



International
Labour
Organization

Microfinance for Decent Work

Action Research Programme

**How MFIs Can Improve Their
Clients' Livelihoods**

Dead Sea, Jordan

June 8, 2012

Innovative Finance for Social Justice



Microfinance for Decent Work Partners



UNIVERSITÄT
MANNHEIM



Federal Ministry
of Labour and Social Affairs



Microfinance for Decent Work in a nutshell...

- ✓ Action Research Programme
- ✓ Timeframe: 2008-12
- ✓ 16 partner-MFIs worldwide

GOAL: to measure the impact of decent work innovations on the welfare of microfinance clients

Why does ILO engage?



Clients of microfinance institutions must cope with serious work challenges



Child Labour



Occupational Safety
and Health



Informality

...and

- vulnerability to income shocks
- overindebtedness
- isolation, no voice



Research Questions

- **What is the most pressing Decent Work challenge for clients of a MFI?**
- **Can the issue be addressed through microfinance?**
- **Does it require a modification in service delivery?**
- **Would the MFI also benefit from the innovation financially?**



Why would an MFI engage in Decent Work?

- **Enhances social performance of MFI, e.g.:**
 - Achieve social mission (create more and better jobs)
 - Treat clients responsibly and understand their needs
- **Improves the MFI's business**
 - Demand for services (loan for work improvements)
 - Client retention
- **Reduces credit risk**
 - Formalization
 - Safety at work and productivity
- **Avoids negative publicity e.g. child labour**
- **Attracts social investors**



Experimental Research Design

“...is used for the controlled testing of causal processes.”

Main idea: Experiment in which all observed variables are held constant for a selected population over time - except for one (=innovation). Changes in the population can then be attributed to the innovation.

- Control and Target groups
 - Only target group has access to the innovation.
- Client selection (random sample / stratification / matching)
 - Research sample stratified to match the general portfolio of each MFI
 - In some cases, a specific type of client was necessary => matching by characteristics of “sub-sample”.
- Panel Data Sets
 - Baseline survey before implementation of innovation
 - One to four follow-up surveys



What did we do: steps completed

Phase I: Selection and diagnosis

- Identification of partner-MFIs worldwide
- Identification of decent work challenges among MFI clients

Phase II: Implementation and testing

- Developed strategy and innovations
- Sampling of target and control group
- Baseline survey
- Implementation of innovations
- Follow-up surveys every 6 months

Phase III: Analysis, documentation & dissemination

- Preliminary analysis (descriptive statistics)
- Impact analysis for each innovation
(econometric analysis, difference-in-difference method)



Findings from the Diagnostic Phase of MF4DW

- 90% self-employed, average 2 jobs created
- Child labour (5-14 years) constituted 5% of total employment created
- 11% reported dangerous working conditions or injuries
- 54% of client's business activities informal, 41% paid taxes
- 8% reported cross-borrowing and 14% had repayment issues
- 43% reported large unforeseen expense in preceding year (main reason: accident, illness)
- Only 2-3% used a form of insurance to cover unforeseen expenses

(N= 4748)



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Microfinance for Decent Work Innovations

Formalization	<ul style="list-style-type: none">•Awareness raising and client sensitisation to benefits•Introduction of business development services
Occupational Safety and Health	<ul style="list-style-type: none">•Client training on good working conditions and agreement on improvement plan•Specific loan product for work improvements
Job Creation/ Women Empowerment	<ul style="list-style-type: none">•Organisational restructuring: new SME lending window•Client training on women's empowerment
Risk Management	<ul style="list-style-type: none">•Entrepreneurship training for clients•Introduction of insurance products: multi-risk for business loan clients, health, credit life•Introduction of individual emergency fund•Introduction of leasing product
Child Labour	<ul style="list-style-type: none">•Awareness campaign•Client training to increase production productivity•Modification of existing health-insurance product



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Challenges

- **Understanding of research design**
 - concept of target and control group (all factors identical except for innovation)
 - sampling
 - interviewing the same clients over time
- **Staff turnover**
 - contact person/team in MFI,
 - research staff,
 - MFI staff implementing innovation
- **Time required for new product uptake**
- **External factors**
- **Client drop-out**
- **MIS**
- **Data quality** (incomplete questionnaires, inconsistent client IDs)



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What are we doing: steps ongoing and outstanding

Phase III: Analysis, documentation & dissemination

- Cost/Benefit analysis at institutional level
- Documentation and dissemination: case studies, briefs, webinars, conference participation

Phase IV: Scale-up

- Promotion of effective strategies
- Capacity building of MF stakeholders



Quantitative impact evaluation: Why is it important?

