WIDER IMPACTS OF MICROFINANCE INSTITUTIONS: ISSUES AND CONCEPTS

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Abstract: The paper distinguishes between a ‘wider’ definition of wider impacts (which takes into account feedbacks from impacts to institutional performance) and a ‘narrower’ definition, which does not. In respect of both definitions, the paper sets out a typology of the effects which need to be measured (cultural, economic, social and political) and of the levels at which each of these impacts needs to be assessed (local, regional and national). The purpose is not to set out a blueprint for specific studies but rather to offer a framework which may be useful for guiding the methodology of such studies. Copyright © 2004 John Wiley & Sons, Ltd.

1 INTRODUCTION

Microfinance institutions do not operate in a vacuum—but as one player among many in the various landscapes in which it operates. It has impacts on these landscapes and is in turn impacted upon. The effects of its services on the users are realized through their manifold engagements with various economic and non-economic institutions. These engagements and impacts are iterative in nature having feedbacks involving adjustments, new arrangements and distributional consequences. Any exercise in the area of wider impacts needs to have this basic interactive framework in mind. This paper is essentially an attempt towards unpacking some of these interactive pathways with a view to suggesting a few indicative study designs that future research in this area can build upon.

The theme of wider implications of microfinance institutions’ interventions is a relatively uncharted territory, though the term is alluded to quite frequently. The interest in this theme has emerged out of a number of motivations—the most important among them being a view that the total impact of microfinance intervention is being underestimated through conventional impact studies which do not take into account the possible positive externalities on spheres beyond households and the subsequent feedback effects on both participant and non-participant households. This assumption, we argue, is driven by a conceptualization of total impact consisting of two mutually exclusive impacts—

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narrow and wide. Yet, we argue that, what is conventionally termed as ‘narrow’ impacts can be perceived as a reduced form expression incorporating all secondary effects arising from households’ (participants and non-participants) engagements with various market and non-market institutions. Analytically then, it becomes difficult to pursue the wider impact theme and yet recognize that individuals and households are the expected beneficiaries of all program interventions.

The following section in this paper discusses this problem and posits two alternative approaches to define the scope of wider impacts. It is proposed that what we term as the ‘narrower perspective of wider impacts’, which examines individuals'/households’ multi-dimensional engagements at meso and macro levels and assesses the subsequent changes at these levels, should be the logical first step. This is not to undermine the need to assess the feedback effects of ‘wider’ impacts on households, especially on the poor. However, as discussed in the following sections, a shift in focus away from households to meso/macro levels, broadens the scope of the wider impact theme. It allows exploring impact pathways and how these interact with wider structures—many such issues do not immediately lead back to households and are yet to be addressed seriously in the existing microfinance impact assessment literature.

Section 2 also lays out a basic conceptual framework for assessing wider impacts of microfinance institutions. We propose four different domains in which wider impacts may be examined—cultural, economic, social and political, each of which has its counterpart at the narrow micro level (individual, enterprise or household level). At a wider level, each of the last three domains deals with relations—within the civil society and between civil society and state; while wider elements of culture underlie most of the observed relations. It is proposed in Section 2 that wider impacts on each of these domains be assessed at three levels—local, regional and national. We discuss these impact domains and interrelationships between them and towards the end of the section, provide a list of themes that may be included under each impact domain. We have approached this theme list as a work-in-progress that leaves considerable scope for future improvement.

Discussion in Section 2 approaches impact domains from a general perspective, and therefore provides a generic typology, which may apply for many other kinds of programme interventions. Section 3 extends the discussion to the specific context of microfinance. It provides a schematic categorization of the various intervention areas of microfinance institutions and links these to the wider impact domains. Since provisioning of financial services is the core activity of the MFIs, an expositional bias towards the economic domain could not be avoided. However, the activities undertaken by a microfinance institution, especially in countries where both the private and the public sectors lack competence in forging economic activities involving numerous producers and consumers, are much more than just providing financial services. We argue that these ‘wider’ involvements of microfinance institutions are logical extensions of some very important strategic capital MFIs have accumulated in the course of their microfinance operations, and should be included as relevant topics of examination under the wider impacts theme. More importantly, not incorporating these ‘new’ roles of microfinance institutions within the wider impacts theme would be denying the ground realities of microfinance institutional dynamism, which has surfaced in Bangladesh and may arise in other countries as well. However, we have been explicit about these wider roles of microfinance institutions and those who are inclined to focus on more conventional activities of microfinance institutions can do so.

Given the open-ended nature of the current discourse on wider impacts, it will be premature to indulge in detailing study designs on this theme. The concluding section therefore sketches some exercises, which may be undertaken to study certain important areas of wider impacts. They should be read more as elucidation of the proposed framework for discussion, improvement and eventual operationalization.

2 DEFINITION AND SCOPE OF WIDER IMPACTS: TOWARDS AN ANALYTICAL FRAMEWORK

2.1 Conventional Focus in Impact Studies: What is the Problem?

There have been numerous impact evaluations of microfinance programmes across the globe. Many of these evaluations were motivated by the need of the donors to get inputs to their decisions on continuation (or, discontinuation) of support. It is therefore expected that the primary focus of these evaluation studies were on individual program impacts. Moreover, impact areas in these studies have normally been identified in terms of variables pertaining to individuals and/or households, a list of which is summarized in Table 1 below.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Individual</th>
<th>Household</th>
<th>Remark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income (by sources)</td>
<td>✓</td>
<td></td>
<td>Income distribution and income-based poverty</td>
</tr>
<tr>
<td>Expenditure (on major heads)</td>
<td>✓</td>
<td></td>
<td>Same as above</td>
</tr>
<tr>
<td>Nutrition/food intake</td>
<td>✓</td>
<td>✓</td>
<td>Extent of malnutrition at the community</td>
</tr>
<tr>
<td>Housing condition</td>
<td>✓</td>
<td>✓</td>
<td>Proportion of households owning particular type of houses</td>
</tr>
<tr>
<td>Assets</td>
<td>✓</td>
<td>✓</td>
<td>Percentages of households owning</td>
</tr>
<tr>
<td>Savings</td>
<td>✓</td>
<td>✓</td>
<td>Averages</td>
</tr>
<tr>
<td>Investment (Enterprise)</td>
<td></td>
<td></td>
<td>Return and productivity by activities; market opportunities</td>
</tr>
<tr>
<td>Participation in labor market</td>
<td>✓</td>
<td>✓</td>
<td>Participation rate; distribution of employment by activities, etc.</td>
</tr>
<tr>
<td>Incidence of self-employment</td>
<td>✓</td>
<td>✓</td>
<td>Distribution of employment by sub-sectors; net returns</td>
</tr>
<tr>
<td>Participation in informal credit market</td>
<td>✓</td>
<td>✓</td>
<td>Could be extended to linkages within credit market and changes in contracts</td>
</tr>
<tr>
<td>Access to public resources</td>
<td>✓</td>
<td>✓</td>
<td>Proportion availing particular resource; Social mobilization to better utilize public resources</td>
</tr>
<tr>
<td>Literacy and education</td>
<td>✓</td>
<td>✓</td>
<td>Proportions; Human capital</td>
</tr>
<tr>
<td>Knowledge and attitude</td>
<td>✓</td>
<td>✓</td>
<td>Proportions; Social capital</td>
</tr>
<tr>
<td>Practices in family planning</td>
<td>✓</td>
<td>✓</td>
<td>Proportions of couples adopting particular practice</td>
</tr>
<tr>
<td>Health—incidence of disease</td>
<td>✓</td>
<td>✓</td>
<td>Proportions affected by various diseases; productivity loss; expenses; etc.</td>
</tr>
<tr>
<td>Access to health services</td>
<td>✓</td>
<td>✓</td>
<td>Proportions</td>
</tr>
<tr>
<td>Sanitation</td>
<td>✓</td>
<td>✓</td>
<td>Proportions</td>
</tr>
<tr>
<td>Women empowerment</td>
<td>✓</td>
<td></td>
<td>Perceptions, expressed as percentages</td>
</tr>
<tr>
<td>Intra-household distribution</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Family/social violence</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Fertility</td>
<td>✓</td>
<td>✓</td>
<td>Population growth</td>
</tr>
<tr>
<td>Capacity to cope with crises</td>
<td>✓</td>
<td></td>
<td>Self-perception, expressed as proportions</td>
</tr>
<tr>
<td>Vulnerability to economic and social shocks</td>
<td>✓</td>
<td></td>
<td>Same as above</td>
</tr>
<tr>
<td>Social protection</td>
<td>✓</td>
<td></td>
<td>Same as above</td>
</tr>
</tbody>
</table>
Many of these individual/household level variables may however be aggregated to arrive at community-level statistics. For example, income or expenditure-based poverty measures or inequality indices are essentially aggregations$^1$ derived from household-level consumption, income and expenditures. Such aggregations are used in arriving at all outcome variables of impact. However, given the predominance of cross-sectional comparisons between ‘participants’ and ‘non-participants’, most studies focused on examining the differences in such aggregations for these two sub-samples and not on aggregations and differences at the community level. Very often, even in cases where this has been done, appropriate sampling weights have not been used.$^2$

