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**“RESEARCH PAPER ON THE
SOCIO-ECONOMIC OUTCOME
MANAGEMENT OF
MICROFINANCE SERVICES IN
PALESTINE”**

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Abbreviations and Acronyms

AICS	Italian Agency for Development Cooperation
CSR	Corporate Social Responsibility
e-MFP	European Microfinance Platform
FIN PAL	Financial Inclusion in Palestine
FSP	Financial Service Provider
GiZ	Gesellschaft für Internationale Zusammenarbeit – German Cooperation
MFI	Microfinance Institution
MIS	Management Information System
PMA	Palestine Monetary Authority
RCT	Randomized Control Trials
SG	Social Goal
SPI4	Social Performance Indicators Tool
SPM	Social Performance Management
SPTF	Social Performance Task Force
TA	Technical Assistance
USSPM	Universal Standard of Social Performance Management

1 Executive summary

The paper aims at designing the architecture to manage outcome, proposing a set of indicators and two alternative approaches, tailored to the Palestinian context (but customizable for other countries).

This paper is strongly positioned as a pioneer in the growing literature of measuring the changes at client level thanks to the innovative perspective of involving the whole industry in a systematic way, with a shared and agreed methodology. At the moment, in no other country worldwide this is carried out at industry level, but impact and outcome measurements are performed occasionally, mostly at institutional level, and/or external driven (donors/investors).

This study will be presented and discussed at the upcoming first international conference on microfinance that will be held in Ramallah in May 2017 to gather feedback and general consensus from the whole microfinance industry.

The paper is structured following the steps below:

- Identification of the international best practices related to the socio-economic impact/outcome measurement/management in the microfinance sector and assess related existing practices in Palestine;
- Provision of an overview of the Social Performance Management (SPM) status in the microfinance sector in Palestine;
- Recommendation of a set of indicators to be monitored by all MFIs in Palestine, and propose two methodologies to manage the socio-economic outcomes.

The set of indicators proposed in this paper is an elaboration of MFR's research based on a multi-dimensional processing of information from primary and secondary sources, desk review (data from MFIs, internal documents, analysis of existing literature), opinions and feedback gathered from the stakeholders interviewed. Two field visits in Palestine, one in December 2016 and another one in January 2017, were organized and practitioners at different level of interventions were met

2 Project framework and objectives

In the framework of “FIN PAL – Financial Inclusion in Palestine” Program (AID n.10895), financed by the Italian Agency for Development Cooperation – Jerusalem Office (AICS), MicroFinanza Rating Srl was engaged to develop the assignment “**Research Paper On The Socio-Economic Impact Measurement Of Microfinance Services In Palestine**”.

This study will be presented and discussed at the upcoming first international conference on microfinance that will be held in Ramallah in May 2017 to gather feedback and general consensus from the whole microfinance industry.

The paper aims at **designing the architecture to manage outcome**, proposing a set of indicators and two alternative approaches, tailored to the Palestinian context (but customizable for other countries).

The **overall objective of this assignment has been slightly modified from the original request and will focus on how to MANAGE (and not MEASURE only) socio economic OUTCOME rather than IMPACT**, aligning the research paper with international best practices (for more details see paragraph 3.1).

This rephrasing is important for the following reasons:

- While “*measuring*” refers to analyzing the data making a photography of the current situation, “*managing*” has a wider meaning, it includes the analysis and most important the use of data to improve performance.
- It is preferable to refer to “*outcome*” because in general “*impact*” study requires lot of efforts in terms of human and financial resources, and are too complicated and costly for the industry to implement.

Despite these changes, this paper is strongly positioned as a **pioneer in the growing literature of measuring the changes at client level** thanks to the innovative perspective of involving the whole industry in a systematic way, with a shared and agreed methodology. In addition, the potential contribution from the regulator, the Palestine Monetary Authority PMA, as a driver for this initiatives, enriches the discussion as it can produce benchmarks and can define thresholds to guide and direct the microfinance sector.

In doing this, the sector will be able to demonstrate where it positions in serving poor and marginalized clients, and measure their socio-economic changes over time. In addition, in the long term it can define a strategy to improve the social performance of MFIs. At the moment, in no other country worldwide this is carried out at industry level, but impact and outcome measurements are performed occasionally, mostly at institutional level, and/or external driven (donors/investors).

The paper is structured following the steps below:

- Identification of the international best practices related to the socio-economic impact/outcome measurement/management in the microfinance sector and assess related existing practices in Palestine;
- Provision of an overview of the Social Performance Management (SPM) status in the microfinance sector in Palestine;
- Recommendation of a set of indicators to be monitored by all MFIs in Palestine, and propose two methodologies to manage the socio-economic outcomes.

3 Socio-economic impact/outcome measurement/management

3.1 Definition of socio-economic outcome management

Given the key changes mentioned above, it is worth to highlight and discuss about the following differences:

- 1) outcome and impact, and
- 2) measurement and management.

Briefly, we can generalize that **FSPs aim at achieving a social mission** characterized by reaching a defined target (**Social Goal 1: WHO?**), through sustainable services and products tailored to clients' needs (**Social Goal 2: HOW?**) in order to generate benefits to the final beneficiaries (**Social Goal 3: WHY?**).

