX) is an organisation that offers financial services to the very poor (2005). The UNCDF[4] (2004) state that there are approximately 10,000 MFIs in the world but they only reach four percent of potential clients, about 30 million people. The Microcredit Summit Campaign Report (Microcredit Summit, 2004) however states that the 2,931 microcredit institutions that they have data on, have reported reaching over 80 million clients. Despite the lack of clear data on the sector, it is accepted that a wide variety of implementation methods are employed by different MFIs, with the Grameen Bank (2000) having identified fourteen different microfinance models.[5]

1.2 The role of microfinance in development

Since first coming to prominence in the 1970s microfinance has come to play a very important role in the field of development, as illustrated by the launch of the Microcredit Summit in 1997. The Summit aims to reach 175 million of the world's poorest families, especially the women of those families, with credit for the self-employed and other financial and business services, by the end of 2015[6] (Microcredit Summit, 2005). More recently, 2005 was the UN's International Year of Microcredit.

Microfinance has a very important role to play in development according to its proponents. UNCDF (2004) states that microfinance plays three key roles in development. It:

- helps poor households meet basic needs and protects against risks,
- is associated with improvements in household economic welfare,

1.Trócaire is the Irish catholic agency for overseas development.
2. One in each of Kenya, Uganda and Rwanda.
3. Financial, physical, human, natural and social capitals
4. United Nations Capital Development Fund
5. Associations, Bank Guarantees, Community Banking, Co-operatives, Credit Unions, Grameen, Group, Individual, Intermediaries, NGOs, Peer Pressure, Rotating Savings and Credit Associations, Small Business and Village Banking.
6. The initial objective was to reach 100 million people by 2005 but at the Latin America/Caribbean Microcredit Summit in April 2005 these objectives were changed (Microcredit Summit, 2005).

- helps to empower women by supporting women's economic participation and so promotes gender equity.

Otero (1999, p.10) states that microfinance creates access to productive capital for the poor, which together with human capital, addressed through education and training, and social capital, achieved through local organisation building, enables people to move out of poverty. By providing material capital to a poor person, their sense of dignity is strengthened and this can help to empower the person to participate in the economy and society (Otero, 1999).

Otero also states that microfinance has a role at an institutional level in that it seeks to create institutions that deliver financial services to the poor, who are continuously ignored by the formal banking sector. By addressing this gap in the market in a financially sustainable manner, an MFI can become part of the formal financial system of a country (Otero, 1999).

More recently, commentators such as Littlefield, Murduch and Hashemi (2003), Simanowitz and Brody (2004) and the IMF (2005) have commented on the critical role of microfinance in achieving the MDGs.[7] Simanowitz and Brody (2004, p.1) state, "Microfinance is a key strategy in reaching the MDGs." Littlefield, Murduch and Hashemi (2003) state that microfinance can have a strong impact on the achievements of the MDGs as it can deliver social benefits on an ongoing, permanent basis and on a large scale. Referring to various case studies, they show how microfinance has played a role in eradicating poverty, promoting education, improving health and empowering women (2003).

However, not all commentators are as enthusiastic about the role of microfinance in development. Hulme and Mosley (1996), while acknowledging the role microfinance can have in helping to reduce poverty, concluded from their research on microfinance that "most contemporary schemes are less effective than they might be" (1996, p.134). They state that microfinance is not a panacea for poverty-alleviation and that in some cases the poorest people have been made worse-off by microfinance. Rogaly (1996, p.109/110) finds five major faults with MFIs. He argues that:

- they encourage a single-sector approach to the allocation of resources to fight poverty,
- microcredit is irrelevant to the poorest people,
- an over-simplistic notion of poverty is used,
- there is an over-emphasis on scale,
- there is inadequate learning and change taking place.