There has been increasing unease amongst both development practitioners and researchers with the ‘narrow’ focus on individuals, enterprises and households in most impact assessment studies. There are several reasons for this unease and it is worth discussing them briefly.

Mismatch between micro-level achievements and less than proportionate changes at the macro/national level is one concern (Sobhan, 1999; Rahman, 2001) driving the interest in looking at the wider impacts of microfinance.$^3$ This is especially true in countries such as Bangladesh where poverty remains to be pervasive, the microfinance industry mature and large, and the poverty alleviation promise of microfinance having a firm place in the development policy discourse.$^4$

There is also an increasing recognition that the achievements of microfinance institutions have been underestimated due to failure to take account of some of the ‘wider’ impacts. Increasingly, the issue of wider impacts is being raised in the literature; and many development practitioners also place their hope in finding further justification of their activities once studies on wider impacts are undertaken (Rahman and Khandker, 1996). Moreover, many studies, it is also argued, have a narrow focus in the sense that they look into impacts of individual programs or comparisons across them (Khandker, 1999), and do not address impacts due to presence of several MFIs in the same market/area. However, there is much ambiguity with the usage of the term ‘wider’, and one needs to concretize the concept prior to undertaking any research on wider impacts.

### 2.2 Defining ‘Wider’ as Opposed to ‘Narrow’: Existing Views

The Terms of Reference for this study specify that:

Easiest perhaps is to define them (wider impacts) by what they are not. In this approach wider impacts are those programme effects that do not operate primarily at the level of the individual member and her household. (p. 3)

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$^1$By aggregation, we do not mean merely linear addition of individual/household level outcomes. It involves derivation of proportions as well as more intricate mapping from $\mathbb{R}^n$ to $\mathbb{R}^1$.

$^2$In many of the empirical studies, samples are not drawn randomly, nor are they proportionate in case of stratified samples. In many such studies, sample statistic are reported which are arrived at without assigning appropriate sampling weights.

$^3$Interestingly however, two completely opposite perspectives may arise from the same concern. One may consider the micro-level impacts assessed under the narrow studies to have upward biases since changes in meso variables may be undermining the initial micro-level changes after adjustments. Alternatively, one may consider the number games in arriving at macro aggregates to be inadequate. The latter has underlain several exercises to show contribution of microfinance to gross domestic product (Alamgir, 1999; Mallick, 2000).

$^4$Top management of the leading Microfinance Institutions in Bangladesh have had important positions in several Interim Governments and play an influential role as poverty focused policy advocates. Meta level institutions such as the Palli Karma Sahayak Foundation (PKSF) not only function as a microfinance apex body but is also actively involved in various areas of development policy discourse in Bangladesh.
From such a perspective, which is quite common, ‘wider’ is perceived as all other impacts, which are not included within the narrow focus. In other words, the two sets of impacts, i.e., narrow and wider, are mutually exclusive and their union constitutes the full set of impacts. While the need to look beyond individuals and households is rightly emphasized, we take a different approach in conceptualizing wider impacts. Before delving into that, we provide a brief discussion of the prevailing concepts underpinning ‘wider’ in some of the existing literature.

A number of ideas in approaching the problem of defining ‘wider’ emerge from reading the literature on wider impacts, which is still at its infancy. For example, Woller and Parsons (undated) mentions, ‘Impact can theoretically occur at four levels: the enterprise, the individual, the household and the community’. Their focus on community-level impacts, which includes both direct and induced effects, is one kind of ‘wider’ impact under consideration in this paper.

With a different connotation, ‘community’ is subsumed in ‘local’, the phrase used by McGregor (2000). He develops a matrix between levels and types of impacts, which identifies three levels at which one might explore wider impacts: local, regional and national. McGregor considers four types of impacts, which can take place at all the three levels. These four types of impact are economic, social, institutional, and at policy level. McGregor focuses on the impact types and argues that there are differences in the research questions and in the methodology associated with each of the impact types. He also sees ‘wider’ impacts as involving ‘distant causation effects’, which is distinguished from ‘direct causation effects’ associated with ‘narrow’ impacts.

2.3 Wider Impacts: Towards an Analytical Framework

Two important dimensions in identifying the scope of wider impacts have been noted in McGregor—substance (which McGregor identifies as ‘types’) and space (what McGregor identifies as ‘levels’). In McGregor’s example on economic impacts, there is further elaboration on what may constitute the scope of a study on wider impacts. He notes that,

These (economic impacts) are types of impact that are mediated primarily through the intervention on markets. (p. 3)

There is however no clear indication as to what the end subjects are on which the impacts are being studied—are they households, or, are they market and non-market institutions? Exploring this issue forms the point of departure for the way in which we conceptualize ‘wider’ impacts in this paper.

To present the problem more clearly, Figure 1 below explores the issue in the context of economic impacts, though the basic framework can be extended to conceptualizing other types of impacts, which we do in Section 2.4.

The two parts of Figure 1 suggest two possible ways of defining the scope of wider economic impacts, which are sequentially linked. Each of the boxes captures a cluster of economic activities at any given level. The micro-unit consisting of individuals, households or enterprises are directly influenced by the MFIs, which subsequently affect their participation in one or more markets. In many instances, presence of one or more MFIs in a locality (or at higher levels) directly influences the outcomes in these markets. Thus, say,
A study on wider impacts at the local level, according to Figure 1(a) would look into changes in individual markets; and at the macro economy (within the local level), which is defined as the outcomes of changes in a set of interlinked markets (e.g., relative prices of all goods and services). A number of such local level clusters, in unison, would define a regional level (and, subsequently, national level). However, moving from local to regional (or, from regional to national) would involve not only accounting for the effects of horizontal market interlinkages, but also vertically linked ones, which may only be defined at a regional level (or, national level).

The first approach, as depicted in of Figure 1(a), would only consider the effects on all markets, in isolation as well as within a macro economy, defined as a set of interlinked markets. In this approach, subsequent effects of market changes on households’ well being are not addressed explicitly. This definition of ‘wider’, which we refer to as the ‘narrower perspective on wider impacts’, clearly stands out as one, where the focus is outside such micro units as households and enterprises. Examining this version of ‘wider’ impacts, we feel, is the next logical step, before proceeding to capture all secondary effects, mediated

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6There is much abuse in using the term macro. We differ with the casual reduction of the term to imply national level aggregates of household data (see Figure 1(b)). In the sphere of economic impacts, macro level is identified as one, which includes all markets and their interlinkages. Thus, macroeconomic variables are the outcomes of a ‘general equilibrium’ type multi-market analysis. Note also that such a macro can be identified at the local level as well. However, markets at regional and national levels, which are vertically placed at higher levels, also influence the outcomes in local markets. Therefore, the macro, defined at local level will be truncated in some sense. This is however true even in the case of a national economy, which is open to the global economy.
through markets, which shape the end outcomes at the individual or household levels depicted in Figure 1(b).

