

**World Bank Assisted Project –
“Scaling up Sustainable and Responsible Microfinance Project ”**

Impact Assessment Study of MFIs - Terms of Reference

1. Background

1.1. The World Bank assisted project titled “Scaling up Sustainable and Responsible Microfinance Project” is designed to support GOI’s/SIDBI’s efforts to scale up and promote responsible and balanced growth of microfinance. Improved access to finance would help contribute to household asset creation and sustainable income generation, poverty reduction and growth. The project is being implemented by SIDBI through SIDBI Foundation for Microcredit (SFMC), a specialized department for carrying out micro finance activities. More details on SIDBI and SFMC are available at the website www.sidbi.com.

1.2. The project addresses the lack of access of the underserved segments of the population to financial services, an important constraint to improved productivity and incomes, and particularly in the aftermath of dual crises that have affected the microfinance sector in India; the global financial crisis which continues to affect MFIs and their clients, and more importantly the impact of the crisis in Andhra Pradesh, which has caused a precipitous drop in repayment in the affected region of the country, and may significantly undermine the outreach and sustainable of the sector throughout India, The project has three components viz., **Component 1 - Microfinance Fund** to be utilized towards providing funding support through debt, equity and quasi-equity schemes to enable the MFIs to scale up their operations, **Component 2 –Strengthening Responsible Finance**, which also addresses many of the root causes of the AP crisis, and provides solutions for taking on the responsible finance agenda at such a critical time for the future of the microfinance sector. In

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particular, the Project strengthens the Responsible Finance agenda through creation of a Lenders' Forum, development of a common information platform similar to the Global Mix Market and formalizing of a system for monitoring of the microfinance Code of Conduct, and **Component 3 – Implementation and Monitoring Component** for implementing the project, undertaking an impact evaluation exercise of microfinance on the targeted clients, and capacity building of SIDBI staff.

1.3 The project is being implemented by SIDBI through SIDBI Foundation for Microcredit (SFMC), a specialized department for carrying out micro finance activities. Small Industries Development Bank of India (SIDBI), an apex financial institution for promotion, financing and development of Micro, Small & Medium Enterprises (MSMEs) in India, has been engaged in providing micro finance services to millions of poor in the country through a network of strong and vibrant financial intermediaries. "SIDBI Foundation for Micro Credit" (SFMC) – the specialised department of SIDBI was set up in order to accelerate the process of financial inclusion. The micro credit programme of SIDBI is designed with the objective of reaching financial services to the unbanked section of the population as a step towards financial inclusion. SFMC has recorded impressive growth in terms of sanction, disbursement and outstanding and has been able to create, develop and nurture a pool of MFIs which is likely to grow much more in the coming years. More details on SIDBI and SFMC are available at the website www.sidbi.com.

2. Overall Objectives

2.1. An independent agency will be appointed to make an assessment of the impact of the project on the end-users of microfinance services, and to make detailed recommendations about how to improve the quality and delivery of financial and non-financial products and services offered to clients by MFIs, and to provide more

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information on the overall landscape of microfinance borrowers, including gender, geography, poverty levels, and other characteristics which could lend further insight into reaching underserved populations. .

2.2 At loan application stage, SFMC already collects basic information on each MFI and on the socio-economic status of its clients. However, SFMC is interested in going beyond basic data collection to understand the measurable impacts of the provision of microfinance services, and the impact of the microfinance products and methodologies on clients, relative to those who do not have access to these basic financial mechanisms. To do so, SFMC will commission an independent agency to collect detailed baselines from control and treatment groups in order to undertake rigorous impact analysis, as well as monitoring and program assessment. The selected agency will provide the following services to SFMC:

- a) document impact of SFMC intervention at the end user (beneficiary) level, dealing with issues of attribution as accurately as possible
- b) provide recommendations that will help improve practices of beneficiary MFIs in delivering quality services to these borrower, including to improve delivery processes, and better customize financial and non-financial products offered to end users.

2.3 The agency will have to ensure that the impact assessment is credible, cost-effective, useful and sustainable. It is anticipated that the selected agency would rely on both quantitative and qualitative approaches to data collection.

3. Scope of the Work

3.1. The selected agency will address a set of core questions:

- a) Which groups among the poor do client institutions reach? For example, what are their levels of poverty, what is the gender breakdown, how do rural versus urban beneficiaries compare, to what

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extent are MFIs reaching SC/ST/OBC, disabled, and other vulnerable groups ?

- b) What are the economic, social and to a limited extent political impacts of the financial services delivered by client institutions across gender and vulnerable categories of poor (see Table 1 listing a menu of possible indicators)? Any negative impacts or risks should also be highlighted in the analysis.
- c) Are the impacts consistent with the achievement of project purpose and goal?

3.2. The selected agency will design the impact assessment methodology taking into account the best practices developed in this field by various institutions. The methodology developed in the first year should provide a core approach to the field work across SFMC client institutions. Supplementary issues could be added to the core methodology to reflect the differing programme priorities and context. The same impact assessment methodology should be used during the full course of the project. With such an approach, the agency will be able to look at the impact of the MFI client institutions in a dynamic and longitudinal way.

