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RESEARCH WORKING GROUP - EUROPEAN MICROFINANCE NETWORK

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Nantik Lum MICROCRÉDITOS PARA EL DESARROLLO

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Foreword

Nantik Lum (Spain)

The Research Working Group (RWG – http://www.european-microfinance.org/rwg/) of the EMN is proud to present the second issue of the *Electronic Research Bulletin* (*eRB*). Created in recognition of the need that exists at the European level for a benchmark publication of microfinance related research, this review is an annual output of the RWG and is intended to promote microfinance research in Europe by giving researchers a permanent forum through which their work can reach a pan-European audience. The eRB initiative was conceived during the RWG's September 7, 2009 meeting in Madrid at the Fundación Nantik Lum (http://www.nantiklum.org) offices as a low-cost, high-value way to support the work and mission of the EMN.

The RWG, and its current coordinating organisation, Nantik Lum, hope that the eRB proves to be a driver of innovation.

Contents

This issue takes a look at the hot topic of social performance (SP). Recent microfinance news regarding overindebtedness and impact evaluation has led the sector to re-evaluate its methods and re-examine social performance. This edition of the eRB attempts to give a theoretical and practical background on the current status of social performance in Europe.

Message from the EMN Working Group on Social Performance

Triodos Facet (Netherlands)

"Social Performance is the effective translation of an institution's social goals into practice"

Last year, as part of the European Microfinance Network structure of working groups, the working group on Social Performance was formed.

This working group sees 'Social Performance' as an umbrella covering all social, ethical, and environmental aspects of microfinance. The working group is dedicated to supporting European microfinance institutions in managing their social bottom-line results of operations. It strives to disseminate international best practices and bring information to the industry that helps institutions improve their effectiveness in supporting the economic development of their clients. As of 2010, participants of this working group include Fundación Laboral WWB (Core Member), Transformando (Core Member), FNCE Caisse d'Espargne (Core Member), NEEM (EMN Board Member Liason), Coopest (Core Member), and Triodos Facet (Lead Member).

EMN member practitioners (MFIs) are looking for clients that are entrepreneurial but excluded from the formal financial system; MFIs want to bridge

the gap and make these clients bankable. Within this context, Social Performance would have to focus on the level of success that MFIs have in finding those that are excluded, and on supporting these entrepreneurs towards creating successful companies.

In the first half of 2011, the working group aims to develop a comprehensive instrument that helps EMN members to better capture, monitor, and manage the implications of their activities in the field of social performance.

The working group proposes the following definition of Social Performance:

Definition:

Social Performance is the effective translation of an institution's social goals into practice, integrated into the organization's strategy, with a focus on:

- Serving poor and/or financially excluded people in a viable manner;
- Improving the quality and appropriateness of financial services and products;
- Improving the economic and social conditions of clients and ensuring social responsibility to all stakeholders.

The 2009 EMN survey outcomes showed that 60% of the respondents are already measuring the social impact of their activities on client's lives. However, this is done in a non-standardized way. Further evaluation by the SP working group concludes that further fine tuning of indicators is needed, in order to really capture the social performance of the European MF sector. We believe that a gender perspective in discussing Social Performance is very important, as well as a clear focus on migrant/ethnic minority clients. In order to compare trends, the working group members feel that EMN needs a more consistent database related to international SP Standards from a European perspective.

In our work, we are integrating, where relevant and possible, the practices of the international Social Performance Taskforce and the MIX social performance indicators. We're also looking at possibilities to collaborate in the different EU Microfinance Initiatives (in which Social Performance Management is also an issue) and the work of related groups such as the Inclusive Finance Initiative (with a focus on access to financial services, dignity for clients, financial literacy training, etc.).