Wright (2000, p.6) states that much of the scepticism of MFIs stems from the argument that microfinance projects fail to reach the poorest, generally have a limited effect on income, can drive women into greater dependence on their husbands and they fail to provide additional services desperately needed by the poor. There is also a danger that microfinance may siphon funds from other projects that might help the poor more (Navajas et al, 2000). Another criticism of microfinance is that very few MFIs are financially sustainable. According to the IMF (2005), the MFIs that have become self-sustainable tend to be larger and more efficient, and so tend not to target the very poor, as targeting the less poor leads to increases in loan size and improved efficiency indicators, whereas MFIs focusing on the poorest tend to remain dependent on

7. The Millennium Development Goals are (i) eradicate extreme poverty and hunger; (ii) achieve universal primary education; (iii) promote gender equality and empower women; (iv) reduce child mortality; (v) improve maternal health; (vi) combat HIV/AIDS, malaria and other diseases; (vii) ensure environmental sustainability; and (viii) develop a global partnership for development (Littlefield, Murduch and Hashemi, 2003).

donor funds (IMF, 2005). This is where a compromise exists between the social mission[8] and commercial mission[9] of an MFI.

1.3 Measuring the impact of microfinance

This uncertainty surrounding the impact of microfinance in combating poverty means that impact assessments of microfinance interventions are necessary. They are needed to demonstrate to donors that microfinance and their interventions are having a positive impact, and also to allow for learning within MFIs so that they can improve their services and the impact of their projects (Simanowitz, 2001, p.11).

Traditionally, the impact of microfinance projects was assessed by the changes in the income or well being of clients. Mansell-Carstens, cited in Rogaly (1996, p.103) argues that such a focus is flawed because respondents may give false information. It is also difficult to ascertain all the sources of income of a client, so a causal effect is difficult to establish, and it is also difficult to establish what would have happened if the loan was not given. Therefore a broader analysis is needed that takes more than economic impact into consideration.

Zohir and Matin (2004, p.301) make a similar point when they state that the impact of microfinance interventions is being under-estimated by “conventional impact studies which do not take into account the possible positive externalities on spheres beyond households”. They propose that impact should be examined from cultural, economic, social and political domains at individual, enterprise and household levels (2004). Kabeer (2003, p.106) identifies social impact as an important element of any impact assessment of microfinance, as an MFI should be aware of the “full range of changes associated with its efforts and uses these to improve its performance”. She considers social impact to relate to human capital such as nutrition, health and education, as well as social networks (2003). However, Kabeer moves beyond individual or household analysis to state that analysis should also be conducted at community, market and national levels (2003) and that different dimensions of change should be assessed. She lists cognitive;[10] behavioural;[11] material;[12] relational[13] and institutional[14] change as dimensions of change that should be taken into account if the wider effects of microfinance interventions are to be understood.

Johnson and Rogaly (1997, p.122) state that “NGOs aiming for poverty reduction need to assess the impact of their services on user’s livelihoods.” They argue that in addressing the question of impact, MFIs must go beyond analysing quantitative data detailing the number of users, and volumes and size of loans disbursed, to understanding how projects are impacting on clients’ livelihoods. They state (1997, p. 118) that the provision of microfinance can give poor people “the means to protect their livelihoods against shocks as well as to build up and diversify their livelihood activities”. Therefore, when analysing the impact of microfinance the overall impact of the microfinance services on the livelihoods of the poor needs to be taken into consideration, not just the impact at a financial level. That is the focus of the study covered by this paper.

8. To provide financial services to the poor who cannot access such services from the formal financial sector.
9. To operate in a financially viable manner.
10. Changes in the way in which people understand and make sense of the world around them.
11. The different types of actions that people undertake in order to achieve their goals.
12. Changes in access to a variety of tangible resources.
13. Changes in the terms on which people interact with one another.
14. Changes in the rules, norms and behaviour at an institutional level.

2. Research undertaken

This study focuses on Trócaire, three of its microfinance partners and the clients of the partners' microfinance projects. Microfinance is a tool employed by Trócaire in promoting livelihood security, one of the four priority areas of Trócaire's long term development work.[15] Trócaire's livelihood security objective is to reduce poverty and vulnerability and improve quality of life through bringing about measurable change in the livelihood security of the marginalised (Trócaire, 2005b). Microfinance is an important livelihood security tool for Trócaire's work in the countries selected for this study.