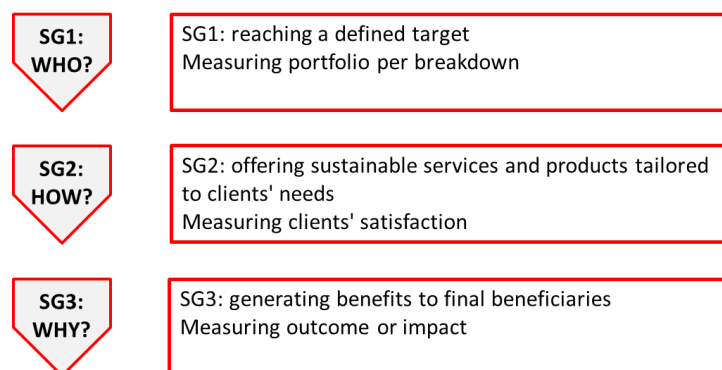


Figure 1. The three components of the social mission and main methods to measure them

To assess the outreach and ensure that the institution is reaching the intended clientele (SG1 – social goal 1), the FSPs can monitor its portfolio per breakdown (that can be gender, geographic location, income level, etc.). SG 2 can be measured through marketing researches (for instance client satisfaction or drop out surveys) to verify that the clients are served with appropriate products and services. And finally, outcome and impact studies can be carried out to demonstrate which are the improvements among clients (SG3).

Therefore, this research paper positions in the literature of measuring (and managing) the third social goal, namely the impact/change of clients in terms of, given the Palestinian context, eradicating poverty or improving living standards. Focal point of the study is the outcome, rather than impact, mostly because its analysis is characterized by less complexity and required less resources (both in terms of financial and human capital).

- **Impact measurement** is an academic research that refers to the analysis of changes establishing a relationships of cause and effect between a given intervention and the obtained results. Data collection requires rigorous assumptions and strong methodology (monitoring information on the target groups - clients of FSPs - and control group - non clients) that are costly and time consuming; in addition, data analysis is based on robust statistics knowledge to carry out econometric studies (regression analysis).
- **Outcome measurement** refers to the analysis of changes, that are likely linked to the intervention, but no counterfactual connections can be established, indeed changes can be attributed to other factors, such as macroeconomic or politics dynamics. Nevertheless, it can be feasibly and reasonably implemented, producing results plausibly close to the impact analysis.

So, while outcome measurement determines the “change for clients that is *PLAUSIBLY* associated with the FSP services” (SPTF, 2016); impact analysis is able to attribute *CAUSALITY* for that change.

Moving forward, this study also proposes not to focus only on measurement but to look at the whole picture of managing the performance.

Measurement itself refers to the act of collecting information and analyse it. On the other side, **management** is a more complex activity, where measurement is a part of it, that serves to think strategically using the information to improve the internal processes and move towards the achievement of the social mission, as described in the graph below:

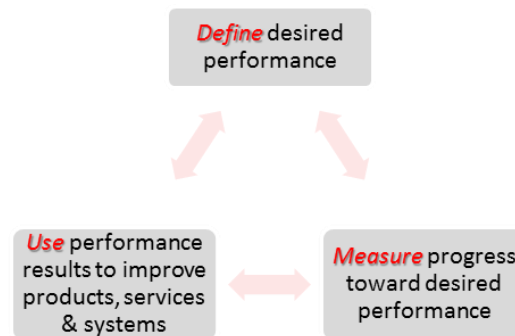


Figure 2. Process of social performance management

Therefore, this research paper focuses on **Outcome Management**, defined as “a multi-step organizational system for the collection, analysis, and use of outcomes data” (SPTF, 2016). For literature reference, please consider the following papers, newly published from a pool of microfinance practitioners, that provide guidelines and report case studies on how to design the architecture for outcome management:

- Guidelines on Outcomes Management for Investors (e-MFP and SPTF, 2016);
- Guidelines on Outcomes Management for Financial Service Providers (SPTF, 2016);
- Making the Case for Outcomes Management to Financial Service Providers (SPTF, 2016).

3.2 International Best Practices

In terms of having an architecture for measuring/managing the outcome or impact at industry level, **internationally there are few cases that are worthy to be mentioned** and that can be used as a reference point for this study.

On the other side, in terms of punctual **outcome or impact evaluation studies the literature is rich** of methodologies and approaches (mostly randomized controlled trials (RCTs), quasi experimental, qualitative studies, and social performance measurement). Evidences from country to country differ and animate interesting debates on the capacity of microfinance to achieve its social goals and produce positive impact.

Given the level of development of the microfinance sector, **Latin America probably offers a good insight on best practices** to our discussion. In Bolivia and Nicaragua there are some initiatives where the regulator plays an important role in controlling, regulating and supervising not only financial but also social performance. In Peru rather a pilot study under process aims at defining a system to measure outcome at industry level.

BOLIVIA

In Bolivia in 2013, ASFI, the National Central Bank, aligned with the National Strategy of financial inclusion, issued a New Financial Services Law (N. 393 August 2013) that establishes significant changes in financial regulations.

It introduced the **concept of “social function”** of a financial services that plays an important role in "achieving the objectives of integral development to improve living standards, eradicate poverty and socio-economic exclusion of the population.

In addition, ASFI has issued the **Corporate Social Responsibility (CSR) Regulation** for FSPs (under the 393 Law) according to which institutions should have a SPM system and corporate social responsibility in place, and enforced FSPs to produce a CSR Report together with the financial statements on a year basis.

Concretely¹, it requires that FSPs ensure high level of transparency and define the objectives and principles, demonstrate that are embedded in the institutional strategy, hence mentioned in the business plan that should be approved by ASFI, define targets and indicators to be monitored. ASFI also defines a sanctions regime and infractions for non-compliance.

NICARAGUA

In Nicaragua in 2011, the Central Bank established a National Microfinance Commission (CONAMI)² to regulate, promote and supervise the microfinance industry and strengthen its “Solvency, Development, and Social Performance”.

In 2016, it issued the norm on “Standard on Social Performance Management for Microfinance Intermediary Financial Institutions”³.

The regulation framework evaluates the level of SPM development and implementation, assigns a value and accordingly offers some **incentives for the virtuous FSPs that have in place good SPM system and comply with the USSPM standards** certified by external auditors. According to CONAMI, SPM system includes having defined: social mission and vision (Statute); indicators and monitoring system; alignment also with client protection principles.

