

# Assessing the Impact of Innovation Grants in Financial Services

## **A six million-dollar research project implemented by the IRIS Center and Microfinance Opportunities**

*Assessing the Impact of Innovation Grants in Financial Services* is a five-year, six-million dollar project awarded by the Bill & Melinda Gates Foundation to the IRIS Center, an advisory group located in the Economics Department at the University of Maryland, College Park. Microfinance Opportunities, a Washington, DC-based microenterprise resource center, is an integral part of this project. The project will be co-directed by Dr. Dennis Wood (Executive Director of the IRIS Center) and Dr. Monique Cohen (President of Microfinance Opportunities).

### **Context: The need for a better understanding of the impact of financial services on the poor**

Measuring the impact of financial services on the welfare of the poor has long been a challenge in the development field. Despite many attempts at documenting its effects, debate continues about the extent to which microfinance matters and for whom. With increasing diversification of products, services, and business models in the microfinance industry, assessing impact has become even more challenging.

This project seeks to learn more about the impact of different innovations in financial services on poverty and assess their potential for sustainability and scalability. The key questions posed are:

**Poverty** — Can the innovative business models act as powerful tools to alleviate poverty in the project countries?

**Sustainability** — Can the proposed innovations be provided in a financially sustainable way, while increasing outreach to populations living below the poverty line?

**Scalability** — Can the proposed innovations be massively and rapidly expanded to reach the unbanked poor?

### **Examining the impact of innovative financial services models on poverty, sustainability, and scalability**

This project will study the impact of awards given by the Bill & Melinda Gates Foundation to organizations that will deliver new financial products and services to new markets. Each organization is applying a unique approach in multiple settings. The impact assessment team is examining the following projects for:

**ACCION International:** the use of a commercial approach to microfinance, through its partnership with a bank or finance company in urban India.

**Aga Khan Agency for Microfinance:** the design and delivery of new types of microinsurance and savings services in Pakistan.

**Development Alternatives, Inc.:** the transformation of a state-owned bank into a commercial bank focused on the low-income market.

**Opportunity International:** the development of rural service channels and information technology such as POS devices to deliver savings, credit and transfer services in Malawi.

**Pro Mujer:** the introduction of tailored products (entrepreneur loans, agro-commercial loans, and a financial product directed at youth) to new markets in Peru.

Since Freedom from Hunger's grant includes a substantial impact assessment component, the IRIS Center and Microfinance Opportunities will advise on the design of the research and methodology.

**Freedom from Hunger:** the introduction of health protection services designed to complement existing financial products and health education.

### **Two learning agendas: *proving impact and improving program operations and effectiveness***

**Proving impact** — The Bill & Melinda Gates Foundation has set a goal of reaching “300 million poor households using sustainably delivered financial services by 2020.” To achieve this end, the Foundation must understand the impact of grantee business models, as well as how each model can cover its costs and expand and deepen outreach in a timely manner.

**Improving program operations and effectiveness** — A better understanding of impact, access to financial services, and the operating environment will help financial services providers improve financial products, delivery systems, and operations.

IRIS and Microfinance Opportunities' approach promises to make a significant contribution to the study of microfinance in the following ways:

**Adapt a consistent methodology – with local adjustments – to a wide variety of business models, products, and countries** — Quantitative and qualitative data will be collected using common categories of indicators to measure impact at the levels of the client, household, enterprise, and community. The project provides a unique opportunity to collect large-scale panel data, which will enable a rigorous econometric analysis of the findings.

**Integrate a range of qualitative and quantitative methods** — This project will combine household impact and poverty level surveys with a range of qualitative methodologies. The latter includes loan and insurance use studies, exit interviews, financial landscape analyses, and institutional and enabling environment assessments, as well as new approaches such as financial diaries.