An important aspect in our preparation is to look at the stakeholders in the European MF sector. When developing an approach towards SP, the Working Group (WG) will include an evaluation of the interest and the influence different stakeholders have on the MFI. There are 'internal' stakeholders that are part of the core business processes of the MFI (Staff, Management Team, Board, Clients), and 'external' stakeholders that facilitate the core business (such as Funders, Shareholders, Community Authorities, MF Associations, Financial Regulators, NGOs). These stakeholders have various views on themes such as 'quality of services', 'financial sustainability', 'regulation', 'community involvement', etc. Depending on their interest and influence, the importance of the different stakeholders varies. The working group currently builds on identifying the most important stakeholders that will contribute to the further development of indicators to monitor and manage Social Performance.

Concrete measures for monitoring social performance in the European MF sector could include indicators such as the examples mentioned below. Please note that this is work in progress; the working group members are well aware of the fact that we need to study the practical applicability of these indicators (both in terms of capturing the data and their statistical use), and match them with international best practices. This is exactly what we are now doing.

Quantitative indicators might include as an

example:

- # of jobs created and/or sustained *(by credit, bds or other)*
- # of enterprises started
- # of enterprises sustained after x years *(by credit, bds or other)*
    - # jobs created, compared to general business creation average
- # people out of social benefit
- # clients that became 'bankable' *(need definition)*

Qualitative indicators might include as an example:

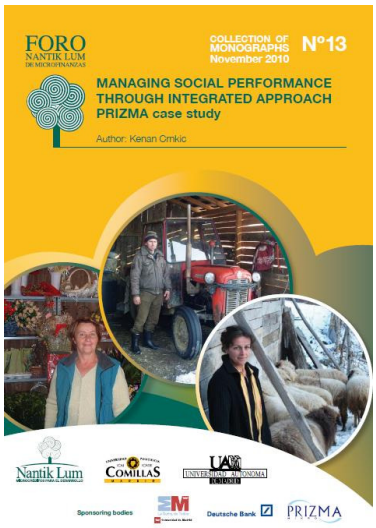
- Client's evolution in saving
- Clients active in innovation / technology
- Drop out level / Exit evaluation trends
- Level of client satisfaction
- Level of social integration
    - Language skills *(need definition)*
- Improved quality of life:
    - Increased family budget *(need definition)*
    - Improved family wellbeing *(need definition)*

The working group consolidates the outcomes of the various activities that members currently carry out, and has planned another meeting in February 2011. After this meeting, the working group will inform EMN members of the proposed way forward, and ask for feedback on the approach. This will then feed into an instrument that helps EMN members to improve their Social Performance Management.

Any comment, insight or suggestion will be appreciated by the Social Performance working group; send a mail to: gj.schuite@triodosfacet.nl.

Monograph 13 - Social Performance in Bosnia and Herzegovina: the PRIZMA case study

Casey Marie Conzett (Nantik Lum, Spain)



Monograph Number 13 – Managing Social Performance Through Integrated Approach: PRIZMA case study.

Introduction

Stories of overindebtedness in microfinance and their unfortunate consequences have been the focus of debate over the last year, leading the sector to re-examine its practices and attempt to understand how such events could occur. Although stories of this kind have recently come out of India, there have been similar cases within Europe, particularly in Bosnia-Herzegovina (BiH). BiH came under fire after the widespread economic crisis that was affecting Europe spread to its microfinance portfolio. At one point, Bosnia and Herzegovina had 40% of active borrowers with loans from one or more MFI at the same time and were using one loan to pay off another as PAR reached more than 7

percent in June 2009[1]. As a result, some microfinance practices came under scrutiny as this eventually led to a repayment collapse and the subsequent propping up of the sector by a 110 million euro investment in the sector by the European Investment Bank in December of 2009.

In the aftermath, the sector was introspective and asked itself of the primary focus of microfinance – financial or social? One case in particular, Prizma, has sought from the beginning to strive for both financial and social goals at the same time without leaving either behind. The goal for Prizma is to improve the well being of its clients, the majority of whom are women, who face poverty in a post war nation by providing financial services.