- Create knowledge on what innovations work for which purposes.
- Also learn about unintended side effects.
- Quantify program impact.
- Oppose costs and benefits of innovations.
- Inform decision makers, give decision guidance for improving future innovations.
- Show results for public spending.



Quantitative impact evaluation: What are the methodological approaches?

Type of Experiment	Methodology
Experimental:	Randomized Control Trials (RCTs)
Quasi-experimental:	Difference-in-Differences (DiD)
	Instrumental Variables
	Regression Discontinuity
	Propensity Score Matching
	Pipeline Approach



Quantitative impact evaluation: How to learn from empirical evidence?

Example: RCTs for (similar) saving innovations

Authors	Where?	When?	Results		
			Investment	Income	Smoothing
Dupas and Robinson	Kenya	2006-08	+	+	+
Breno et al.	Malawi	2009-10	+	+	n/a
Abraham et al.	Chile	2008-09	n/a	n/a	+

Source: David Roodman's Blog (April 11th, 2012)

=> How to learn? By replication and slight variations in innovations.



Quantitative impact Evaluation: What is the contribution of MF4DW Action Research?

Example: J-Pal impact studies on credit innovations in developing countries

By purpose of MFI:

Outcomes of interest	By purpose of MFI:	
	“Maximization of profit”	“Maximization of social outcomes”
Repayment performance	5	0
Expenditures/ Income	2	2
Social outcomes	0	2

- ⇒ More evidence on purely commercial microcredit markets.
- ⇒ MF4DW AR *partly* fills research gap.
- ⇒ Research gap: Best design of social businesses, Role of social preferences in microfinance etc.



Quantitative impact Evaluation: Basic facts on evaluation for MF4DW Action Research.

- Control and target group.
- Panel data: Baseline with one to four follow-up surveys (depending on the innovation).
- Data sources: Questionnaires (clients) and Management Information Systems (MFIs).
- Assignment of innovation at branch level (Number of branches in samples: 2 to 29).
- Typical evaluation methodology: Difference-in-differences (sometimes supported by Propensity Score Matching).



Quantitative impact Evaluation: Basic idea of the DiD approach.

Example: Clients with repayment difficulties (in percent)			
	Target group	Control group	
	(1)	(2)	(1)-(2)
After (A)	12	13	-1
Before (B)	15	13	2
(A)-(B)	-3	0	=-3

=> **Reading example:** “The percentage of clients with repayment difficulties in the target group reduced by 3 percent as compared to the control group after the innovation.”



Quantitative impact Evaluation: Implementing the DiD approach in regressions.

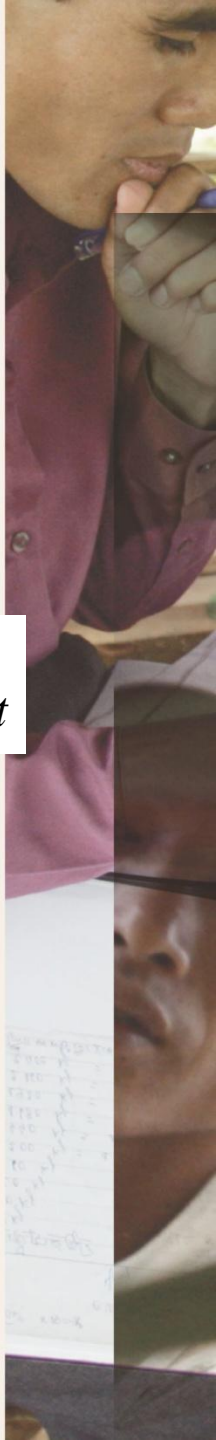
Generalization of the idea in the following basic regressions specification:

$$Y_{ijt} = \alpha_j + \lambda_t + \gamma TARGET_j + \beta TARGET_j * AFTER_t + u_{ijt}$$

=> β is the coefficient of interest.