Benefits are in terms of access to finance (through its fund PRODUZCAMOS or other public funds) and technical support offered by CONAMI.

These mechanisms differ from the model that is being proposed here for one main reason: for Palestine the indicators will be set at industry level, and not at institutional level. This sounds like Palestine will **measure the social goals of the industry as a unique entity**, rather than of one single institution. On the other side, a common feature is rather about the **role of the regulator that wants to influence the market** and indicate the direction where to go. While Bolivia penalizes the FSPs not compliant with the regulation, Nicaragua adopts a different approach of rewarding the virtuous institutions.

¹ Reglamento Para La Función Social De Los Servicios Financieros Y Modificaciones Al Reglamento Para El Envío De Información, Al Anexo 1 Del Reglamento De Aplicación De Multas Por Retraso En El Envío De Información Y Al Reglamento De Responsabilidad Social Empresarial. Circular ASFI, 428/2016, 31 October 2016.

² Law No. 769: "Law on the Promotion and Regulation of Microfinance", June 2011.

³ Norma sobre Gestión de Desempeño Social para Instituciones Financieras Intermediarias de Microfinanzas, 23 February 2016.

PERÙ

In Perù, SPTF is piloting an initiative, similar to the one object of this study, measuring the outcome of several financial service providers (FSPs). Indicators have been chosen among a comprehensive list built by SPTF Outcome Working Group on Resilience and Vulnerability of final beneficiaries.

Currently, SPTF's team is still in discussions with the interested FSPs to clarify their theories of change, fine-tune indicators they will track, and develop a system for outcome data management (i.e., collection, analysis, reporting, and use).

The rationale behind this study is to test the model first with a limited number of institutions and replicate it at industry level based on the lessons learnt from this experience.

3.3 Existing studies in Palestine

Palestine presents a limited range of studies on outcome/impact measurement on the microfinance sector, carried out by the MFIs itself, rather there are a number of studies from external agencies or academic research centres. At the end of the paragraph a list of some selected studies.

In 2012, **ASALA has carried out:** *“Listening to Clients: Impact Assessment of Asala’s services in the West Bank and Gaza Strip”* with the support of an external consultant for the design phase. It is a survey carried out using a representative random sampling rule (on the basis of geographical distribution), involving active and drop-out clients. In total 1,273 people were interviewed in West Bank and Gaza Strip, 9 FGDs carried out and 20 case studies collected (with a slight difference in the number they have planned). The study adopted a mixed approach:

quantitative analysis through a questionnaire that was asking for economic, familial, interpersonal and social-cultural conditions; and

qualitative analysis through the collection of case studies looking at more personal opinion and clients’ perspective.

Main area of analysis for the impact study were the following:

- **Economic conditions:** Job creation and change in turnover and/or income;
- **Gender Empowerment:** Increase engagement in decision-making process or in social life activities (in the community or feeling more appreciated), change in the family roles, decrease in violence, improvement in attitudes (increase self-esteem, inspiration, etc.).

Between 2012 and 2013, **REEF has carried out internally some researches**⁴, defined as impact studies, based on survey with random sample, stratified by geographical area. These are mostly descriptive analysis of the clientele and the portfolio with some breakdowns in terms of socio demographic characteristics and economic features (and change over time of the portfolio, not of the clients’ situation). Some areas are interesting for the literature of outcome studies, for instance, the studies measure the perceived change of **borrowers in their financed activities, as well social life**, and perceived change of women in their **role in family and/or in the financed activities**.

⁴ Impact of Reef financing and its contribution to improve and enhance the economic / productive and social role of rural women (2012); Impact of Financing / loans of Reef Company and its Contribution in Promoting Sustainable Agricultural / Rural Development (2012); Developmental Impact of Reef Company Loans On the Economic and Social Dimensions of Farmers' and Peasants' Life between 2010 and 2012 (2012); Impact of Reef Loans on Food Security In Palestinian Rural Areas Between 2011 and 2013 (2013).

In 2014, a student of the Applied Statistics Master Program from **Birzeit University, with the collaboration from FATEN, carried out a study** “*Microfinance Impact Assessment: Households’ Social & Economic empowerment, FATEN as a case Study*”. The survey includes 368 business people, randomly selected among the active clients of FATEN, using a stratification rule based on gender, loan size and economic activity. The analysis focused on two main areas that were assessed as positive change perceived by the respondents:

- **economic level**, in terms of income and expenditure, savings, assets accumulation, improved economic activity by employing a new staff; and
- **social level**, in terms of resilience, independence, family stability and decision making, communication, managerial and financial skills, health care and nutrition.

From these reports in Palestine, taken as case studies, the following **main lessons learned** can be drawn:

- Required **external support** at least for the design phase – that is the most technical and determinant part of the study to ensure that inference from the survey sample to population (clientele basis) can be done;
- Difficulties to carry out inference for **qualitative analysis** (that are more subjective therefore not possibly to attribute to the entire population);
- When **baseline lacks**, there are difficulties in measuring the change, but rather “what clients perceive as a change” can be measured;
- **Logistics problems** that hampered to follow up the plan.

Another issue, not mentioned in these studies but worthy to highlight, refers to our initial preamble on measuring outcome versus impact: **these studies**, even though called impact studies, **are not set to verify the existence of causality relationships** (for instance no control groups are used, no correlations are studied, no identification of instrumental variables, exogenous or endogenous variables, etc.) therefore results **could be caused by any other factors** (macroeconomic context, specific policy, etc.), and no assurance is about the influence from the financial inclusion. In addition, being carried out once, these studies **do not measure the changes but what the clients perceived has changed** in their lives or business. No baseline and end-line have been built to compare the findings before and after.