The second approach to wider impacts, which we call, ‘wider perspective of wider impact’ takes account of all the iterative feedbacks between micro units (individuals, households and enterprises) and the markets (individual ones as well as all together), and assesses the impacts on individuals and households. This way of approaching the concept of ‘wider’ impact raises the obvious question: if the focus of the exercise remains on individuals and households, how does it differ from the traditional ‘narrow’ focus of existing impact studies from which a departure is being attempted? We argue that in terms of the focus, there isn’t a difference—and one may distinguish the two only in terms of the methodology involved. Many of the impact assessment studies, which are perceived to be ‘narrow’, captures the net changes at individual and household levels, even though the causations remains unclear in these studies. For example, changes in income of a household over a period of time include those mediated through markets as well during a reference period. Many of the so called ‘narrowly’ focused impact studies infer from such change variables, even though most do not show how those changes are brought about.

We have posited two alternative ways of identifying the scope of wider (economic) impacts, as shown in Figure 1—the narrower and the wider views. Given the historical context within which the urge to address wider impacts has emerged we feel that the narrower definition of wider impacts should be addressed first by the development practitioners. This is what we use as the analytical framework to elaborate on the scope of wider impacts for the various types of impacts. In the field of economic impacts, for example, this would require looking into impacts of microfinance on individual markets and on all markets simultaneously, as depicted in Figure 2. These impacts may be seen at the three levels as mentioned by McGregor.

2.4 Using the Framework in other Areas of Wider Impact

So far, we have confined ourselves to areas of economic impacts to lay out our concept of wider impacts, as distinct from conventional narrow impacts, and on possible variants of wider impacts. Similar to McGregor, we also feel the need to distinguish between various types of impacts and consider four broad areas of impacts. We conceptualize the areas of impacts as domains/spheres, each of which is characterized by a set of relationship/engagements and changes in them.

Impacts on the economic domain, for instance, embody the changes in the engagement between households and various markets. Impacts that belong to the social sphere are changes in the social relations between individuals and between groups of individuals living in a society. Impacts on the political domain are those that capture the changes in the engagements between the households and civil society with the State and its agencies.

We include impacts belonging to the cultural domain as a separate impact type, even though one may perceive it to be an underlying theme across all the other three fields. We do not view culture as a set of static human practices and attitudes, which often are alleged to ‘explain’ the unexplainable. We define its scope broadly to include issues such as social

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7 Though most existing impact studies are cross-sectional in nature, they implicitly assume that the ‘programme’ (participant) and ‘control’ (non-participant) households were similar prior to interventions and the observed differences between them arose over the period of the intervention.
perspectives on gender relations. Impacts belonging to the cultural domain are thus changes in the perceptions, values and norms pertaining to relations in all the other three spheres.  

McGregor had included institution as one of his four types, and its importance as an area of wider impact cannot be over emphasized. Facets of institution however arise in all the four areas we mention. We therefore do not add it in the list, but address it in our discussion on all the four areas. We elaborate below the parallel discussion on wider impacts for each of the three non-economic areas.

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8 One could argue that there are impacts pertaining to the cultural domain, which are independent of the other three domains. For example, one may identify elements of culture at household level also. For the purpose of our paper we restrict our attention to outcome variables and processes, which arise in relation to the other three domains.

9 It is worth noting that some view economic impacts to be narrow, and therefore, coin the term ‘wider’ to refer to those non-economic impacts which are beyond households and individuals. We do not subscribe to such view since, as already noted, many economic impacts go beyond households and individuals.

Conventional studies on impacts at household levels generally define the domain of social impacts in terms of all those variables, which cannot be readily measured in financial terms and the impacts of which are of longer term. Thus, they have not only included all those aspects, which refer to social relations between individuals (as in the case of intra-household relation, including gender), but have very often, included the so-called ‘social sector’ variables (such as, housing quality, education, health and sanitation). For at least two other reasons, development practitioners have increasingly focused separately on the social sector, which is the main preoccupation of all the papers in this volume. First, there were (and still are) ample cases of market failure, calling for intervention of the non-market agencies to deliver the social services. Moreover, the public good nature of some of these services justified the connotation of the term ‘social’. A second plausible reason is the fact that the household level economic (financial) variables did not have any unique correspondence with these so called social variables; and yet the potential mixes of the two generated interesting dynamics for outlining the growth/development path of an individual household. Thus, independent effort to enhance the social sector has often been emphasized to break away from the low-income equilibrium trap.

Strictly speaking these ‘social sector’ variables may be argued to belong to the economic sphere in the sense that markets for these services exist. Many of these social variables may be linked up with service markets beyond the households, and may be addressed within economic type of impact. For example, an increase in demand for education and/or health services may be linked with the market for the respective service and one may address the wider impacts in ways similar to that outlined earlier for economic impacts. In spite of this conceptual difficulty, for the sake of continuity, we include these ‘economic-type’ of social services under social impact, even though the broad approach in addressing the scope of wider impact for such ‘social’ impacts would not vary much from that outlined earlier for capturing wider economic impacts.

For our purpose, we also include all those aspects, which refer to social relations between individuals and between groups of individuals, living in a society. Thus, the characteristics of family, intra-family relations, including that of gender relations, are issues to be addressed under social impacts. According to our framework outlined above, wider social impacts would focus on changes in social relations and social organizations. As an example of the former, one may conceive of the traditional social relations to be rooted in ownership of tangible assets, such as, land. Intervention by the MFIs may change social relations, either by introducing non-land resources, which are now being owned by land-poor households or, by de-linking social relations from the pure economic ones through conscientization. A concrete example that may fall in the realm of social organization is the change in the modality of shalish as a conflict-resolving institution as well as its composition and scope. Yet another example, as elaborated in Rao (2001) could be the extent to which microfinance interventions have been able to change the motives behind social expenses, such as in marriage, in moving away from conspicuous to what could be called ‘co-operative’ consumption, i.e. ‘celebrations that are less about

10These markets may be imperfect but that does not make these services ‘social’. Microfinance for instance emerged in response to imperfections in financial markets, but that does not make financial services ‘social’. However, there may well be social elements such as social intermediation involved in activities belonging to the economic sphere.  
11These are informal dispute mediation arrangements usually at the village level. There is now a growing movement in Bangladesh of civil society initiatives in reforming this arrangement to bring justice to the disenfranchised.
showing off and more about maintaining links across families, building bonds, and sustaining webs of obligations’.12

The fourth type of wider impact that McGregor considers is at the policy level. He elaborates on this theme as ‘impacts that consist of the ways in which micro-finance interventions have either intentionally or unintentionally produced changes in the policy regimes in which clients and members are located’. However, we feel that it is not only the ‘changing’ of policy regimes but also the ‘protection’ of civil rights within the existing policy regime that should be included within the wider impact theme. In line with this broad reasoning, we thus consider the third area/type of wider impact to include relation between society (individuals and groups of individuals) and the State. We refer to this as the political domain.

It is merely not the participation in electorates and partisan politics, which exhaust the domain of this relationship—various aspects of this relationship surface in a large number of other areas. For example, several rural studies have pointed at the intimidating and coercive role of the State machineries, such as police and the land administration in rural society. The changes in these relationships can be an important subject matter that should fall under this type of impact, which has not been the focus of what McGregor calls ‘policy’ impacts. In addition to the changes pertaining to day-to-day rights protection of the citizens, we also include, a la McGregor, ‘policy’ impacts such as the emergence of local interest groups to influence local politics, policies and resource allocation at the local level. It also embraces issues pertaining to emergence of common agenda (for action), which ties together different spatially and socially dispersed segments of the society.13

The interfaces between society and politics may be loosely identified to include all engagements between the State and civil society, which give rise to policies and practices, which ultimately shape or regulate activities in the economy and society. We broadly define the encounters with the state, the latter being represented by the judiciary, land administration, UNO, or the police into two:

1. Encounters with the State where the objective is the protection of established rights and rules of the game. These are encounters of individual households with various state agencies, but do not necessarily fall within the purview of narrow impact assessment studies.14

2. Encounter/participation with the State to shape policies, which normally goes beyond households, and surely is a part of wider impacts. For example, changes in the composition of the local electorate, resulting in changes in the quality of policy implementation at the local level, or, in resource allocation.