This study focuses on three of Trócaire's microfinance partners in East Africa:

- Soweto Urban Development Association (SUDA) - a small MFI based in Soweto slum in Nairobi, Kenya;
- HOFOKAM - the largest rural MFI in Uganda, based in western Uganda;
- Réseau Interdiocésain de Micro-finances (RIM) - a large MFI working across Rwanda.

Secondary and primary data collection methods were used during the course of this research. The secondary data used included analysing Trócaire documents on each of the three partners, evaluations on the SUDA and HOFOKAM projects and operational manuals produced by all three organisations. Questionnaires with 11 Trócaire staff and 19 clients of SUDA, semi-structured interviews with six Trócaire staff, 21 partner staff and 20 clients, and a focus group discussion (FGDs) with Trócaire staff and 27 FGDs with project clients were the primary research tools used. The research took place from June to August 2005, including a six-week field visit to each of the projects during this period.

The topics addressed with research participants revolved around the impact of the projects on clients' five capital assets,[16] which form the basis of people's livelihoods. The impact of the projects on clients' livelihood security, such as impact on the financial status of clients, their skills levels and confidence, impact on their families and impact at a broader community level were some of the key topics addressed. This will be explored further in section 3.3. Interview and FGD guides, translators and recording of the research aided the research process.

15. The other priority areas are HIV/AIDS, development of civil society and peacebuilding/rehabilitation (Trócaire, 2005a).
16. Financial, physical, human, natural and social assets

3. Summary of Findings

3.1 Perceptions of Trócaire staff

A perception of Trócaire staff was that microfinance is a complicated and very technical field within development and that Trócaire has little expertise in this area. Many staff questioned whether Trócaire should be involved in microfinance, as Trócaire does not have any technical expertise on the issue. However, it was clear from the Trócaire focus group discussion and questionnaire that there is a degree of expertise within the organisation on microfinance despite this feeling. Many members of staff had supported microfinance partners and were aware of the key factors needed for a project to have positive impacts on clients, such as the MFI having clear policies, proper training being given to clients and sufficient investment of time and financial resources.

There was a common acceptance among Trócaire staff that there is a lack of organisational knowledge on what the impact of Trócaire funded microfinance projects has been. There is no focal point in the organisation for collecting information on Trócaire's support of microfinance or for analysing the impact of the microfinance projects that the organisation has supported. Staff felt there should be more organisational learning in relation to microfinance and that Trócaire's experience in microfinance needs to be documented at an overall organisational level in order to facilitate learning.

3.2 The Perceptions of the microfinance partners

The three partners felt that their projects were having positive impacts on clients, with HOFOKAM and RIM focusing largely on the financial impact of their projects. Unlike both HOFOKAM and RIM, SUDA does not solely focus on the financial performance of the organisation. SUDA staff regularly interact with clients and staff often informally seek information on how a client is benefiting from the project. Staff are aware of the wider impacts the project is having on clients but all of this information is not being documented.

Staff of the three organisations felt that the training given to clients as part of the projects has been of particular benefit as many clients are better able to manage their businesses and finances than before they joined. The projects have also increased the confidence of many clients, especially women. According to SUDA staff, the impact on women is especially noticeable. Women dominate leadership positions in SUDA and the volunteers themselves were representative of this, with three of the four volunteers running SUDA being women who live in the slum.

With both HOFOKAM and RIM it was very clear from the interviews with staff and from secondary research that their focus is on financial sustainability and the financial performance of the organisation. The feedback from interviewees was that both organisations are becoming more commercially focused. Loan officers reported that success is measured on financial performance and on their performance as loan officers with repayment rates in their village banks, loan size, level of savings and portfolio at risk all taken into consideration when measuring their performance. Impact at a beneficiary level is not formally measured in either organisation. Field staff of HOFOKAM and RIM however,are aware of the impact of their projects as they meet clients on a regular basis and acknowledge that many positive impacts are taking place, especially for female clients, even if it's not being recorded.