3.3. In designing the methodology, the agency should provide:

- a) The justification for methodological approach, detailed to highlight issues of attribution versus correlations. What methods or mix of methods should be used and on what frequency?
- b) The design of the sample frame, including the minimum sample size of MFIs/ clients to document impact, improve practice and ensure credibility of findings?
- c) The estimated level of effort and timeframe for the assessment.
- d) A description of data collection methodologies, and sources of such data (e.g. collected by the MFIs and / versus how much data will be collected by the agency in-charge of the impact assessment).
- e) Suggestions of how to integrate impact monitoring in the day-to-day

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MFI management and in SFMC operations (i.e. links with MIS, Market Research etc.)

- f) A list or description of the most appropriate and competent people/institutions to direct and sub-contract the assessment?
- g) links between activity and impacts that can be robustly investigated and established.

3.4 Once the methodology has been designed, and agreed the selected agency will be responsible for the impact assessment implementation, appointment of researchers, supervision and implementation of field work, and analysis of data generated by field work.

3.5 The table below summarises a possible list of issues to be explored and tested for the impact assessment study. Wherever possible, all impacts should be gender segregated, and disaggregated effects on the basis of geography, gender and other vulnerability will be useful when possible.

Table :1

Categories	Impact of Access to Microfinance Services on:
Outreach and access	<ul style="list-style-type: none">• Social profiles of clientele• Percentage of women and men borrowers Frequency of repayment, and graduation into larger sized loans• Variety, levels of savings and turnover• Reported women's control over loan use
Economic Impact	<ul style="list-style-type: none">• Income• Enterprise growth measured by changes in turnover• Enterprises growth measured by changes in sales• Access to land• Recovery of assets hypothecated or mortgaged• Savings behavior• Changes in number of income sources

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	<ul style="list-style-type: none"> • loan utilisation pattern over time (debt repayment, consumption, emergencies, investments) • Value of assets (fixed and working capital) • Levels of indebtedness
Basic survival and economic well being.	<ul style="list-style-type: none"> •Consumption of higher status foods •Diversity of diet and child nutrition •Regularity of meals •Education and health related expenditures •Attendance of boys and girls in schools •Shift from second-hand to new clothing •Expenditure on consumer durables •Housing quality •Frequency of seasonal migration
Social and political Impacts	<ul style="list-style-type: none"> • Ability to buy in bulk and get cheaper prices for inputs and consumption of goods • Frequency of tied transactions with moneylender brokers and traders • Knowledge of banking procedures • Pressure on banking institutions to improve services • Ability to understand accounts and interest rates choices • Involvement of women in new or non-traditional activities • Confidence and assertiveness by the poor and women in particular • Role of women in household and community decision-making • Changes in social networks
Potential negative impact of risk monitored.	<ul style="list-style-type: none"> • Child labour patterns • Domestic violence • Women's workloads • Control over loan use • School attendance, particularly by girls • Changes in men's contribution to social welfare

4. Expected Outcomes and Deliverables

4.1. The selected agency will be responsible for:

- a) academic rigour and overall quality control
- b) management of deliverables
- c) the design of appropriate sampling frame, data collection methodology, and overall analysis of the data.
- d) facilitating learning within and from outside the project (both national and international) with an emphasis disseminating results so that services provided by MFIs will ultimately be more useful to clients/beneficiaries in India and elsewhere
- e) ensuring comparability and consolidation across methodology and findings
- f) identify a range of potential contractors to undertake the impact assessments, probably ,on a regional basis, or in relation to categories of client institutions with similar lending methodologies
- g) collaboration with international institutions
- h) co-ordinating with and drawing on studies commissioned by MFIs themselves or their funders

4.2. The selected agency will submit the report and undertake specific case studies for wider dissemination. The report should highlight the findings according to the selected areas of research (outreach and access, economic impact, basic survival and well-being, social and political impact, potential negative impacts or risks, policy/sector impact) and any other additional axis of research. The report should also focus on the progression achieved by the client institutions.

5. Sampling

The baseline survey in 2011 would consist at least 25-30 assisted MFIs spread across various geographical areas with different legal

status and lending models. This baseline would be juxtaposed against an endline survey to be held in 2015.

6. Competency and Expertise Requirements

6.1. The selected agency will have

- a) comprehensive knowledge of microfinance policy and practice
- b) comprehensive knowledge of best practices in impact assessment methodologies for microfinance and in other areas of economic and social development or market research
- c) experience of designing and conducting impact assessments or market research using both quantitative and qualitative methodologies
- d) an excellent record in socio-economic research in India
- e) a demonstrated ability to undertake research on a national basis, to manage a range of sub-contractors and forge effective partnerships at national level.

7. Conduct of the Work

7.1. The selected agency will be employed on a contract up to the Mid-Term Review of the project. The impact assessment will be commissioned by SFMC in consultation with World Bank.

7.2 The national agency will develop its work plan in collaboration with SFMC. Subsequently, the agency will be responsible for six monthly reports and the baseline Report including case studies.

7.3. All substantive reports, should be copied to the Chief General Manager in SFMC.