Other impact studies carried out in Palestine:

- Economic and social impacts of the ACAD's action for Palestinian farmers in the West Bank, Center of Study and Research on International Development (CERDI) - 2011⁵.
- The Role of fund on small business development, case study women business financed by NGO's in Gaza strip. Thesis by Haneed Dammagh in Alzahar University, Gaza (Dammagh, 2010).
- Impact Assessment Study of Micro-Credits on Palestinian Women, study by Optimum for Consultation and Training (Optimum for Consultation and Training, 2009).
- The factors affected in the productivity of Small Industries in Palestine (An applied study to the small Metal Industry in Gaza Strip). Thesis by Mohammad Nofal in Islamic University in Gaza (Nofal, 2006).

⁵ <http://www.acad.ps/files/studies-publications/Report%20english%20socio%20economic%20impact%20of%20cooperative%208%202011.pdf>

3.4 Benefits for Palestine to set up outcome management system

In implementing the outcome management system, the Palestinian microfinance sector can gain important benefits first of all by **gaining awareness of the status of the sector**. MFIs in general assume to be aligned with their own mission, but it is only through activities of monitoring that it can be effectively demonstrated. In doing this, MFIs will be encouraged to monitor their social goals, avoiding potential mission drift and ensuring alignment with their mission. In addition, knowing what is the extent of the change in clients' lives in terms of poverty eradication and improvement of living standards, MFIs can **set recommendations and put more efforts to improve their performance** and generate stronger changes at clients' lives with more appropriate products or services.

At industry level, aggregated and regular data and information can be useful to **create benchmarks** to verify MFIs positioning and can also be useful to **set thresholds** for MFIs to achieve defined results.

In addition, this initiative will **build a good sector reputation**, potentially **attracting social donors and investors**. Regular studies will also create transparency within the sector and increase the availability of relevant information to make prudent decisions for investors. This will improve transparency and accountability and decrease the reputational risk.

4 Financial inclusion and SPM systems in Palestine

4.1 Overview of the microfinance industry and financial inclusion in Palestine

The financial sector in Palestine is characterized by a **low level of formal penetration, although a slight positive trend in the last few years**. In 2014⁶, only 24.2% of the population could be considered as banked⁷, which is a modest increase compared to 2011 when formal penetration stood at 19.4%. **Important disparities emerge among different segments**: youth (10.6%), people in rural areas (15.2%), the poorest segment of the population (16%) and women (21.2%) are the least served from the formal sector. Also formal **access to credit and savings is very limited** (respectively 4.2% and 5.1%).

The microfinance sector is relatively young, under development and characterized by a rapid growth (37.1% in 2016). It **counts six microfinance institutions** (4 for profit and 2 non-profit companies), **one UN program, UNRWA**.

An important role in terms of improving financial inclusion is also played by several credit and savings cooperatives, 11 of them under the same umbrella of a union, namely UCASC. Credit and savings cooperatives are relatively young in Palestine and they are not formally considered financial institutions as they are not under the PMA supervision but under the Ministry of Labour.

As of December 2016, the MFIs reached 86,083 clients of which 37.9% women, with a network of 89 branches countrywide, in West Bank and Gaza, and mostly concentrated in rural area (47%), the remaining 40% is in urban areas and 13% in refugee camps. The total outstanding portfolio is 216.2 million USD with an average loan of about 2,500 USD.

The main financial sources of the Palestinian MFIs are mainly represented by international donors (through donated equity) and the remaining part by local and international commercial funds (through debt).

In early 2014 a funding initiative, called “Start Up Palestine”, has been launched. This is a three-year bilateral initiative jointly implemented by the Ministry of Finance & Planning, the Palestinian Fund for Employment and Social Protection (PFESP) and the Italian Agency for Development Cooperation – Jerusalem Office through a EUR 14M credit line activated in February 2016⁸. The program aims at promoting access to credit for micro, small & medium enterprises (MSMEs) among socio-economically marginalized groups as women, young graduates and small-scale farmers.

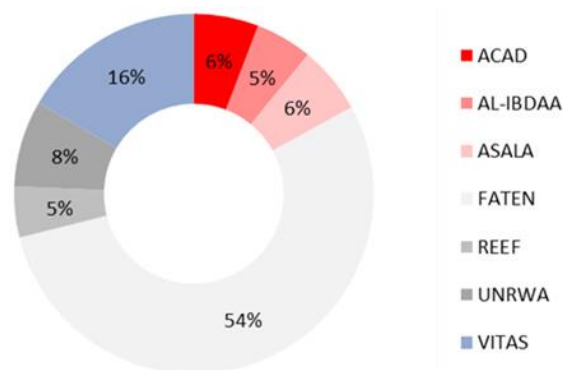
The microfinance environment is characterized by a supportive regulation endorsed by the **Palestine Monetary Authority (PMA)** that regulates and monitors the sector since 2011, mainly with the *Presidential Decree No.(132) of 2011 on Licensing and Supervision on Micro-finance Institutions*. Worthy to mention are circular and instructions, including the “license and control of specialized lending institutions’ code” that formalized the sector and asked to the main players to transform from NGOs to MFIs, aligned them to some directives on legal requirements and prudential guidelines. The sector is also supported by the Credit

⁶ World Bank Global Findex (Financial Inclusion Database) - <http://datatopics.worldbank.org/financialinclusion/>

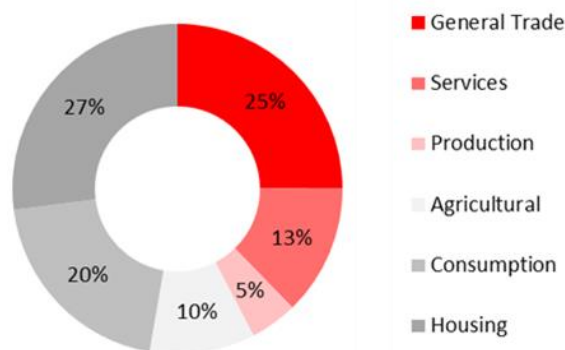
⁷ Proxy by account at any financial institution.

