

AN AD HOC METHODOLOGY FOR SOCIAL IMPACT AND SOCIAL PERFORMANCE MEASUREMENT

PERMICRO

Objective of the Good Practice:

To demonstrate the usefulness and the need to measure impact and social performance through standardised methodologies (as requested by some stakeholders), as well as the importance of defining and using an ad hoc methodology for measuring social impact in terms of output, outcome and impact.

Year of Inception of Good Practice:

2015

Keywords:

Social Impact, Social Performance

Institutional profile

Created in 2007, PerMicro is specialised in microcredit. Initially only operating in Turin, PerMicro now operates in 11 Italian regions and has 15 branches. It is the first Italian microcredit company that professionally manages all phases of a micro company project: scouting, preliminary inquiry, risk assumption, and follow up. PerMicro finances up to 25,000 EUR for companies or up to 10,000 EUR for families and is designed for people who do not have easy access to traditional bank credits.

Type of Organisation

Non-Bank Financial Institution

Country

Italy

Products & Services provided

- **Financial:** Business microloans, personal microloans, current/checking accounts, insurance.
- **Non-financial:** Debt counselling, entrepreneurship training, financial education, mentoring.

Gross Loan Portfolio

€ 54,246,645 (as of December 2018)

Number of clients

8,645 (as of December 2018)

Target Audience

Urban Population, Unemployed people or people on welfare, ethnic minorities and/or immigrants, Women, Youth, people excluded from mainstream financial services.

Organisation Website

<http://www.permicro.it>

Overview of Good Practice

Since 2015, PerMicro has been measuring its social impact by defining an ad hoc methodology with the support of the Centro Tiresia of Politecnico di Milano. At the same time, PerMicro also underwent the following standardised certifications / ratings:

Certification/Rating	Who is this certification accepted by and who is it applicable to? What does it measure? How is it measured?
Centro Tiresia of the Politecnico di Milano	<i>This rating is accepted by Universities, investors and institutions and is applicable to PerMicro and all MFIs. It measures the long-term effects and changes on the community generated by PerMicro's activity by using an ad hoc measurement methodology (using data collected during the preliminary investigation phase and subsequently through surveys for the calculation of the indicators and the use of multipliers to calculate the impact).</i>
European Code of Good Conduct	Accepted by EU institutions, it is applicable to all MFIs. It measures how compliant an MFI is with a set of standards in terms of management, governance, risk management, reporting, and consumer and investor relations that are common to the microcredit sector in the European Union. The code is awarded via self-assessment, followed by an assessment by an external independent evaluator (204 clauses)
MicroFinanza Rating (MFR)	Accepted by EMN, MFC and the wider microfinance sector, it is applicable to all MFIs. MFR provides a rating for MFIs, combining factors such as: governance and strategy, financial profile, loan portfolio quality, system and controls, client protection, and external contexts. It is carried out by MFR's auditors both remotely and via onsite visit assessments.
SPI4	Accepted by Investors and Partners, it is applicable to all MFIs. It measures Social Performance Management and Client Protection. A social audit is conducted using SPI4 (a tool aligned with the Universal Standards for Social Performance Management and the Smart Campaign Client Protection Principles).
B Corp Certification	Accepted Worldwide, and by customers, it is applicable to all companies. It measures the overall positive impact on workers, community, customers and environment. There is a B Impact Assessment made up of 200 questions.

Innovativeness

PerMicro has obtained its standardised certifications / ratings for two reasons: firstly, because it was requested by stakeholders, in particular at European level, in order to access funding and other microfinance support measures; secondly, because some of the certifications share similar missions, values and visions (in the case of B Corp Certification).

Furthermore, PerMicro has defined, applied and improved a "non-standard" methodology with the Politecnico di Milano, starting from the analysis of the literature concerning the approaches and tools for measuring socio-economic performance, social impact and general externalities, to quantifying outputs and evaluating outcomes and impacts. After a critical analysis of existing social impact measurement methods, it has been selected as a methodology that enhances the features of PerMicro and responds to specific needs.

Efficiency and Sustainability

A social impact measurement system is an instrument of control, planning, communication and monitoring. It is very important in order to maximise the efficiency and effectiveness of the organisation. Moreover, measuring the results becomes critical because it allows for: monitoring the progress made in the activities; planning and making decisions about future plans and objectives; gaining legitimacy, credibility and greater opportunities for accessing resources when the results are communicated to stakeholders.