Two main assumptions for identification of causal effects:

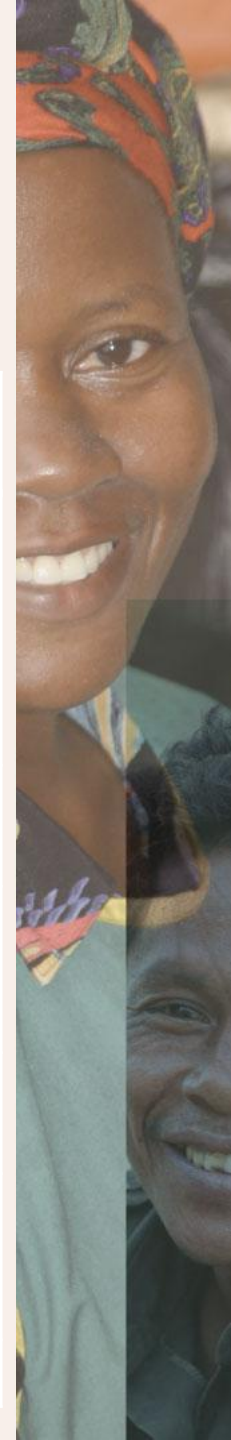
- No contamination of the control group by the target group.
- Common trend in outcomes between target and control branch.



Risk Management (1)

Innovations

PRIDE Microfinance	Uganda	<ul style="list-style-type: none"> • Introduction of new leasing product (Mortgage Asset Financing Loan)
Negros Women For Tomorrow Foundation (NWTF)	Philippines	<ul style="list-style-type: none"> • Introduction of new entrepreneurship training to clients: using ILO training modules “Generate and Start Your Business” • Modifications to Individual Emergency Fund (= savings account for emergency situations)
VisionFund	Cambodia	<ul style="list-style-type: none"> • Introduction of financial education to clients (direct client training)
AMK	Cambodia	<ul style="list-style-type: none"> • Introduction of financial education to clients (indirect approach through educating client officers)
TYM	Vietnam	<ul style="list-style-type: none"> • Introduction of client training on risk management and microinsurance
Finanziera Confianza	Peru	<ul style="list-style-type: none"> • Introduction of insurance “Multiriesgo de Confianza” and client training to establish a “insurance culture” among clients
Banco Popular	Honduras	<ul style="list-style-type: none"> • Introduction of health insurance “Salud popular”



Risk Management (2)

Groups of outcome variables:

Financial attitude

- Debt-related attitudes
- Precaution-related attitudes

Financial behaviour/risk management

- Planning horizon
- Setting money aside etc.

Asset building

- Insurance
- Savings

Over-indebtedness/multiple borrowing

- Borrowing from other informal/formal source
- Took loan to repay another
- Repayment difficulties

Vulnerability

- Expenses covered by income



Risk Management (3)

Financial Education

Results

Strongest results:

- Debt- and precaution-related financial attitudes
- Overindebtedness: late repayment less often
- Vulnerability: sold assets less often

Inconclusive:

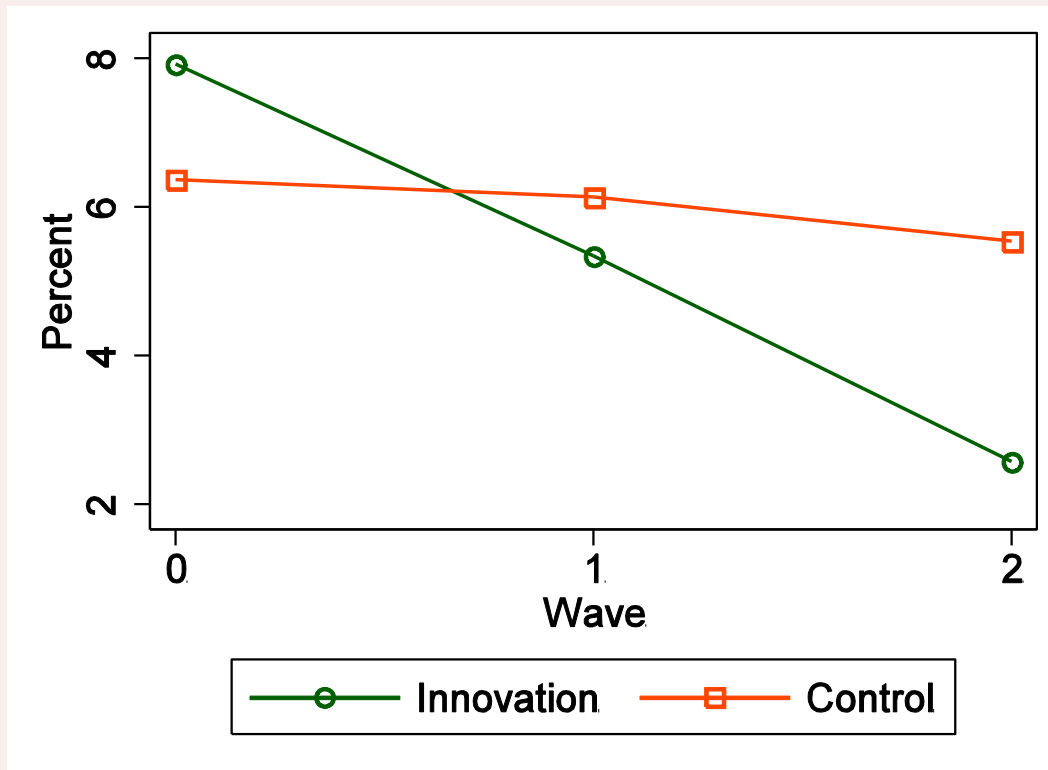
- Over-indebtedness/multiple borrowing: took loan to repay another loan
- Financial behaviour/risk management
- Asset building: households save



Risk Management (4)

Financial Education

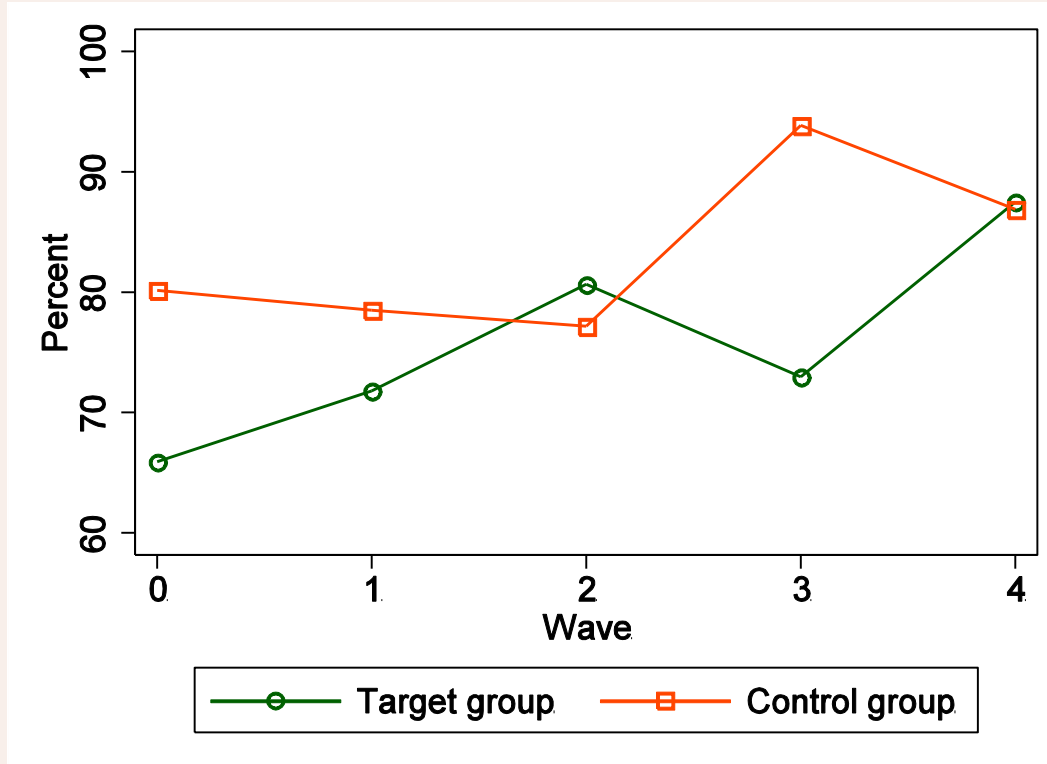
Clients with late repayment:



Risk Management (5)

Financial Education

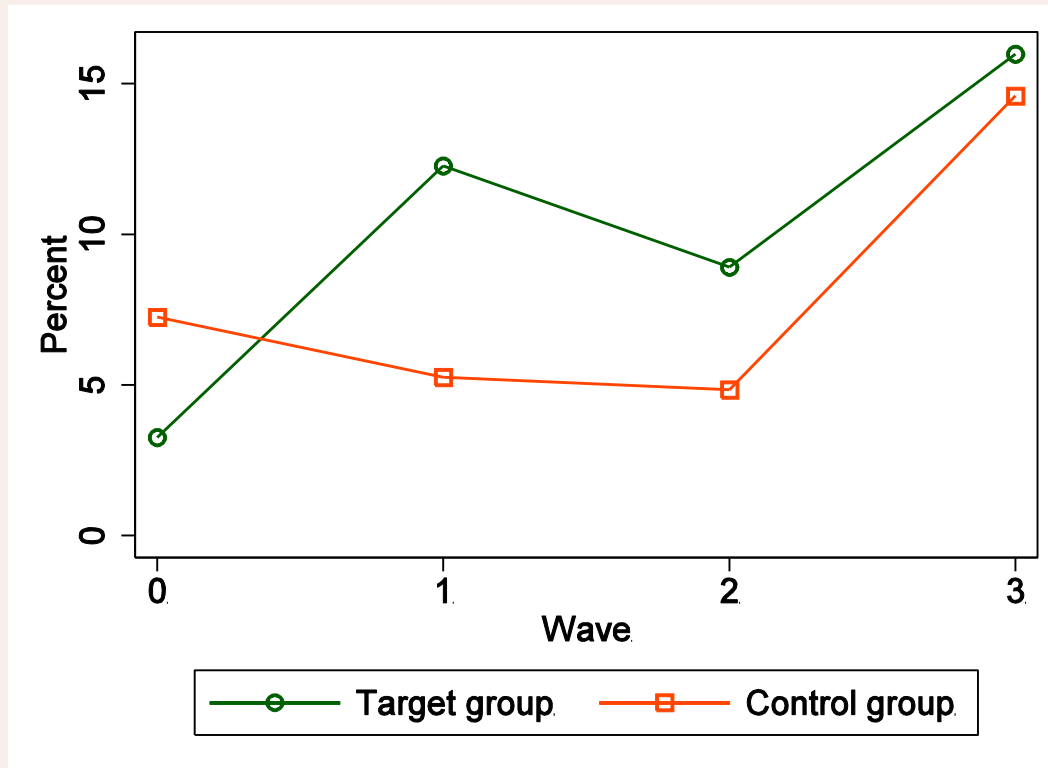
Percentage of households that could cover unforeseen household expenses:



Risk Management (6)

Financial Education

Took loan to pay back another



Risk Management (7)

Savings Product

Results

Strongest results:

- Precaution-related financial attitudes
- Overindebtedness: cross-borrowing and repayment difficulties

Inconclusive:

- Financial behaviour/risk management
- Vulnerability

Negative:

- Asset building: less insurance



Risk Management (8)