The relation between society and politics may be perceived at the three levels as expounded in the case of economic impacts. Moreover, for each level, one may identify the corresponding State agencies, electorate, policy domain and social/political organizations. Here, however, as in the case of wider impacts in the economic domain, the idea of the markets and macro economy do not characterize each of the levels. Rather, the corresponding variables here would be issues more of collective action types, such as the

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12 We feel that wider impacts issues pertaining to the social domain encapsulated in social relations, is best explored at the local level. At higher levels, they tend to involve aspects that fall within the cultural and political spheres of our framework.

13 Social advocacy, which addresses state policies, is one example.

14 This is one example where one may argue that wider also includes some of the non-economic issues at the household level.
degree of social (including political) mobilization, whether through formal organization or through issue-specific spontaneous mobilization, or the extent of civil rights achieved vis-à-vis the State agencies, etc.

In this paper, we include culture as the fourth impact type, which is less precise, even though quite frequently uttered. We define culture to include a set of beliefs and practices (including habits), which is generally rooted in a system of knowledge and is relatively invariant over short periods (may even be invariant within one generation). The system of knowledge may be fuelled by institutionalized religion, or, may be inherited from predecessors. Some of the simpler examples would include, attitude towards cleanliness, perception on role of daughters, need for religious education for children, perceptions on husband-wife relations, attitude towards cultural entertainments and participation of women in such programs, etc. Cultures are normally defined at only levels beyond households; and therefore fall within the domain of wider impacts. Note that all the areas of impact we identified here can be examined at the three levels though the higher level variables will not be simple aggregations of the lower levels.

In the economic domain, we argued that there are two routes through which wider impacts take place—one, through credit taking households’ engagements with various markets and two, through the direct engagement of the microfinance institution with the various markets. This is most clear with respect to financial markets (see next section for an elaboration), but can also hold for other markets. This basic framework is also valid for other impact domains. Microfinance institutions in course of their operations engage with a range of local institutions, both formal, such as the local governments and informal, such as shalish. Such inter-institutional engagements can have independent impacts on market and non-market institutions. Research so long has focused on the design and management of microcredit programs without enough attention to the institutional environment in which microcredit programs operate (Snow, 1999; Johnson, 2001). Exploring this theme further is important for the wider impacts agenda.

The preceding discussion identified four broad domains of impacts at three inter-related levels. We have also suggested an analytical framework to understand wider impacts. To facilitate discussion on the proposed framework, we list some tentative themes that could be pursued under each impact area in Figure 3. The next step towards operationalizing the framework developed in this section would need to link the various themes identified under the impact domains with the broad areas of MFI interventions. To this we turn in the next section.

3 WIDER IMPACTS OF MICROFINANCE: LINKING INSTRUMENTS WITH IMPACT DOMAINS

3.1 MFI Intervention Areas

In the previous section, we tried to define wider impacts and identify its scope. In doing so, we extended the focus beyond individuals and households; and identified four broad spheres of impact: economic, social, political and cultural. We also identified three inter-related levels at which these impacts may be assessed: local, regional and national. The concepts and framework proposed had been posed at a sufficiently general level, which may have applicability in assessing impacts of other kinds of interventions as well. This section elaborates the framework in the specific context of microfinance and of various
activities undertaken by the MFIs. In doing so, the various activities of MFIs are grouped into broad categories, and preliminary attempts have been made to trace their effects in the four spheres (types of impacts) discussed in the previous section. With examples primarily in the economic domain, we suggest some of the ways in which MFI intervention (called ‘instruments’) may be linked to the wider impact domains. The idea is to initiate exchanges to chart the multi-directional pathways to wider impacts and also lay the basis for a study design proposed in Section 4.

Figure 4 below describes the broad activities undertaken by the MFIs. Most MFIs in Bangladesh engage in group-formation and provide financial services to group members.16

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15We are aware of a number of themes that are popularly included in the literature on wider impacts, such as, concern with hardcore poor, etc. These could not be logically included within the proposed framework.

16A global microfinance inventory exercise (Lapenu and Zeller, 2000) finds that more than 40 per cent of all MFIs in the world use the solidarity group approach. Just over 6 per cent of MFIs use pure individual lending, while the rest use a mixed approach.
In the former case, they form a subset of the numerous actors who are engaged in social mobilization for economic and non-economic purposes. Similarly, the MFIs provide financial services widening the canvas of the already existent financial market. Some of the MFIs also engage in providing social services, most of which had traditionally been in the public sector domain. There are others who may also engage as economic agents, such as, through providing marketing support to the beneficiaries. In this latter position, which has surfaced more prominently in Bangladesh, the MFIs compete and complement existing private sector initiatives, giving rise to a new set of policy issues. Since the implications of each of these interventions differ, this section elaborates on them, and links them with the broad themes (under wider impacts), identified at the end of Section 2.

The major activity of the MFIs is that of providing financial services, and therefore, this has received greater focus in our discussion (in Section 3.3). However social intermediation through group formation precedes all other activities undertaken by the MFIs, and therefore is discussed at first (Section 3.2). The other two functions, depicted in Figure 4, are cases where the MFIs act as active economic agents (entrepreneurs) in markets other than the financial market. The wider impacts of such roles are discussed in the last sub-section.

### 3.2 Group-based Social Intermediation

Social intermediation has been used as a parallel concept to financial intermediation, which is described most extensively in the microfinance literature by Bennett and...
Goldberg (1993) in the World Bank’s Sustainable Banking with the Poor project. As they define it, social intermediation is a process in which investment is made in the building up of both human resources and institutional capital, with the aim of increasing the self-reliance of marginalized groups, and preparing them to engage in formal financial intermediation.

Formation of small groups, which are federated at the level of a Centre, precedes lending programmes by all MFIs in Bangladesh. The focus on women and group formation among MFIs in Bangladesh are closely related. This has important consequences. Hashemi et al. (1996), for instance, shows how regular group meetings and interactions in a non-kinship based space results in important empowerment impacts for the members. The interactions in these new spaces have also been argued to be important in ensuring high repayment performance. Jain (1996) for instance observes how such social intermediation through the operations of the group instills in its members a credit repayment culture. He goes on to argue that it is this social mechanism that ensures high repayment rather than the much-discussed contractual element of joint liability (Stiglitz, 1990; Varian, 1990; Besley and Coate, 1997). Recently, Mahmud (2001) finds that group characteristics can have important independent influence on household level outcome variables.

Dowla (2001) reports on several studies examining the links between social capital and microfinance. As part of the Social Capital Initiative of the World Bank, Van Bastelaer (1999) examined how social capital reduces the cost of imperfect information that is congenital to microfinance. Seibel (2000) studied the relationship between social capital and Microfinance in the Philippines. In that paper, the author evaluated the effectiveness of using norms such as regular attendance in meetings, insistence on on-time repayment, etc., among Grameen replications in the Philippines. The authors concluded that the successful replicators use ‘hard core social capital of the original Grameen approach’; high moral commitments of leaders based on values enforced through training, peer selection and peer enforcement, and credit discipline (Seibel 2000, pp. 16–17).

The wider impact outcomes of social intermediation by a MFI may thus involve much more than preparing the poor for formal financial intermediation. The authors of a recent toolkit to study social intermediation (Szabo, 1999) for instance argue that interaction within MFI groups can create co-operation and trust that not only facilitate microfinance activities, but also contribute benefits beyond loan access itself. Such benefit may include a greater sense of community, trust and reliance on the group in time of crisis, sharing of valuable social and market information, more positive social practices, etc. The networks and norms created by groups are thereby said to be a positive form of social capital, which in turn, can lay building blocks for other social capital development in a community.

19 Most common small groups have five members. However there are MFIs whose primary groups have 15–30 members. Though group based lending methodology is the most prevalent in Bangladesh, there are also examples of individual lending, such as SafeSave, a savings and credit cooperative working in the urban slums of Dhaka. For more up-market lending, some MFIs have developed individual lending programmes as well, such as the Micro Enterprise Lending Assistance (MELA) programme of BRAC.

20 It is possible that these groups are not ‘new’ spaces embodying a different set of relationships, but get formed within an accommodative mode (Kamal, 1996) group formation process, then, may be an important determinant influencing the impacts and is an area of interest of wider impacts.