Monograph 13

To provide a successful case study to the debate, Prizma and the Fundación Nantik Lum, through their collaboration in the Foro Nantik Lum de MicroFinanzas, have collaborated on a publication, the bilingual (English-Spanish) monograph number 13, a case study on Prizma, entitled "Managing Social Performance through Integrated Approach", written by Prizma's CEO, Kenan Crnic. The case study intends to cover theoretical as well as practical methodology and implementation of the management of social performance in Prizma. This case study includes background information about the context of microfinance in a post-conflict nation as well as information regarding their social performance strategy, their method to measure poverty - the Poverty Scorecard as well as their exit monitoring system and a cost-benefit analysis of social performance management.

About Prizma

After achieving self-sufficiency in 2001, Prizma launched a nationwide campaign for microfinance, a difficult feat concerning the political, economic, social, and ethnic state of the war torn nation. Prizma was one of the first organizations to break through these walls and establish themselves on a national level. Working simultaneously to tackle chronic poverty, reduce transitory poverty, and reduce the overall risk of becoming poor, the social performance information system allowed them to track progress and monitor efficiency. Tools such as the poverty score card, a survey measuring education, residence, household size and assets among other factors, is administered upon entry into the program as well as with each new loan cycle and upon termination of the agreement, whether or not the termination was on the terms of Prizma or the client. This non-economic data allows Prizma to rank all of their clients on an equal basis of comparison.

The Prizma case study provides data to back up the need for social performance management in achieving the "double bottom line" goal of the integration of financial and social objectives. The monograph provides concrete examples from the experiences of the management of Prizma to allow for best practices in the field.

To receive your free copy of the recent monograph, please write to research@nantiklum.org (subject: CM13). For more information about Prizma, please visit their webpage at http://www.prizma.ba/.

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[1] Chen, G., Rasmussen, S. and Reille, X. "Growth and Vulnerabilities in Microfinance". CGAP Focus Note 61, February 2010. Washington, D.C.

Social Performance: An Introduction

Elsa Valli and Micol Guarneri (Microfinanza srl, Italy)

Social Performance: Why?

Microfinance started to become a matter of public interest about 25 years ago, when it revealed its potential as a tool for fighting poverty through the financing of microenterprises and raising the incomes of poor people.[1] Reaching the poor and the vulnerable and having a better socio-economic impact on them, has always been the raison d'être of microfinance. Many actors, including individuals, donors, foundations, governments and different kinds of investors, provide significant resources to microfinance with the hope that these will help poor people to escape from their condition of poverty. Therefore, MFIs must be accountable to these funders for the social objectives that microfinance, through the use of their resources, achieves. This is one of the reasons why, in recent years, tools for demonstrating accountability to MFIs' stakeholders were developed.[2]
During the last decade, microfinance has experienced impressive growth rates and attention has been oriented towards financial performance and growth, commercialization and overall increase of flow of resources to the sector. While social performance has for a long time been taken for granted, more recently the debate on the achievement of social objectives by MFIs has emerged as a result of different needs.

First, the growth of the microfinance phenomenon in recent years has made it necessary to demonstrate the achievement by the MFIs of their social missions and their social responsibilities. As social organizations, in fact, MFIs are characterized by a dual nature, that of applying business principles to achieve social ends. This has created an intrinsic tension within the sector; financial sustainability does not necessarily imply care for social performance. Although it is widely accepted that financial sustainability is a necessary condition for the success of microfinance, this is not sufficient to accomplish the social mission of MFIs. In relation to this, in recent years the microfinance sector has increasingly made reference to the concept of mission drift, to indicate the risk of MFIs deviating from their social mission as a consequence of giving priority to financial profitability. Mission drift risk can, in fact, be defined as a lack of institutional alignment with social goals. The consequences may even lead to serious reputation risk. Some MFIs have indeed experienced damage to their reputation as a consequence of harmful practices such as coercive loan collection methods and questionable human resources policies.[3] The current situation in the Indian market shows to what extent irresponsible practices of some MFIs can damage the overall reputation of the sector.