⁸ Azzalini M., D’Agnanno A., Musleh M., Pagani C. 2016. “Start Up Palestine Credit Line: Outreach, Impact and Way Forward”. Economic Development Policy Brief n.2. Italian Agency for Development Cooperation – Jerusalem Office.

Registry, launched in 2006 by PMA, that support them in monitoring/managing the credit risk more efficiently.

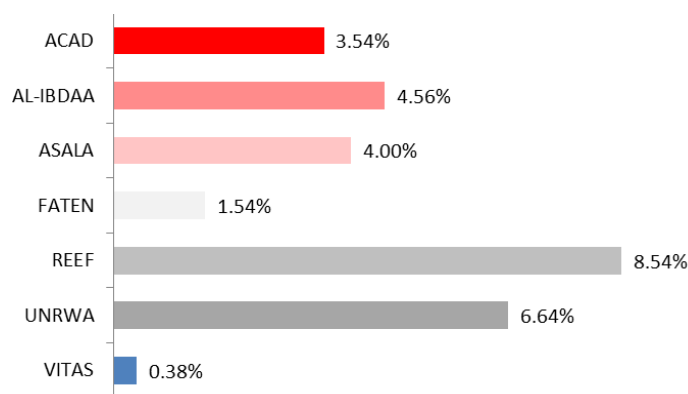


Graph 1. Outstanding portfolio per MFI (2016)



Graph 2. Disbursed loans per economic sector (2016)

Faten is the biggest MFI in Palestine, both in terms of portfolio (54%) and number of clients (46%), followed by Vitas (16%). MFIs offer a wide range of products that mostly are disbursed for **housing and consumption**, that together value almost half of the entire portfolio.



Graph 3. Portfolio at risk (par30) per MFI (2016)

Quality of the portfolio seems not to be an issue for Palestine, where four MFIs present portfolio at risk rates lower than 4% and the remaining between 4.5% and 8.5% that can be considered not worrisome.

Except for Vitas and UNRWA, all the MFIs are using the same MIS system, BISAN, developed by a local software company, that provides regular updates of the system and assistance when needed. The current system may contain some minor data inconsistencies and the audit trail function is considered as improvable by PMA, limiting its capacity to properly verify the reliability of some data. Moreover, it **would need a new function to integrate social performance information and generate SPM indicators..** Nevertheless, for all those reasons, PMA has asked all MFIs currently using BISAN to purchase by the end of 2017 a new MIS that would be aligned with the requirements of PMA and with the international best practices specifically in terms of reporting standards (up to banking standards) and data integrity/reliability.

VITAS uses the software WEB ABACUS, developed by the internal (VITAS) group. The data system is centralized, managed at the head office, with different level of restricted access and audit trail. It is an online system, considered stable, that can be customized and according to the IT manager, it can support SPM integration.

Since 2012, UNRWA is adopting OMNI, a system developed by OMNI Enterprise, an Indian company. OMNI provides the “application service” to gather the information and the “reporting service”. The software is user friendly, highly parametrized and customizable by UNRWA itself. Consistency and quality of data are ensured by internal control and audit mechanisms. The current UNRWA SPM system, including track of poverty levels, is already integrated and according to the IT manager the software can be easily improved.

4.2 Status of the MFIs' SPM system

In SPM, the social mission is the precondition for putting in place a system, since SPM means “going towards the social mission”.

In Palestine, **all MFIs have defined a social mission** as shown in the table below:

Social Goal / Name MFI	SG1: WHO?	SG2: HOW?	SG3: WHY?
ACAD	Small farmers, women, low-income families, mainly in rural areas	Sustainable efficient financial services	To contribute to poverty alleviation and economic development of Palestine
AL-IBDAA	Low/limited income households, particularly, the micro and small entrepreneurs of Palestine	Direct and indirect provision of exemplary financial services that suit their needs	To improve the economic and social conditions and to become a pioneer and sustainable microfinance institution
ASALA	Women and youth	Suitable financial services	To establish and improve their income generating projects, and create some sustainable job opportunities which contributes to alleviate poverty and achieve sustainable development in Palestine
FATEN	Low income and economically active small scale enterprises, micro entrepreneurs, and individuals, especially women,	Wide range of high quality and sustainable financial services through a high caliber staff and an advanced infrastructure	To contribute to family empowerment and community development
REEF	Cooperatives and individuals in the Palestinian rural areas	High quality financial services on a continuous base by a qualified, trained and motivated team	To improve the living conditions; fill the financing gap; elevate the level of financial services provided ⁹
UNRWA	Small business owners, micro-entrepreneurs and poor households, Palestine refugees and other proximate poor and marginal groups	Provision of credit and other financial services – provide income generating and asset-building opportunities	To improve the quality of life (sustain job, decrease unemployment, reduce poverty, economically empower women and youth)
VITAS	Individuals, businesses, families and communities in which they live	Financial products and services that meet the needs	Promote the long-term development

Table 1. Social mission of the MFIs in Palestine

Decomposing the missions according to the three social goals allows for comparisons. In terms of SG1, the MFIs have a **bit diverse target**: low income and middle income individuals, individuals in general, micro and small business, etc. The SG2 is for all the same, namely offering financial services; and mostly all SG3 **converge to promote poverty alleviation and economic development**.

The short field visits and the desk review on internal documents provided by the institutions only allow, in this paper, for a **concise and basic SPM assessment**, based on the following criteria of analysis.

⁹ This is not specified in the social mission, rather these are the social objectives.