HOFOKAM staff however acknowledged that not all clients have benefited from the project. Some clients have dropped out of the village banks[17] due to negligible or even negative impact, and some have lost their savings due to corruption within groups. HOFOKAM has introduced new systems to ensure corruption is minimised and staff agreed that this problem is improving.

3.3 The Perceptions of the clients

A livelihoods framework, based on that developed by DFID, was used to measure the perceptions of the impact of the projects, by focusing on the capital assets of clients. Impact on the financial capital (e.g. household income), physical capital (e.g. household assets), human capital (e.g. health and education), natural capital (e.g. access to land and to water) and social capital (e.g. networking, support base) of clients was assessed so that the overall impact on clients' livelihoods could be ascertained. The findings of the study are based on this analysis of impact on each of the five livelihood capital assets of clients.

3.3.1 Impact on Financial Capital

All three projects have had a positive impact on the financial capital of their clients with most clients now earning a greater income than they did prior to joining the projects, their businesses having prospered and they are now saving for the future.

Compulsory savings are a prerequisite of all three projects and this has instilled a culture of savings in clients. In SUDA, all clients interviewed are saving, whereas only one person had been saving on a regular basis prior to joining. Only 12% of HOFOKAM clients were saving prior to joining the project and now all are saving. Many clients of the projects are saving in order to access larger loans in the future and to cover any emergency, or difficulty in meeting loan repayments, that may arise in the future.

However, the impact has not all been positive. One HOFOKAM group suffered from embezzlement, whereby one of the village bank members embezzled clients' savings and some clients lost their entire savings as a result. When this happened, many clients dropped out of the village bank. In the FGD held with that particular village bank, four members present had lost their entire savings. When asked why they continued with the village bank their reply was that they had been benefiting from the project prior to the incident, and they knew the potential positive impact of being a client.

Clients in many of the HOFOKAM and RIM FGDs stated that while they have experienced positive impacts these impacts have been diluted by the interest rates being charged (3% per month) and by the criteria that repayments need to be made weekly or fortnightly, thus diluting the profits they make.

17. The drop-out rate as at May 2005 was 3% (HOFOKAM, 2005)

3.3.2 Impact on Physical Capital

All three projects have had a positive impact on the physical capital of many clients. All seven of the SUDA interviewees and 86% of focus group participants have more household assets than they had prior to joining the project. They attributed this to the increase in their income. Typical household assets purchased by clients of all three projects with the increased income they were earning were chairs, a radio and kitchen utensils. In Rwanda, many RIM clients stated that they have purchased mobile phones and these are seen as a business investment. Forty percent of the SUDA interviewees have bought livestock with the extra income they have generated from their businesses. Participants in some of the longer established HOFOKAM village banks stated that they had built houses or had improved their housing with the extra income.

3.3.3 Impact on Human Capital

- Skills/Confidence

The training provided by all three partners has had a major impact on the human capital of clients. The majority of clients stated that the training has helped them to manage their businesses better and that they feel more confident as a result of the training. All were very enthusiastic about this impact on their lives. They are more comfortable running a business and managing money now, than they were prior to receiving their training. One RIM participant stated that he has restored his dignity as he now has his own business and no longer needs to work as a labourer for another family.

- Education

The three projects have also had a very positive impact on the education of clients with children of a school going age, as extra income is being spent on their children's education. A single mother in the SUDA project spoke of how she can now pay secondary school fees for her daughter, who prior to the loan was often chased from school for not having paid her fees. Additional income for up to 40% of participants in some HOFOKAM FGDs was being spent on paying school fees.

- Health

Impact on the health of clients and their families has also been a positive feature of all three projects. With the income clients are making, many are eating healthier diets and are able to provide their children with better food. This was especially the case for families who had purchased livestock with profits, as they now had a regular supply of milk for their families.

- Women

Many female clients of all three projects spoke of their pride of being able to manage a business and not having to be as dependent on their husbands as they used to be prior to joining the projects, even for small personal items such as cosmetics. They now have their own financial capital, and they spoke of their new skills and their confidence, as a result of the training they received and being part of the social network of the village bank groups.