For this reason, PerMicro has adopted an ad hoc methodology (always in collaboration with the Politecnico), which over the years has become simplified and improved, with the selection of the high priority indicators for the social impact evaluation.

Certainly, all this has a cost in terms of time dedicated to the collection and processing of data but considering that social impact is in the mission of a microfinance organisation, the collection of data and the subsequent measurement of the social impact must be integrated into business processes exactly as it is done for economic data.

Outcomes

Certification/Rating	Year	Results	For more information
Centro Tiresia of the Politecnico di Milano	2015-2018	Done (see http://permicro.it/wp-content/uploads/2018/12/PerMicro_Impatto-Soc_ENG_dic18.pdf)	http://www.tiresia.polimi.it/
European Code of Good Conduct	2017	Obtained	https://ec.europa.eu/regional_policy/sources/thefunds/doc/code_bonne_conduite_en.pdf
MicroFinanza Rating	2017-2018	BB+ / AAA	https://www.mf-rating.com/pcategory/rating-services/
SPI4	2018	81%	https://bcorporation.net/
B Corp Certification	2016	89.1/200	http://www.cerise-spi4.org/

Lessons Learned

It is certainly important to get certifications and ratings recognised and standardised at European and global level. From every certification and rating, organisations learn lessons and ideas to improve and it also allows for the comparison of different companies.

It is equally important and essential to measure the actual results in terms of social impact through an ad hoc methodology with respect to its operations and the context in which it operates. Measuring for example the impact on the country of reference (for example, impact on public administration, in terms of reduction of public expenditure and increase of governmental income, job creation, etc.).

Obtaining ratings and certifications can be expensive, in terms of time and data to be provided so careful consideration is important.

The ideal solution would be to define, for the microfinance sector, a univocal methodology that will satisfy the different stakeholders for the measurement of social performance and social impact, which for a part is standard (this also allows to compare several companies) and which, however, also takes into consideration the outcomes and impacts generated by the individual company. The methodology defined and improved by PerMicro with the Centro Tiresia of the Politecnico di Milano, for the measurement of social impact, could be adapted and used by other MFIs.

It is certainly essential that the measurement of social impact is considered a core process of a microfinance institution.

Examples of indicators

Certification/Rating	Examples of some of the main indicators and the score received by PerMicro in those areas
Centro Tiresia of Politecnico di Milano	One of the indicators <i>“Financial Inclusion: Access to credit (for enterprises)”</i> measures the percentage of entrepreneurs who have had access to traditional funding after receiving their loan from PerMicro (38%).
European Code of Good Conduct	<i>“Customer and Investor Relations - Clause 1.2 Microcredit providers will disclose the cost of an Annual Percentage Rate of Charge”</i> . This is a priority clause as disclosing the cost of borrowing is crucial in enabling the customer to make informed financial decisions. The Annual Percentage Rate of Charge must be disclosed in a credit agreement and in any advertising. This refers to the annual value of all commitments, drawdowns, repayments and charges, including fees and taxes paid by the customer and known to the creditor.
MicroFinanza Rating	<i>“Client protection: Prevention of overindebtedness”</i> – This indicator analyses repayment capacity. PerMicro received a “Good” rating.
SPI4	<i>“Balanced Financial and Social Performance (Universal Standard)”</i> - All financial institutions with a double bottom line must seek balanced financial and social performance. Institutions must ensure their sustainability (financial performance) in order to be able to continue serving their target clients with products and services that create benefits in the clients’ lives (social performance). For this reason, the Dimension focuses on the institution’s decision making around key financial topics - e.g. growth targets, profit targets and allocation, selection of financing sources, employee pay - that are also crucial to maintaining a client focus. PerMicro received a score of 96/100 in this area.
B Corp Certification	<i>Customers</i> - This indicator measures the impact a company has on its customers by focusing on whether a company sells products or services that promote public benefit and if those products/services are targeted toward serving underserved populations. It also measures whether a company’s product or service is designed to solve a social or environmental issue (improving health, preserving environment, creating economic opportunity for individuals or communities, promoting the arts/sciences, or increasing the flow of capital to purpose-driven enterprises). PerMicro received a score of 41.5 in this area - a total score of 89.1/200.