21 The discussion and understanding of the functions of the group in microfinance has focused mostly on joint liability. In the last few years, this function of the group has been challenged (Matin, 1998; Ito, 1998; Jain, 1996; Diagne, 1998; Mosley and Hulme, 1996).
We can distinguish between two ways in which social intermediation through group formation and activities can have important implications. The first one is at the level of ‘culture’ as defined in our framework. The very act of getting women who were hitherto excluded from the public domain to form groups, meet regularly, chant slogans and interact with (most often male) outsiders, all done in a way that emphasized the value of the women as having an identity independent from their male guardians, was revolutionary. These acts had far-reaching impacts in bringing about new ways of perceiving of the self, womanhood and relating to various engagements in the realm of the economic, social and political domains.

In the economic domain, for instance, it may affect the perception and definition of what constitutes women’s work and how it is evaluated; influence the attitude towards desired family size, children’s education, household money management or even consumption decisions. Examples of cultural impacts of social intermediation that could affect the social domain of our framework includes for instance attitude towards acceptable age of women’s marriage, domestic violence, dowry, hygiene, or even the perception of and behaviour with outsiders. It could also influence gender norms and roles within the household and beyond or bring about changes in the ways in which the functions of community organizations such as the shalish is perceived and understood.

The second way in which group based social intermediation may be important is by creating a network for sharing and communicating various types of information pertaining to all the three domains discussed in our framework. The group, by providing the poor with a network through which they are able to share valuable information about events in and around the community, builds solidarity relationships among members who may rely on each other during times of difficulty and they are able to talk to each other about social concerns that they may have and share experiences to resolve household problems. These believed benefits of the group go beyond those of micro-credit schemes and provide added benefits that are thought to lead to the further empowerment of the poor.

Larance’s (1999) work provides interesting evidences on how membership in Grameen Bank expands borrowers’ network. Her work aptly illustrates how the Centre meetings are used to expand network beyond immediate family and kinship groups—weak horizontal ties. Many of her respondents reported that Centre meetings enabled them to expand their social and information networks that were used to facilitate economic and non-economic transactions. The members also used the networks to expand social exchanges. These networks eased mobility restrictions for women who were secluded within their neighborhood (bari) where they interacted almost exclusively with their husband’s kin (p. 18). Such mobility outside of their bari to visit others and travel to ‘public’ place in the village is a challenge to the well-established norm of purdah. The network was especially beneficial to women who are married patrilocally. Now instead of going to their natal village for help they could use the network to seek assistance (p. 20).

It is not only the group members who may derive benefits from the networks made possible through group based social intermediation. The MFI or other economic agents in their role as entrepreneurs can also use these networks of numerous producers and consumers spread across the country, a theme which we elaborate later in this section. Through such activities new markets for poor producers may be opened up, or new

22Chen and Mahmud (1995) in their framework to assess gender impact pathways of microfinance distinguish between perceptual pathways and relational pathways. Our distinction between the two ways in which group based social intermediation may have wider impacts is similar.
technologies may be brought with far reaching implications for poverty. These networks can also be used to get rapid information about disasters that can help in building concrete issue based advocacy by the MFIs and other civil society agents; and ensure more effective relief distribution.

The impacts of social intermediation to result in social mobilization however would require the leveraging power of groups and is predicated on the idea that through their groups and their linkages with higher bodies, members have a greater ability to enact change due to their co-operation and strength in numbers. While the benefits of microfinance initiatives to poverty alleviation have been well documented and established, there remains controversy as to the importance of the group lending and group dynamics aspects of many of these programmes. However, the existence of these groups may be argued to be important, particularly to women and other historically marginalized groups, in establishing relationships that spur confidence building, information sharing and coordinated efforts to create change. Exploring this theme will involve examining if the ‘strength in numbers’ theory applies to communities in which microfinance initiatives and MFI projects exist.

The sustainability of social intermediation impacts at the levels of culture, creating information networks or spurring social mobilization is another important issue that needs addressing under the theme of wider impacts pertaining to the social intermediation role played by microfinance. Failure of some groups to sustain themselves has been observed to be quite common. It is also possible that members may have ‘graduated’ from their groups and no longer benefit from the social intermediation provided; if this is the case, it may be important to reveal the level at which this is reached and what possibilities exist for those who exceed these levels. It could be argued that social intermediation, just like financial intermediation requires ‘product’ development and innovations that more closely reflects the changing reality and needs of the group members.

It is important to understand the nature of the benefits derived from investing in social intermediation. If these benefits are like public goods, in the sense that MFIs investing in them cannot ensure control over them, then, it is likely that later entrants into the market would be able to save costs and benefit from the early investments. If this is the case then a case may be made for public subsidizing of early investments in social intermediation. Alternatively, it may be the case that the benefits of social intermediation accruing to a MFI is programme specific. These issues need to be further explored under the wider impacts theme pertaining to social intermediation.

### 3.3 Wider Implications of MFI Financial Intermediation Services

The primary activity of most MFIs in Bangladesh is mobilization of savings and lending money to the members. We consider two different routes through which impacts may be forthcoming. First, MFIs themselves are new actors in the rural financial market, introducing important changes in its composition and in the rules of business. This aspect has received relatively less attention, and will be discussed later (in Section 3.3.2). The more often cited impacts are rooted in the use of loan by the borrowers. While traditional impact studies, focused at the level of the household, trace such uses with changes in household level income and employment, we discuss the implications of such uses for the various meso variables, primarily in the economic domain.
3.3.1 Tracing wider impacts through loan use

Exploring the pattern of loan use can be one important way through which one can examine the possible wider impacts MFI financial services may have on other markets. Empirical studies of recent vintage generally suggest that loan money is used in one or more of the following purposes (Zohir et al., 2001):

1. Consumption
2. Income-generating activities
3. Others:
   a. Expenses on buying land (sell purchase and mortgage-in) and other assets,
   b. Expenses on Child education
   c. Home construction and repair
   d. Medical expenses
   e. Social ceremonies—marriages, etc.
   f. Repayment of past loans and/or forward lending for profit.

We elaborate on the implications of some of these uses in order to arrive at some common understanding of the wider impacts, which arise as a result of relaxed credit constraint at the household level and their engagements with other markets. We do this exercise to suggest some possible pathways through which wider impacts may take place. The idea is to open up discussion and thinking about wider market implications, which can be helpful in formulating concrete hypotheses, appropriate methodology and study design for exploring the most plausible and relevant pathway.

Consumption smoothing. Given that a significant proportion of borrowed money is used for consumption, it is commonly acknowledged that MFI lending helps in smoothing consumption (Morduch, 1998; Pitt, 2000). There are broadly two kinds of consumption/expenditure irregularity, which may be smoothed with increased access to the credit market. The more commonly cited case involves variations in regular consumption as a consequence of variations in income. While this is normally associated with seasonal variations, such irregularity over years is not uncommon. The second case of irregularity arises due to lumpy expenditures, which are independent of time-specific income flows, and whose financing needs to be smoothed. Such lumpy expenses will typically include items cited above under ‘others’. Some of these, such as, expenses on Eid festivals, would fall within the seasonal cycle of a year, while others (such as, medical expenses) may be quite random and unpredictable. We consider only the first case of consumption smoothing, which is largely of seasonal nature.

One may posit two alternative scenarios even under the case of consumption smoothing driven mostly by seasonality. First, one may assume that such smoothing was already prevalent prior to the MFI involvement, which was supported by credit (both cash and kind) flow from informal sources. Such sources include not only the traditional moneylenders, but

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23 In order to verify if there is strong presence of consumption smoothing as an underlying factor to take loans, one may verify the time pattern of loan uptake and assess if it is endogenous to household decision-making.

24 Zohir et al. (2001) finds that the income of the poor households in rural Bangladesh declined during the 1998 flood year, as a consequence of which more than one-fifth of the borrowings from MFIs was spent on consumption. During other years, not affected by natural calamity, the corresponding figure was around 6 percent only.