	SPM champion / department	Social strategy	Social Reporting	Main social variables reported on ongoing basis
ACAD	Yes	Environmental and Social Management System Action Plan and social dashboard	Embedded into the annual report (monitoring SPM implementation) Client satisfaction and drop out Social rating - SPI4 – USSPM assessment	Outreach (gender, rural area, farmers, youth, etc.) Level of poverty
AL-IBDAA	No	No	n/a	Outreach (gender, area, business sector, etc.)
ASALA	Yes	Asala social Performance guidelines	Client satisfaction and drop out Study on the perceived change Social rating	Outreach (gender, area, business sector, etc.) Women empowerment (role in the family, decision making, etc.)
FATEN	No	No	Annual report including outreach Client satisfaction and drop out Social rating	Outreach (gender, rural area, business sector, etc.)
REEF	No (SPM touched by R&D dept.)	No	Studies on annual basis on the outreach / perceived change Client satisfaction	Outreach (gender, rural area, MSME, focus on agri, etc.) Level of poverty Women empowerment
UNRWA	Yes	Included in the business plan (indicators only related to targets)	Annual social indicators report Client satisfaction and drop out Annual poverty report PPI	Outreach (gender, area, youth, refugee, MSME, etc.) Level of poverty
VITAS	n/a	n/a	Annual social performance report on outreach (at Group level) Client satisfaction	Outreach (gender, SME, youth, rural area, etc.) Job creation

Table 2. Brief analysis of SPM system among MFIs in Palestine

5 Set of indicators

The set of indicators proposed in this paper is an **elaboration of MFR's research** based on a multi-dimensional processing of information from primary and secondary sources, desk review (data from MFIs, internal documents, analysis of existing literature), opinions and feedback gathered from the stakeholders interviewed. Two field visits in Palestine, one in December 2016 and another one in January 2017, were organized and practitioners at different level of interventions were met: i.e. PMA (macro level), Sharakeh and BiSAN (meso level), all MFIs plus UNRWA (micro level), final beneficiaries (client level) and international donors, AICS and GiZ (global level).

The **core research question** was *"From your point of view, what is the expected change you would like to see among the microfinance clientele in the short-medium term?"*.

From the related answers, MFR defined a set of indicators, to be discussed and eventually adjusted during the microfinance conference in May 2017. During the field visits, **some consensus and feedback** have been already gathered. Indicators should have then the following characteristics:

- **Tailored** to the Palestinian socio, economic and political context;
- **Relevant** for the clients and MFIs and aligned to the MFIs social missions;
- **Clearly defined** to avoid confusion or misinterpretation;
- **Feasible** to be monitored and measurable;
- **Time frame sensitive** (changes can be easily seen in two-three years);
- **Usable** for outcome management to improve the social performance;
- **Aligned with international best practices**;
- **Comparable** to create benchmark for the industry itself (to compare the performance of different MFIs) and to create benchmarks useful at international level.

Aligned with the MFIs' social mission and the third social goal (SG3: WHY?) of **alleviating poverty and promoting economic development**, four categories have been identified with a set of two indicators, each. The idea is to propose a limited number of final indicators in order not to overwhelm the institutions and the users, and cover relevant areas in the most efficient way.

5.1 Findings from interviews with clients

To answer to the research question mentioned above, the interviews with end-clients give direct information on what is the desirable change from their perspective. A **mix of individual interviews and focus group discussions was carried out** with four MFIs'clients to get an overview of what they actually think.

Meetings with clients had a twofold goal. On one side, it gave insight to test and understand the relevance of some set of indicators; and on the other side to get inspiration, trying to find aspects not fully considered. It is important to note that these interviews are not meant to provide statistically significant results.

Given limited time, four MFIs only were selected for meetings with clients, namely: ACAD, Asala, Faten and Vitas – that were considered representative of the entire microfinance industry.

4 FGDs and 3 individual interviews were carried out in three governorates (Jenin, Tubas, and Ramallah), for a total of 29 clients, 35% of which women, half in rural and half in urban areas. Meetings with clients were also divided by kind of product (i.e. agribusiness, business, housing and consumption loans) to ensure a good level of homogeneity within the group, and heterogeneity between the FGDs to get the widest range of opinions. In addition, one FGD was only with women to verify whether women alone express differently than when mixed with men. Among clients, few of them were previously unbanked before joining the institutions.

MFIs	Clients (#)	Female (%)	Area	Product
ACAD	13	8%	Rural	Agribusiness
Asala	8	100%	Rural	Mix of products
Faten	6	33%	Urban	Agri and Business
Vitas	2	0%	Urban	Housing
TOTAL	29	35%		

Table 3. Socio-demographic characteristics of respondents.

We asked clients a very open and direct question: what is the **desired change they would like to see in five year-time**? They all agree that the main priority is to enhance the living standards of their children. The rationale is that the parents should support the children in building their future: the important thing is to provide them with a house (buying a land and building a house, or buying a house); in some cases they mentioned to ensure a higher level of education; and in few cases to offer them a job (by expanding the family business) and covering the marriage expenses. Other mentioned expectations are to own a family house and to expand their business. This latter point is interesting because, given that the majority of respondents is self-employed (76%), to achieve the other expectations/dreams is almost implicit that they have to improve the performance of their business. This also shows that clients have a different perspective of looking at the goals timeframe: some of them have a shorter planning approach, and other a longer one.