3.3.4 Impact on Natural Capital

None of the projects has had a major impact on the natural capital of clients, largely because their income has not risen sufficiently for them to be able to purchase land.

3.3.5 Impact on Social Capital

The social capital of clients has been greatly impacted upon by the three projects. The vast majority of clients were very positive about the social impacts they experienced. They liked the group structure of the projects[18] and close relationships have developed within the majority of groups. When asked to describe what SUDA means to clients, one man said, “SUDA is the backbone of our lives”. Participants in all HOFOKAM and RIM FGDs stated that members advise each other and provide support to each other. Many groups have made repayments for a member who did not have the money to meet a particular repayment, and later, that person paid back the group. A quarter of the HOFOKAM groups interviewed conduct other activities aside from the HOFOKAM project e.g. one group has a rabbit-rearing project and two all-female groups have tailoring projects.

3.3.6 External Impact

The wider community has also benefited from the projects. Many clients of the three partners have a greater income than they had prior to joining the projects and this extra income is spent within the community, so other businesses profit from this. Clients have also encouraged non-members to join and many have done so, as they have seen the positive impacts of the project on those who have been clients of the MFIs. Clients in five of the HOFOKAM groups stated that new village banks have been formed in the area due to the improvements non-members witnessed in members’ livelihoods.

Clients in seven of the HOFOKAM FGDs based in rural areas, and all RIM FGDs, stated that they bring goods and services closer to the community and that groups also act as a market for local suppliers, as group members buy more goods locally. Individuals in many groups stated that they employ non-members from time to time to help transport the goods that they sell, or to work on their land while they look after their business. A RIM milk co-op group stated that local farmers now have a guaranteed market as group members purchase milk from these farmers. The community also benefits as the group supplies fresher and more hygienic milk to the community than was previously supplied, as they used their loan to buy sophisticated milk storage containers. Another RIM group made the point that the village bank has been instrumental in reuniting many members of the community after the genocide as it has been used as a mechanism for getting the community to work together.

18. All three projects are based on group lending with loans made to individuals in groups of five for SUDA and groups of up to 40 for HOFOKAM and RIM. Group members collectively guarantee loan repayment, and access to subsequent loans is dependent on successful repayment by all group members. Loans are backed by moral collateral - the promise that the group stands behind each loan.

4 Analysis of Findings

4.1 Perceptions of Trócaire staff

There is a concern among staff involved in this study that Trócaire doesn't have the technical expertise to help partners involved in microfinance. There is no organisational policy on microfinance, or a focal point such as an advisor for microfinance projects. This lack of direction and expertise was a real concern for many of the interviewees. If Trócaire is serious about microfinance playing a key role in its livelihood security work then it needs to develop a policy on microfinance to guide its work in this area.

It is very clear that a degree of uncertainty exists as to how Trócaire is currently using microfinance as a livelihood security tool. The organisation is not aware of the overall impact of its support for microfinance, nor is information readily available on the number of clients benefiting from their support of partners engaged in microfinance, or what the impact of the projects has been. In a global context, the effectiveness of Trócaire's support of microfinance is largely unknown. This is doing an injustice to the organisation, as from this study, it is clear that Trócaire's support of microfinance is having some very positive impacts on project clients, and indeed on the wider project communities.

4.2 Impact measurement by the implementing agencies

Staff of all three partners are aware of some of the impacts that their projects are having on clients. Of the three organisations involved in this study, SUDA has the closest relationship with its clients. This is to be expected as SUDA is based in the slum in which it is working and the people running SUDA are volunteers from the community, unlike RIM and HOFOKAM, which cover vast, rural areas and employ professionally qualified staff. Despite SUDA staff having in-depth knowledge of how the project is impacting on clients, the organisation is only formally documenting impact on household income and what use is made of that income, even though staff are aware of wider social impacts. Social capital impact and wider community impact are not being assessed.