25 As late as 1991, researchers found Mora Kartik, the slack period of September-October, to have significant bearing on livelihood of rural poor in Bangladesh. See Rahman (1996).
also the local grocers (shopkeepers) and/or informal collective arrangements such as RoSCAs/ASCRAs, etc.\textsuperscript{26} Aside from welfare gains that accrue to the microcredit recipient households due to their ability to have access to a cheaper source for consumption smoothing, the entry of microfinance institutions within the financial landscape of the local economy is likely to have independent impacts.

One wider implication of such consumption smoothing (as a result of switching sources) could be a decrease in certain forms of interlinked contracts such as tied credit (\textit{dadon}) for subsistence consumption, tied agricultural labour, etc. It has been observed that the desire to smooth consumption lies at the heart of many such interlinked contracts (Bhaduri, 1977). These contracts could take on new forms involving new economic relationships. Given that such interlinked contracts are embedded within certain relationships of obligation and reciprocities, changes in the existing contracts are also likely to have an impact on them. Pitt (1996) for instance finds that microfinance tends to almost completely crowd out other forms of transfers received by the participating households.

In the second scenario, the microfinancial services result in net increase in the number of households that are able to smooth consumption.\textsuperscript{27} As a consequence of this, opportunity for regular (round-the-year) employment in the delivery of goods/services will increase; and subsequently the scope of part-time involvement during seasons of peak demand will diminish.\textsuperscript{28} Such changes in the market demand lead to emergence of more permanent establishments serving the market on the supply side. Since these establishments involve overhead costs, the benefits from this change are more likely to be accrued by well-off households. In contrast, the poor are likely to be adversely affected by such market changes since they normally engage in part-time (seasonal) market activities.

\textit{Implications of income-generating activities.} Major income-generating activities, where MFI loans are reportedly used, include, agricultural production, trading, processing and transport, most of which generally fall under self-employment activities. Their wider implications are briefly discussed below.

- \textit{Agriculture:} abstracting from changes in the land rental market (discussed later), greater access to credit is generally perceived to lead to increase in the use of agricultural inputs and raise agricultural production. One would therefore expect larger volume of transaction in the various non-labour input markets and a larger volume of agricultural produce to be marketed. All these would imply a larger size of employment associated with providing market services. This is especially true in cases of poultry and livestock sectors, where some MFIs have had significant involvement. This is

\textsuperscript{26}One interesting question could be to explore the effects of microfinance access on such informal self-help arrangements.

\textsuperscript{27}The informal sources of consumption smoothing are not only expensive but also tend to collapse in the face of local level covariant risks. For instance, Rosenzweig and Binswanger (1993) use data from rural South India to show that an increase in leads to a 35 per cent reduction in farm profits for the poorest quarter of households but has no effect on the wealthiest farmers. This echoes evidence from rural South India that households with large landholdings have little difficulty coping with idiosyncratic income shocks but that the consumption levels of landless households and smallholders decline sharply as income falls (Morduch, 1993).

\textsuperscript{28}To give a numerical example, say, ten persons were engaged during the period of peak demand and only four persons were engaged during the slack period in delivering goods and services to a given market, characterized by extreme seasonal fluctuation in demand. With consumption smoothing, suppose, 7 persons can be accommodated during the first period, while six engage in such activities during the second period. Thus, market condition initially allowed four persons to remain engaged in both periods, which increased to six due to consumption smoothing.
expected to reduce the prices of these produce and open up the market for veterinary services and poultry/cattle-feed. Mixing of traditional technology and semi-intensive and HYV technology in case of poultry may however have negative wider impact if specialized disease gets widespread when two or more breeds are raised in the same locality without adequate safeguards.29

- **Trading**: there is a wide range of activities ranging from marketing of local produce to selling of consumer goods in local markets, which are grouped under trading. Financing of trade activities by the MFIs enable many to establish new marketing linkages, replacing existing intermediaries. Within existing trading activities, MFI loans can replace traditional sources of trade finance (agricultural produce) and this can in turn affect trading contracts. Generally, all these will lead to increased competition in trade and, as a result of reduction in trading margin, will reduce consumer prices (of items brought into the local economy) and increase producer prices (of locally produced items sold elsewhere). The welfare implication of such changes in prices will be mixed.

In many instances, trading (and other self-employment) activities financed by the MFIs are seasonal in nature and provide only supplementary employment and income. This has two important implications: (i) income variability over different seasons in a year decreases (see Zohir et al., 2001) enabling smoothing of consumption; and (ii) due to availability of employment/income during the slack periods, fewer people would seek work elsewhere through temporary migration. The latter effect has several implications in the economic and social domains. First, enabling workers to remain employed during the slack seasons in their place of residence may, under certain conditions, lead to reduction in the wage rate during peak periods.30 This will contribute towards increased production in agriculture. On the social dimension, reduced temporary migration will increase family cohesion, and contribute immensely towards improving the child-upbringing. While temporary out-migration to distant places may reduce, trading activities generally involve more frequent interactions with people in neighbouring villages, which may raise the prospect of social exchange which can in turn create more vertical forms of information networks.

- **Transport**: a significant proportion of MFI loan is reportedly invested on buying rickshaw/van. Normally, such investment is made in areas where appropriate physical infrastructure is already in place. While there may be net addition in investment, acquisition may also reflect transfers in ownership of rickshaws/vans due to MFI loans, that is, rickshaw-puller/laborers turning into self-employed rickshaw-owners by buying rickshaws/vans from existing owners.

Increased investment on rickshaws/vans will lower the price of transport services, which will increase flow of goods and services as well as human mobility. As in the case of increased trading activity, lower transport cost will raise the prices received by local producers and reduce the prices local consumers pay for outside goods.

Depending on the area, engagement in rickshaw-pulling may be a seasonal activity, or, a regular year-round activity. In the former case, the implications would be similar to

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29Chinta the Bengali magazine brought out by UBINIG has had a number of issues covering such issues.
30Such a conjecture may appear to be contrary to the way impacts on wage rate is postulated in the literature (see Khandker and Pitt, 1996). However, with positive cost in labor mobility, one can argue that peak period wage rates will be lower when slack period employment is increased. Such a conjecture however assumes that meeting additional demand during peak period is not constrained by reduction in the inflow of migrant labour from elsewhere.
those discussed for trading activities. In both cases, however, emergence of a separate community of rickshaw-pullers has important implications for the local economy, society and politics; which have hitherto been little studied. As secondary effects on the economy, new employment and income are generated in providing services for repair works and to meet specific demand for fast food, such as those sold in tea stalls. Increased mobility, facilitated by the new mode of transport services, will also have social implications. More importantly, a new coalition between service providers and users may emerge to ensure better maintenance of rural roads.

Wider implications of other loan uses. As an example of wider implications of loan uses within this category we focus on the loan use involving the land market. 31 Recent studies (Sinha and Matin, 1998; Zohir et al., 2001) show that in some parts of the country as high as a quarter of the MFI loan is spent on mortgaging-in land and/or cash rental. 32 Such a trend reflects an urge on the part of the labouring households to ensure employment of own labour through establishing user right over land. On the supply side of the land rental market, it also reflects the demand for cash by landowning households, often to meet expenses for sending members abroad. Flow of MFI credit to the land market therefore will encourage cash rental, raise the rental price and facilitate international migration from richer households. To the extent transfers in the land rental market reflect increase in tenant farming by erstwhile wage labourers, the market for wage labour will get thinner (Pitt, 1999). In cases where there is a switch from wage contract to tenant farming, total production may suffer if access to credit is not matched by ownership of non-tradable complementary inputs (such as, bullock powers). The discussion on wider impacts, by looking at some broad categories of loan use pattern, may be summarized as in Table 2 below.

3.3.2 Wider implications of introducing new financial institutions
It is now widely acknowledged that the MFIs, with their innovative program packaging, have enlarged the financial market, increased the volume of household financial savings, and for good or bad, induced competition in the rural financial market. Moreover, their presence in the forms of formal organizational setups, also have bearings on the local economy and society. In the following, we discuss some of the wider implications of such presence, with examples primarily in the sphere of the local economy.