Brighter future for the children	62.1%
<i>Building / buying a house / give them money</i>	24.1%
<i>Improve their level of education</i>	20.7%
<i>Cover expenses of the marriage</i>	10.3%
<i>Offer them a job</i>	6.9%
Own a house and buy land	24.1%
Expand the business	27.6%

Table 4. Main expectations for the near future¹⁰

Investigating further, other relevant areas emerge on **financial behaviours and aspects to cope with emergency**:

- **SAVINGS / ASSET BUILDING** = clients mostly do not save in banks (80% of the respondents) but keep money in cash at home until accumulation is enough to buy animals (short term) to be sold in the future to buy a land, build a house, or build the dowry for the children (land/house and money). Money per se is not seen as valuable. Some clients have a bank account, either because

¹⁰ The percentage does not add up to 100% as some respondents stated more than ones

required by the MFI to get the loan, or for money transfer and remittances, but the main goal is not for accumulating money.

- **INSURANCE** = some clients do not have a healthy insurance (59%) because it is considered too expensive (700 NIS - approx. 190 USD for the public one, or there are a number of private worth about 500 USD). In other cases, where they have a family member engaged in public administration or live in a refugee camp, they receive coverage for free (or up to 70%). It is not rare among clients interviewed to have delayed some needed medical treatments (41%) and they mentioned that in case of emergency they ask for money to relatives or friends.

Women empowerment never emerged as a felt topic, nevertheless, when probed, women reacted promptly: *“I am proud to have bought the house”* (with the revenues from the business); and *“I am more independent and gained self-confidence”*, or *“I contribute to the expenditure of the household, I gained more respect from my husband and better treatments”*.

5.2 Proposed set of indicators

In Palestine, where daily life is affected by political instability and economic slowdown, **poverty and income level** are not the only feature to be considered if we want to look at the improvement of living standards. Rather, **confidence on the future** is also a key determinant.

As seen in the paragraph above, it strongly emerged that building the future of their children is a core aspect for the families. Therefore, **capital accumulation through their own business** is one of the key aspect to monitor and clients want to look at the well-being of the entire family. In addition, **resilience and ability to cope with the emergency** is another relevant factor.

Therefore, the following four categories and indicators have been selected:

CATEGORY	INDICATOR	COMMENTS
1. Business Outcomes (this applies only to clients with a loan for the business)	Size of the business - Number of employees, including family members, and entrepreneur	Need a definition on how to count seasonal or part time or occasional job contribution.
	Turnover growth	Based on information in the loan appraisal form
2. Poverty / Assets / Housing Outcomes	Living conditions - % of families who have contributed to the purchase of a house/land for the children	
	% of households sending their children to secondary school regularly	
3. Resilience & Vulnerability Outcomes	Coping with shocks - % of household that have ever delayed a medical treatment in the past three months	
	Annual average cash savings balance	Based on information provided by the clients. This is a provocative indicator, in a country where money accumulation translates into in kind accumulation (animals, land and houses), collecting money in a bank account potentially could mean that people trust the system and have positive feelings about the future.

4. Women's economic empowerment	% women that works at least part time (or seasonally full time)	A less felt category that weakly emerged as relevant from lots of practitioners, but that can be probably relevant for the country context.
	% women that manage the loan	

Given the higher relevance of consumer lending within the Palestinian microfinance, it is worth clarifying about the applicability of the above presented indicators for consumer microlending clients.

As mentioned in the indicators table, the first category of indicators (business outcomes) is preferably applicable to clients who received a business loans, while for the other categories also consumer loans borrowers can be considered. This is because outcome is defined as the change in client lives plausibly attributable to the financial service provider and the grade of plausibility that a business loan has an effect on the business growth is stronger than in the case of a consumer loan. As for categories 2., 3. and 4., the proposed indicators are applicable to both business and consumer lending clients and the rationale is that loans used for consumption have an effect on reducing poverty, on coping with shocks and on economic empowerment of women.

According to our experience, looking at the different loan uses, the impact of microfinance on a better consumption smoothing is crucial, besides poverty alleviation and asset building. Moreover, impact studies (classic impact studies based on RCT) of the last 10 years, show that the main impact of credit is on consumption smoothing and increased resilience to shocks.

It is worth mentioning that **all MFIs** in the loan assessment carry out a cash flow analysis of the clients where they **estimate expenditure and income at family level, and business** in case of entrepreneurs. Income estimation if done properly can be used to assess the level of poverty and its variation over time. Nevertheless, this is a very difficult variable to measure (this is also why MFIs, as UNRWA, estimate poverty level through the use of PPI tool) but in case all MFIs use a standardized tool that ensures consistency and comparability of results, this could be added as an indicator.

To have a complete overview over the typology of clientele, **other socio-demographic characteristics that all MFIs already measure can be added**. This is a tentative list that can be used: gender, age, area (rural, urban or refugee camp), governorate, size of the household, education level, and loan cycles (two MFIs collect the latter information only on paper). All these variables allow for producing breakdown and understanding which are the features that are more significantly correlated with higher changes. An information that MFIs know and use but do not track is about whether the clients before getting the loan were previously unbanked. This is potentially an interesting information that says how much microfinance is contributing in improving access to finance.

5.3 Methodology and approach

Based on the given indicators, the researcher proposes the following methodology to measure the outcome of final beneficiaries.

Data shall be collected through **quantitative studies every two or three years**. To capture the change of some selected clients, the same people should be interviewed for the maximum number of measurements. Nevertheless, a physiologic clientele drop out should be taken into account. To avoid that the sample

shrinks over the years, at each measurement a new segment (10%-15%¹¹ of the total sample) can be added.

Given the Palestinian context, the researcher came up with a defined set of indicators but two strategies to implement it. **The two approaches are convergent**, as the first one requires that MFIs develop the internal SPM system and monitor the indicators by themselves. While the second approach involves an external team (rater/consultant) to create the baseline for the first measurement, and then MFIs to replicate by themselves on the following years. The rationale behind this second approach is to ensure that MFIs have enough time to embed the SPM system into their daily operations and also to test the indicators.