Entrepreneurship Training

Results

Strongest results:

- Asset building: profit, motorized vehicles
- Overindebtedness: Late repayment, repayment difficulties
- Vulnerability: Used microinsurance to cover unforeseen expenses

Inconclusive:

- Debt- and precaution-related financial attitudes
- Financial behaviour/risk management



Formalization (1)

Innovations

Fédération des caisses populaires du Burkina (RCPB)	Burkina Faso	<ul style="list-style-type: none">• Introduction of sensitization to benefits of formalization.• Introduction of training on enterprise management.• Introduction of client incentives to formalize (awards).
Evangelical Social Action Forum (ESAF)	India	<ul style="list-style-type: none">• Introduction of awareness raising on formalization.• Introduction of BDS to clients through training and recruitment of Business Development officers providing face to face advise to clients.



Formalization (2)

Results

Strongest results:

- Knowledge about formalization/attitudes towards formalization
- Has registered business
- Business conduct improved (separate accounts, advertisement)
- Turnover increased

Inconclusive:

- Loan size
- Repayment capacity

Negative/inconclusive: Reduction in employees



Occupational Safety and Health (1)

Innovations

Bharatiya Samruddhi Finance (BASIX)	India	<ul style="list-style-type: none">• Introduction of Participatory Safety Education to increase productivity and workplace safety of clients and community in the rural areas.
Tamweelcom	Jordan	<ul style="list-style-type: none">• Introduction of an awareness raising campaign to clients, training and capacity building of staff on how to improve working conditions and productivity, clients training using an adapted version of ILO WISE methodology



Occupational Safety and Health (2)

Results

Strongest results:

- Less often workplace illness/injuries experienced
- Keeps first aid box
- Short breaks at work
- Adopted new technology
- Attitude towards child work in agriculture
- Households save

Inconclusive: Attending school the whole year



Job Creation / Women Empowerment (1)

Innovations

International Microloan Fund (IMON)	Tajikistan	<ul style="list-style-type: none">• Introduction of a new start-up product, combining entrepreneurship training and access to start-up loan for potential women clients
Bai Tushum	Kyrgyzstan	<ul style="list-style-type: none">• Organisational restructuring: microfinance section and SME section offering different sets of products



Job Creation / Women Empowerment (2)

Results:

- Small effect of increases in loan size on job creation
- Negative effect of client exit on job creation
- Other factors such as type of sector influence job creation

- Increased awareness of products and services from business women's association
- Combination of training and loan had positive impact on self-employment and business expansion
- Positive impact on retention rate
- No significant effect on women empowerment



Child Labour (1)

Innovations

Lift Above Poverty Organization (LAPO)	Nigeria	<ul style="list-style-type: none">• Introduction of an awareness campaign and a soft loan for school support
National Rural Support Programme (NRSP)	Pakistan	<ul style="list-style-type: none">• Modification to existing health insurance product: coverage of all household members of nucleolus family
Nyésigiso	Mali	<ul style="list-style-type: none">• Introduction of client training using ILO tools (e.g. GERME) on how...<ul style="list-style-type: none">• to reduce hazardous work for children in agriculture, and• to improve productivity and financial management in agriculture



Child Labour (2)

Groups of outcome variables:

Child labour

- Incidence of child labor
- Hours child worked
- Monthly earning through child labor
- Hazardous occupation

Schooling

- School attendance
- Reasons for not attending school etc.



Child Labour (3)

Results:

Strongest results:

- **Child labour:** Some evidence on reduction in child labour
- Estimated effects for one MFI (effects for other MFI not clear):
 - Incidence in child labour reduces between 3-7 percent
 - Average hours worked reduces between 2.5 and 3.5 hours per week.
 - Hazardous occupation reduces between 5.7 and 6.5 percent.
 - Monthly earning through child labour reduces.
 - Reduction for incidence of child labour and hours worked stronger for boys than for girls (however, child labour clearly more common among boys)

Inconclusive results:

- **Schooling:** There is no evidence that schooling increases.



More information...

www.ilo.org/socialfinance



Q & A