There was a time when informal lenders—especially, the moneylenders—were considered exploitative; and MFIs were expected to displace them with more reasonable offers to the rural population. Interestingly however, recent studies suggest that informal sources co-exist with the MFIs (Zohir et al., 2001; Rutherford, 2000; Sinha and Matin, 1998) and informal lenders claim to benefit from the presence of the MFIs (Choudhury et al., 2000; Jain and Ghazala, 2000). A number of conjectures may be suggested: (i) nature of lending by the informal sources has changed in ways that now complements the MFI lending within the overall cash management cycle of rural households; (ii) MFI

31 Another area of concern that falls within this loan use category is the expense on social ceremonies, including that on dowry (see Rao, 2001 for an interesting analysis of social expenditure). It is quite possible that it helps in perpetuating the very practices against which the MFIs advocate. It is a tricky issue that needs to be addressed by the MFIs.

32 The research by Gibbons (1994) that examined the long-term impact on Grameen clients found that mortgaging in land was an important and popular investment that enabled graduation. This study later made Grameen Bank lift the official restriction it had on such use of loans.
lending had initially displaced informal sources, but the latter has revived lately due to changes in the workings of the MFI programmes. In either case, part of the benefits from MFI lending is likely to be transferred to the informal lenders; having wider distributional implications. This is also applicable for MFIs competing in the same market, and therefore an industry-wide perspective on the absorption capacity of the local economy is pertinent, which has a number of ramifications from the wider impacts perspective. We raise some of them through an illustration of a simple case below with a focus on the dynamics arising in the domain of the local economy.

For simplicity, we describe the financial flows in the local economy in Figure 5. It abstracts from seasonal variations and from variations across households. Money \( (M) \) lent to households is used for commodity production, which is fully realized in the market (at a

![Figure 5. Flows in Financial Market and Commodity Production: A Simple Model](image)

Table 2. Charting wider impacts through loan use: a summary

<table>
<thead>
<tr>
<th>Loan use</th>
<th>Pathway</th>
<th>Possible wider impacts$^{33}$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumption</td>
<td>Smoothing of seasonal variation in demand for consumer goods</td>
<td>Reduction in tied contracts (e.g., in credit/product market)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Regularity in employment leading to increase in the number of permanent establishments</td>
</tr>
<tr>
<td>Agricultural</td>
<td>Increase in input purchases</td>
<td>Increase in employment and income in trade and service sectors</td>
</tr>
<tr>
<td>Production</td>
<td>Investment on poultry and cattle farming</td>
<td>Demand for new services created, leading to increase in employment and income</td>
</tr>
<tr>
<td>Trade</td>
<td>Increase in the number of traders</td>
<td>Increased competition leading to lowering of trading margin</td>
</tr>
<tr>
<td></td>
<td>Changes in contracts pertaining to supply credit</td>
<td>Changes in the marketing linkages, with possible reduction in trading margin</td>
</tr>
<tr>
<td></td>
<td>Increase in slack season employment</td>
<td>Smoothing of consumption</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Implications for wage rates</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Possible decline in temporary out-migration with social implications</td>
</tr>
<tr>
<td>Transport</td>
<td>Reduction of transport cost</td>
<td>Increased mobility</td>
</tr>
<tr>
<td></td>
<td>Emergence of a new community</td>
<td>Decline in trade margin</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Creates demand for new kinds of goods and services</td>
</tr>
<tr>
<td></td>
<td></td>
<td>New interest group with implications for local society and politics</td>
</tr>
</tbody>
</table>

$^{33}$Welfare gains to the households as a result of consumption smoothing, and increase in household income due to increase in agricultural production, have normally been covered under the ‘narrow’ studies.
value of $M + m'$. Suppose, $m_1$ is amount of interest paid by the household to the lender. Thus, additional revenue retained at the household is $(m' - m_1)$. It should be noted that the household may decide not to use the borrowed money on income generating activities, in which case, $c' = 0$, and therefore, $m' = 0$. The lending sector receives $m_1$, which enables them to access part of the enlarged commodity produced $(C + c')$ in the local economy. Once MFIs, along with their staffs are considered an element in the local macro economy, their expenditure pattern plays important role in shaping the structure of commodity production and relative prices. There are several aspects of wider impacts, which may be highlighted on the basis of this simple exposition, and these are briefly mentioned below.

1. The size of $M$ (revolving loan fund) in the financial market has to keep pace with the household sector’s capacity to engage in sustenance of existing production ($C$) and to produce additional goods ($c'$); and the presence of MFIs, with all the multiplier effects of their local-level expenditure is likely to enhance such capacity. These multiplier effects would constitute part of the wider impacts.

2. Additional effort through non-financial means to enhance this capacity will increase the potential for increasing the size of $M$. An examination of the best ways MFIs can engage (directly or through partnerships) in such non-financial means to enhance absorption capacity is thus important within the wider impacts agenda.

3. Technology and risk (both production and market) are two important elements, which will influence the relative size of $c'$ (additional commodity that the local economy produces) as well as $m'$ (net income from producing $c'$). Potential of household-based enterprises may be severely limited in certain markets, and this may call for promoting enterprises beyond households, which subsequently may weed-out household-level IGAs. Such dynamics should form important subjects of wider impact study.

4. Significant presence of an MFI sector will effect the commodity composition of trade and production, and thereby, the relative prices of commodities. This will have distributional implications, which may constitute a part of a wider impact study.

5. Total cash flow into the local economy is unlikely to remain within that economy (i.e. leakage may be positive) claiming limited real resources that are available. Similar to the example of (financial) resource transfer through land market and migration, there are other avenues through which such transfers take place. These are likely to impact upon other economic spheres at higher levels.

6. Implications of competition among MFIs on the size of $M$ (which is likely to increase), its compatibility with the absorption capacity of the household sector, possible effects on the size of $c'$, size of $m_1$ (through possible reduction in interest rates and decline in recovery rates), etc. are worth looking into within the umbrella of wider impact.

### 3.4 Wider Implications of Other MFI Engagements

We had noted two other routes (in Figure 5) through which MFIs may intervene in the local and higher levels of economy and society. The case of providing social services is well documented in the literature, while the role of NGO/MFIs as entrepreneurs is only recently being recognized (Zohir, 2001; Sen, 2001). The common element in both, from the perspective of the current discourse on wider impact, is the emergence of institutions (in the form of MFIs), which can undertake different economic and social initiatives that go beyond their original agenda.

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34 Note that $m'$ may be zero even when $c' > 0$, that is, a household may fail to sell the goods it produces.
In the process of organizing the rural poor in groups and providing credit to group members, these institutions have developed a corporate-like culture, and control a number of strategic resources, which the private sector in a developing country normally lacks. These include, a network of producers-cum-consumers, financial resources, a body of professionals and wide contacts within and outside the country. This has opened up a wide range of new initiatives, which were beyond imagination only a decade back. Some of the examples include, BRAC’s Aarong initiative, Grameen Uddog’s production and marketing of Grameen Check by organizing handloom weavers, supporting initiatives of rural women with Grameen cell phones, BRAC’s engagement with HORTEX foundation in promoting export of vegetables, BRAC’s partnership with the GoB agencies in the fields of health and education, Gono Kallyan Trust’s grocery shops in Dhaka city marketing produce from Manikganj, TMSS and GUP’s role as agents of private seed dealers in organizing production of soybeans, etc. (Zohir, 2001).35

As a part of the wider impact, it is therefore important to account for the emergence of these institutions with their current (as well as potential) contribution towards promoting economic growth and providing employment. No less important is the fact that emergence of these institutions has induced competition in several markets—with government agencies in the delivery of social services,36 with private entrepreneurs in the production and marketing of private goods, and with formal banking sector in the financial market—which has also helped in transforming the quality of services provided by the traditional actors. The net gains to the national economy may therefore be substantially higher than captured by the ‘narrow’ studies on households only.

While we have largely confined ourselves to the sphere of economy, emergence of these institutions also have far-reaching possibilities in impacting on the social and political spheres. We touched upon some of these in our discussion on group formation in 3.2. Some examples of such activities of MFIs in the sphere of social and political domains include the role played by various MFIs in raising awareness of the electorate, coordinating/partnering with other NGOs for policy influence (for instance CAMPE in the field of education) or to direct benefits (for instance BRAC’s partnership with Ain-O-Shalish Kendra, an NGO specializing in legal aid for poor women), or attracting media attention (for instance BRAC’s partnership with Acid Survivors’ Foundation), etc. Detailed exploration of such possibilities of leveraging the network capital of MFIs through strategic interlinkages and partnerships with other bodies could be an area of wider impacts studies.