Both RIM and HOFOKAM have a strong focus on commercial sustainability. This was very evident from the interviews with management. The increasing focus being given to financial sustainability is affecting HOFOKAM's level of outreach and its work with poor, rural communities. The most senior manager interviewed stated that donor pressure for the organisation to achieve financial sustainability is key reason for so much focus on financial performance. HOFOKAM is the largest rural MFI in Uganda but with the increasing focus on financial sustainability there is a fear amongst staff that the organisation will reduce its focus on rural areas for more profitable clients in peri-urban areas. Both HOFOKAM and RIM's focus on financial performance means that they are underselling themselves when reporting to donors as they are not reporting on the very positive impact the projects are having on many clients.

The loan officers interviewed spoke of the constant pressure they feel under and low morale exists among HOFOKAM loan officer staff. They have no input into the targets they are given and perceive themselves to be poorly paid. This is a danger facing the organisation as unmotivated staff, or a high turnover of staff may have negative effects on the project.

4.3 Impact on clients

4.3.1 Tangible impact on clients

It is clear from the research conducted that the three projects are having positive impacts on many of their clients. A prerequisite of all three projects is that clients save for a period of time prior to accessing loans and this has helped to instil a savings culture in clients. Many are saving to access bigger loans in the future and this is in line with findings highlighted by Wright (2000) who states that continued access to follow-on loans is a very important incentive for client repayment. Access to bigger loans in the future will potentially lead to greater impact on clients' livelihood security, but equally important, the savings can be used to cushion clients from threats they may face in the future and so can be used to protect client's livelihoods. According to Rutherford (1997), access to financial services helps the poor to manage their way through shocks and crises so that they are ready and able to take advantage of whatever opportunities arise. This access helps poor rural households to secure and improve their existing situation, giving them a foundation on which to build (Rutherford, 1997).

A key impact of the RIM and HOFOKAM projects is that they are the only MFIs working in many of the rural locations visited as part of this study. If they pull out of these areas the communities do not have the option of joining another MFI. A key characteristic of HOFOKAM referred to by many clients is that "HOFOKAM comes to us, we don't have to go to them". By serving the rural communities, HOFOKAM and RIM bring financial services to areas that have been ignored by other financial services providers. Unlike clients of village banks located near urban areas, the clients of rural village banks researched did not complain about interest rates, they were just thankful for being able to access financial services. This confirms Havers argument in that "what matters most to poorer borrowers is access to money, not the cost of it" (1996, p.148).

The longer the village banks were in existence the more likely it was that the projects would have positively impacted on the lives of clients. This is to be expected, as with each loan cycle the size of the loan increases, and with bigger loans there is a greater chance of a bigger impact on client's businesses, and subsequently more of an impact on their income. With greater income, clients can experience greater impact on their livelihood assets, if the income is used wisely. By not tracking and documenting these impacts each organisation is undermining their very existence.

Participants in a number of the RIM FGDs admitted that their entire loan is not always invested into business activities, as it should be. Some stated that part of the loan was used to pay school fees or medical expenses and this has had an impact on the performance of their businesses, and subsequently, their ability to repay loans. As some of the loans were deflected from the business, they experienced a smaller return than would have been anticipated and hence many struggle to meet repayments. On the other hand, those that had experienced positive impacts stated that their entire loan was invested in their business. This highlights the crucial role to be played by proper training prior to loan disbursement so that clients are fully aware of the negative consequences that can arise if loan use is not invested into business activities, as also highlighted by Otero (1999).

4.3.2 Wider level impact

A major impact of the projects has been on the human capital of clients, arising from the training clients received. This “social intermediation role” of MFIs referred to by Dichter (1999, p.34), is a key role played by the partners, as it better prepares clients to effectively manage their finances. Fifty-seven percent of SUDA questionnaire respondents stated that the project has had a significant impact on their general business and money management skills, and all interviewees spoke of the positive impact the training has had on these skills. As a result of this training, loans are used more effectively, and clients have been able to increase their income and improve their livelihood security.