**Conduct a comparative analysis of diverse business models and their product-service mix** — Past studies have largely focused on the provision of microcredit through single interventions within a limited geographic area. This project is unprecedented both in its scale, i.e. the number of projects and locations covered, and in its scope, i.e. the comprehensive assessment of business models, combinations of products, and delivery methods.

**Measure changes in levels of absolute poverty** —To do this, the project will develop country-specific surveys (“poverty tools”) that can be used to measure changes in poverty levels of clients over time.

**Consider how access to and use of financial services lead to impact** — This assessment seeks to explain how impact is achieved by looking at how access to and use of financial services leads to impact.

**Study the use of microinsurance by low-income households to reduce vulnerability** – Microinsurance is a new financial product and, to date, there has been no systematic study of its impact on low-income clients.

**Examine the role of the enabling environment** — This assessment will shed light on the role of the enabling environment in shaping impact.

**Link institutional-level performance to client-level impacts** — By simultaneously and rigorously measuring client-level impact and the financial performance of the institutions, this assessment will lead to a greater understanding of the relationships among institutional scale and sustainability, client outreach, and client impact.

### **A commitment to transparency and open communications**

The IRIS Center and Microfinance Opportunities have made a commitment to transparency and open communications to ensure that the knowledge generated will be widely disseminated and accessible. The partners will establish a project website and will document and share interim learning through case studies, notes from the field, concept notes and progress reports. The exact nature and form of these communication activities will be determined as the project gets underway and refined based on stakeholder and community input. Publishable results will be made available throughout the five-year project.

### **More on the project partners**

#### **The IRIS Center**

IRIS is a non-profit policy research and advisory center dedicated to facilitating economic growth and improving governance in developing and transition countries. Located in the Economics Department at the University of Maryland, College Park, IRIS partners with international donors, foundations, reformers, and scholars to conduct research, design and implement programs, and promote the sharing and application of innovative ideas. Based in economics, but taking an interdisciplinary approach, IRIS focuses on the role of institutions — the formal and informal rules by which individuals organize economic, political, and social activity. IRIS's main areas of expertise include economic and institutional analysis, enterprise development, governance and civil society, and legal and regulatory reform. Learn more about IRIS at [www.iris.umd.edu](http://www.iris.umd.edu). Learn more about the University of Maryland, College Park, at [www.umd.edu](http://www.umd.edu), and more about the College of Behavioral and Social Sciences at [www.bsos.umd.edu](http://www.bsos.umd.edu).

#### **Microfinance Opportunities**

Microfinance Opportunities is a client-driven microenterprise resource center that seeks to increase poor people's access to high-quality financial services through action-research, training, and technical assistance to microfinance institutions. A non-profit established in 2002, Microfinance Opportunities focuses on financial education, risk management innovations including microinsurance, and client assessment, which includes market research and impact assessment. To achieve its objectives, Microfinance Opportunities forms partnerships and works collaboratively with a range of local and international partners, including Freedom from Hunger, The MicroInsurance Centre, and MicroSave. Microfinance Opportunities is based in Washington, D.C. Learn more about Microfinance Opportunities at [www.microfinanceopportunities.org](http://www.microfinanceopportunities.org).

#### **The Bill & Melinda Gates Foundation**

The Bill & Melinda Gates Foundation works to promote greater equity in four areas: global health, education, public libraries, and support for at-risk families in Washington state and Oregon. The foundation joins local, national, and international partners to ensure that advances in these areas reach those who need them most. The microfinance grants are part of the foundation's Strategic Opportunities division, which includes special opportunities and potential new areas of giving. Based in Seattle, the foundation was created in January 2000, through a merger of the Gates Learning Foundation, which worked to expand access to technology through public libraries, and the William H. Gates Foundation, which focused on improving global health. Led by Bill Gates' father, William H. Gates Sr., and Patty Stonesifer, the foundation has an endowment of approximately \$31.7 billion. Learn more about the Gates Foundation at [www.gatesfoundation.org](http://www.gatesfoundation.org).