4 STUDY DESIGN FOR ASSESSING WIDER IMPACTS:
A FEW ILLUSTRATIONS

4.1 Wider Impacts: Processes and Outcomes

In this paper, we have tried to reveal some of the inconsistencies in current thinking in defining the term and the scope of wider impacts, and have proposed a simple framework

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35Though the examples we draw upon to illustrate our point here is from the Bangladesh experience, there are examples elsewhere. For example, Lever Brothers in India showed a lot of interest in partnering with Self-Help Groups as marketing agents. For elaboration on this initiative see the contribution by Ramakrishna Rao in the Viewpoint section of the CGAP’s Microfinance Gateway (www.microfinancegateway.org). There are other country studies on the theme of linkages between rural credit agencies, agricultural extension and marketing in ESCAP (2001).

36Nanda (1999) for instance finds that microfinance participation positively impacts on the female participants’ own demand for formal healthcare.
encompassing the spheres of economy, society, politics and culture. While the exposition to our framework has been made with references to processes and outcomes mostly in the economic sphere, it is proposed that they can be adapted to the other spheres as well. It is important to repeat that comprehending all the dimensions of wider impacts requires accounting for the processes unleashed by the activities of the MFIs, in which the latter turns out to be an active endogenous element/actor. In spite of this recognition, the value of assessing impacts in terms of outcomes, especially when different interventions compete for limited resources, cannot be underestimated. Noting this dilemma, we lay out in this last section some preliminary ideas on how one may proceed in assessing wider impacts in future research.

4.2 Legacy of ‘Narrow’ Impact Assessments: Can We Make Partial Use of Them?

Impact assessment studies at individual and household levels have often grouped the sample into eligible (poor) and non-eligible (non-poor), and within them, among participants and non-participants. There have also been repeat surveys to show changes (in outcome variables) for each of these groups.\(^37\) Since the benefits of immediate ‘narrow’ impacts are likely to be accrued only by participating households, while wider impacts are likely to be shared by both participants and non-participants, one may attempt conjectures on the trend in divergence between the two groups. We discuss this below to give an exposition of the usefulness of household-level outcome variables, normally addressed in ‘narrow’ studies, in estimating wider impacts.

Suppose \(y\) is a household-level sample statistic, which is considered an outcome variable, and everyone agrees that welfare increases if the value of \(y\) increases. One may consider \(y\) to be average household income, or, percentage of school-age children attending schools, or some other similar variable. Let \(y^{e}_p, y^{e}_n, y^{n}_p, y^{n}_n\) be the value of the outcome variable for eligible participants, non-eligible participants, eligible non-participants, and non-eligible non-participants, respectively. Let us also assume that \(y^{e}_p\) and \(y^{n}_n\) are respectively the average outcomes for all eligible (poor) and all non-eligible households. With these notations, we look for conditions which my indirectly suggest the presence of significant wider impact.

If the first-round ‘narrow’ effect is positive, one would expect \(x = (y^{e}_p - y^{n}_n) > 0\) to hold. Here, \(x\) is assumed to be the size of ‘narrow’ impact. Since household-level outcome variables may only be accommodated within the ‘wider perspective of wider impact’, two alternative conjectures may be made with regards to the relationship between the sizes of ‘narrow’ and ‘wider’ impacts and on how the latter impacts upon the different household groups.\(^38\) First, one may make a simple assumption that the two impacts are mutually exclusive, and therefore the total impact is the sum of narrow and wider impacts. In such a case, if wider impact is the same across participant and non-participant groups, \(x\) (as defined above) would remain constant. However, if the difference as a proportion of any of the group-specific variable, say, \((x/y^{e}_p)\) decreases over time, it would indicate that the size of the wider impact is increasing over time.

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\(^{37}\)The ICDDR, B-BRAC Matlab Study series is a good example of such attempts. The Research and Evaluation Division (RED) of BRAC also has in place two other longitudinal monitoring initiatives pertaining to the health (Health Watch) and education (Education watch) sectors. See http://www.brac.net/resf.htm for a summary.

\(^{38}\)See discussion in Section 2.
There may however be cases where inclusion of ‘wider’ impact does have bearing on the size of ‘narrow’ impact, i.e. they are not mutually exclusive. For example, consider the first group of recipients of MFI credit at an interest rate much lower than the alternative informal source. The ‘narrow’ gain would consider the difference of the MFI interest rate with the pre-MFI interest rate on informal lending. In subsequent period, the interest rate in the informal credit market may decrease because of competition in the financial market, which benefits the ‘non-participants’ as well. Such a secondary effect is not equally availed/shared by both the groups, and therefore, the difference between the two groups, $x$, is expected to decline over time, if there is significant presence of wider impacts.\footnote{Similar analogy may be given in the case of technology or knowledge diffusion from participants to non-participants. Schuler \textit{et al.} (1997) finds that fertility levels were generally lower among women in microfinance programme villages, suggesting a diffusion effect. Rahman and Da Vanzo (1997) also find evidence of diffusion effects of Grameen Bank participants on contraceptive use.} If one wants to further cross-check if wider impacts generally go in favor of the poor or not, one may verify if the difference between the rich and the poor, $z = (y^p - y^e)$ (which is normally positive) diminishes over time.

The above is suggested as a quick and rough exercise, for assessing the presence of wider impacts. However, it is by no means a foolproof one. The wider impacts (in areas beyond households) may not have identical feedback effects on the participants and non-participants. More importantly, methodologically it will be difficult to attribute the changes to MFI activities.

4.3 Examples of Some Doable Exercises

We present three different exercises, which highlight on how one may assess some of the wider impact issues raised in this paper. These are described in Figures 6 to 9. The first three are on impacts in economic sphere, and largely deal with outcome variables, which are quantifiable. The first of these deal with wider effects of loan use by MFI borrowers, while the second two identify a plausible path of estimating the wider impacts of MFI engagement as institutions in financial and other markets. The fourth example takes cue from our discussion in Section 3.2 and describes some of the processes initiated in the cultural, social, economic and political spheres due to formation of MFI groups with

Figure 6. Case 1: implications of MFI loan use
female members. The focus, in this example is on wider impacts on women’s space in all the four interlinked spheres. As may be noted, the emphasis here is on the process, even though some of the outcome variables are identified in each sphere. We briefly discuss each of the exercises below.

**Case 1: Wider Implications of Loan Use**

Ideally, one needs to approach the problem within the framework of a multi-market model. One could also construct a micro-CGE framework to assess the wider impacts at meso levels and end-effects on groups of households. For the purpose of elucidation, we identify the important markets (in the first column in Figure 6), which a partial exercise may look into. The second column identifies the meso-level outcomes, from which one may arrive at aggregate impacts on a number of key statistics. The latter are quantifiable, and with
appropriate distinction between household groups, may be used to infer on the distributional consequence of the wider impacts.

**Case 2: Wider Impact of MFI Engagement as New Institutions**

As noted in this paper, this aspect has received little attention. It is our contention that the microfinance institutions, as they are now, have evolved through a long process of their engagement in financial and non-financial services to the poor community in Bangladesh. Thus, these institutions are themselves outcomes of the process initiated through their
microfinance engagements. Figure 7 and 8 distinguishes the role of these institutions as provider of financial services from their engagement as entrepreneurs in non-financial markets. Accordingly, the outcome variables, most of which are quantifiable, have been charted separately. Unlike the first case, there are fewer problems with attribution in this case.

Case 3: Wider Impact of Group Formation on Women’s Space
This case departs from the previous two in its focus as well as in the method to be applied. The purpose is to capture the process since there are iterative feedbacks across all the spheres and across the identified outcome variables within each sphere. The suggested list of outcome variables, however, may capture the state at any point in time. Unlike the other two, no numerical value may be assigned to the outcome variables, which would have monetary equivalence. Some of the variables are however quantifiable, information on which may be easily gathered. Collection on the rest requires non-quantitative techniques.

REFERENCES