Other areas of impact have been on clients’ human and social capitals. Increased income is being used to pay school fees and to improve household nutrition. From a social perspective, the close relationships and networks built within village banks has also been a very positive impact. Many non-project related activities take place within some of the groups. Marconi and Mosley (2004, p.23) refer to the positive social impacts of “solidarity networks”, stating that such networks play an important role in helping clients escape from poverty.[19] These wider levels of impact reinforce the importance of moving beyond traditional financial and physical impact assessments of microfinance projects on clients. By not assessing human, social and wider community impacts the true impact of the projects are not being appreciated.

The external community is also benefiting from the projects. The main benefit has been the bringing of goods and services closer to rural communities, the creation of employment and clients providing a market for local suppliers. The partners are not documenting these positive impacts and so the true impact of their work is not being recorded.

4.4 Contribution to literature on microfinance

This research study contributes to the overall literature on microfinance from the perspective that it highlights that microfinance can be a very positive poverty alleviation tool. However, if impact assessment is not conducted then the role of microfinance in development is being undermined. This study shows that when wider level assessments take place, well-run microfinance projects can have many varied positive impacts, both on project clients but also at a wider level. The study therefore highlights, that both for donor agencies, but also for MFIs, best practice is to conduct broad impact assessments of the projects they are supporting or implementing, if a true analysis of their work is to be ascertained. Donor agencies should be supporting this level of analysis and MFIs should see the value in this broader analysis rather than focusing solely on financial sustainability.

19. Social network support provides a defence against having to sell physical and human assets and protects clients’ morale in times of trouble (Marconi and Mosley, 2004).

In order to enhance donor-client relationships, this study also highlights the importance of understanding client's needs and of how the project is impacting on their livelihoods, both positively and negatively. It is by having this level of understanding that an MFI can tailor its products to serve the needs of its clients and ultimately improve the lives of clients but also help the MFI achieve financial sustainability.

5 Recommendations

5.1 Recommendations for Trócaire

5.1.1 Organisational policy

Trócaire should develop an organisational policy on microfinance and the role of microfinance in Trócaire's focus on livelihood security needs to be clarified.

5.1.2 Encourage partners to document wider project impacts

In order for Trócaire to gain an understanding of the role microfinance is playing in its focus on livelihood security, it should encourage and support partners to analyse and assess the wider impacts of the projects they are involved in.

5.1.3 Balance financial and social missions

Trócaire should encourage its microfinance partners to strive for financial sustainability, but not at the cost of their social mission. If donors put too much emphasis on financial sustainability, partners, worried about losing funding, will begin to ignore the poor and focus on more profitable clients. The onus therefore is on donors such as Trócaire to commit to long-term funding with partners and map out sustainability plans with them.

5.2 Recommendations for the partner organisations

5.2.1 Assess social impacts

Partners should be assessing the impact their projects are having on clients. While tracking the financial performance of the project is very important, MFIs should also assess how the projects are helping them to meet their social mission. Impact assessments are necessary, not only to demonstrate to donors that their interventions are having a positive impact, but also to provide information that allows MFIs to improve their services, and thus improve project impact.

5.2.2 Balance commercial and social missions

Each partner should strive for financial sustainability, as donor funding will not last forever. However, focus on financial sustainability should not involve a trade-off with the organisations' social mission. Partners should work out a sustainability plan, while keeping their social mission, and work for both financial sustainability but also striving to meet the financial needs of their target market. Both missions can be simultaneously achieved. Each organisation should stay loyal to its mission and seek donor support to achieve this mission.

5.2.3 Be aware of changing client needs

Partners should pay close attention to the nature and quality of financial services they offer if they are to serve the needs of their target market (Wright, 2000). Clients' needs change over time so MFIs need to be flexible and change their products and services when necessary so that their clients' needs are met.

5.2.4 Importance of savings and on-going training

The savings-first element in the projects enhances the impact of the projects in that it encourage clients to save and allows time for the village banks to assess the credit worthiness of clients (Dichter, 1999). This savings element should be continued in each project and ongoing savings sensitisation should take place. The training element of each project is having a major impact on the skills and confidence of clients and this should continue, and be expanded where possible.

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