1) In-house measurement

In this approach the MFIs start developing the SPM system internally since the beginning. This requires several steps, that does not simply mean to just adding the new variables into the MIS, but rather it requires a number of operations/activities. **SPM system should be embedded at 360° in the whole institution involving all the main institutional functions.**

EMBEDDING SPM SYSTEM INTO THE MFI

First of all, for those MFIs without a SPM champion, **a key person dedicated to the process should be appointed.**

Before discussing the indicators at industry level, high levels of commitment by MFIs Board and management should be reached.

Therefore, some adjustments should be carried out in some departments, where **credit and operations will be the most affected.**

- MIS = the new variables should be added in the system and in the loan assessment form, and the indicators should be created for the reporting system;
- CREDIT DEPARTMENT = the new variables should be added into the loan assessment, hence the credit process should be consequently modified;
- TRAINING = training material on how to carry out the loan assessment should be updated and branch staff should be trained (or informed) about the changes occurred in the loan assessment;
- OPERATIONS = loan assessments in the field are carried out by using the new loan assessment form;
- MARKETING = the new variables should be added into the satisfaction and drop out survey/studies;
- RISK MANAGEMENT = internal controls mechanisms are ensuring data quality and consistency of the new loan assessment form;
- AUDIT = client visits include also the review of the new variables; loan assessment reviews are also conducted by the audit function;
- HUMAN RESOURCES = incentive schemes or performance evaluation can also be reviewed considering some social performance components.

¹¹ This is an over estimation of the current drop out level of the MFIs. This number will ensure that in periods of higher drop out, the sample remains on reasonable number of people and do not shrink excessively.

In doing this, the MFIs will collect on-going information for active clients that renew a loan (census), while for the drop-out clients, the new variables should be added into the drop out research (survey or census).

2) External research and in-house measurement in a second stage

The alternative approach is built on two steps: the first one requires that an external agency conducts a survey involving clients for all the MFIs. This will create data baseline. Then the following measurements (endline) will be carried out every two or three years by the MFIs themselves that can follow the approach described above. In doing this, MFIs have adequate time to prepare the ground for the in-house measurement.

For both approaches, a **high level of commitment** from MFIs is fundamental for the buy-in (adopting the shared and agreed indicators), to ensure promptly reporting, quality and consistency of the data. In addition, some (or probably all) **MFIs will need training and technical assistance to develop or improve the SPM system**. Both strategies require **financial and human resources** both at industry and MFIs level.

A topic of the discussion at industry level should also be regarding the **management of the data and information**. PMA or Sharakeh can play a role of coordinators in supporting MFIs in the collection, analysis of data and reporting, and also in the coordination of TA (technical assistance) provision. Secondly, PMA can also define some benchmarks (targets to achieve at industry level, or divided per MFI or governorate, etc.) to guide the industry. Reporting standards should then be defined and systematically respected by the MFIs.

These approaches can be combined differently: outcome could be monitored always on a sampling basis with external research teams; or, if carried out by MFIs, it could be performed at client level during the loan appraisal process the first time (census) and then the second observations on a sample basis. Census is more accurate but very costly and time-consuming. On the other side, sampling is less expensive but if the sampling rule is not properly conducted (i.e. not representative and/or limited size), it can produce biased results – that won't be representative of the population.

It is clear that these **two approaches have both pros and cons** (listed in the table below) and the industry should understand which one is the most suitable for their needs.

APPROACH 1: In-house measurement		APPROACH 2: External research and self-report	
PROs	CONs	PROs	CONs
Immediate buy in from MFIs	Double work in case changing the MIS – firstly customize BISAN and then the new one	MFIs are given the time to develop/embed the SPM system with the support of training and TA	Additional financial resources required to finance the external research
	Some MFIs not ready to implement it immediately	External research is fully independent	Need human and financial resources to implement it at 360° in all the departments – but more dilated over time
	Need human and financial resources to implement it at 360° in all the departments	External research as a pilot to test the indicators and methodology	

6 Conclusions

The overall objective of this assignment has been slightly modified from the original request and has focused on how to MANAGE (and not just MEASURE) socio economic OUTCOME rather than IMPACT, aligning the research paper with international best practices.

This rephrasing is important for the following reasons:

While “measuring” refers to analysing the data making a photography of the current situation, “managing” has a wider meaning, it includes the analysis and most important the use of data to improve performance.

It is preferable to refer to “outcome” because in general “impact” studies require lot of efforts in terms of human and financial resources, and are too complicated and costly for the industry to implement.

The potential contribution from the regulator, the Palestine Monetary Authority PMA, as a driver for this initiatives, enriches the discussion as it can produce benchmarks and can define thresholds to guide and direct the microfinance sector.

The core research question was “From your point of view, what is the expected change you would like to see among the microfinance clientele in the short-medium term?”.

From the related answers collected on the field (interviews to stakeholders and focus group discussions with MFIs’ clients), MFR defined a set of indicators, to be discussed and eventually adjusted during the microfinance conference in May 2017. During the field visits, some consensus and feedback have been already gathered.

The set of indicators proposed are fully aligned to the international standards of outcome management. They are gathered into four main categories or areas of analysis: business outcome, living standards, resilience and vulnerability, women empowerment.

Based on the given indicators, the researcher proposes a data collection following methodology based on quantitative studies conducted every two or three years. To capture the change of some selected clients, the same people should be interviewed for the maximum number of measurements.

Given the Palestinian context, the researcher is proposing two strategies to implement the outcome measurement/management system. The two approaches are convergent, as the first one requires that MFIs develop the internal SPM system and monitor the indicators by themselves. While the second approach involves an external team (rater/consultant) to create the baseline for the first measurement, and then MFIs to replicate by themselves on the following years. The rationale behind this second approach is to ensure that MFIs have enough time to embed the SPM system into their daily operations and also to test the indicators.

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