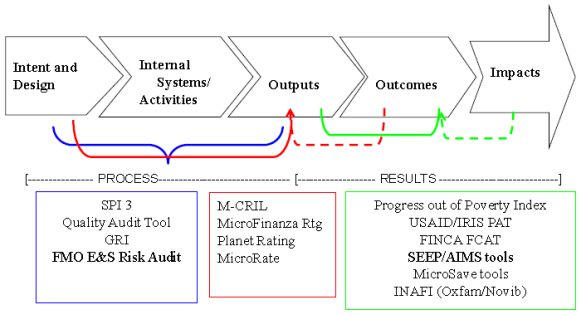
Secondly, in addition to the need to report to donors for accountability purposes, there has been another concern, namely, the responsibility of microfinance to make sure that it did not worsen the condition of people already in situations of distress, as expressed by the "do not harm" paradigm at the core of corporate social responsibility. Some contexts have, in fact, been characterised by such high growth rates that markets became extremely competitive and aggressive, with a consequent increase in the overindebtedness of clients. Bolivia in the late '90s and Bosnia and Herzegovina and Morocco in 2008 are some important examples of this that culminated in national crises. All this can imply a high reputation risk for the sector, and transparency on social performance greatly helps to avoid the occurrence of such situations. This is one of the reasons that contributed towards the greater strictness and standardisation of social performance measurement and the establishment of clear standards.

Finally, assessing and managing the social performance of MFIs can also have several advantages in terms of financial performance and efficiency. For instance, tracking and analyzing the drop-out of clients has been proved to be efficient, as it can give an

indication of the reasons for leaving the program, thus helping to reduce the rate of drop-out, and allowing costs to be reduced. Social information can also be used to segment clients and explore new markets and thus reduce competition and risk; satisfied customers repay more readily and remain faithful; staff that are working in a good environment will stay on more willingly and will produce more; all this will contribute to decreasing operating costs and increasing productivity.[4]

Definition and difference from impact

Social performance is defined as the effective translation of an institution's social mission into practice[5] and the achieving of globally recognized and accepted social goals. The social objectives to which we refer are: to reach the intended target (the poor and excluded); to meet customers' needs and demands; to improve the lives of clients and their families; and to act responsibly towards staff, customers, communities and the environment. In particular, social performance focuses not only on results but also on the processes through which it is possible to achieve such results.



Impact refers to the changes in clients' lives that can be directly attributed to the MFI. Scientific impact studies are very expensive, control groups are needed[6], causal relationships are difficult to prove and are of limited use for institutions as they are not immediately translatable into management tools for improvements in operations.[7] Given these difficulties, there has been a change in approach "from demonstrating the impact to improving the impact", mainly focusing on processes and systems and putting a stronger emphasis on social performance management. Evaluation studies, which traditionally focus on results and changes, represent only one element of social performance, as this covers the entire process by which the impact is created. Social performance is in fact derived from the analysis of different dimensions, ranging from the intention of the institution, mission and goals, processes and inputs, internal systems and activities, to outputs to impact.[8]

Initiatives and tools

To promote a "double bottom line" approach, which holds the sector to be accountable financially and socially, several attempts have been undertaken in recent years to integrate social performance into the management of MFIs. One of the most successful initiatives was the creation in 2005 of the **Social Performance Task Force** (SPTF www.sptf.info), under the initiative of CGAP, Ford Foundation and Argidius Foundation who brought together several leaders of various initiatives related to social performance to share their experiences. Over time, the SPTF has become a benchmark for the industry through the development of guidelines, tools and standards of social performance. In line with the new tendency that recognizes the importance of social performance, in 2009 **Mix Market**[9] also started to collect data on a set of core social performance indicators (www.mixmarket.org) in addition to financial ones. Several tools for assessing social performance have been developed by different actors, always based on the criteria and guidelines agreed by the SPTF. The different instruments vary greatly in the aspect that each of them aims to investigate, and they can be divided among those that focus on the institutional process, on client conditions and on social ratings.

Among those that look at the institutional process as a whole, there is **CERISE** SPI (http://www.cerise-microfinance.org/-tools) which assesses the social performance of institutions by evaluating their intentions and actions. Through a detailed questionnaire, divided by areas of analysis with a related score, CERISE analyses the internal system and the procedures in place to achieve the social goals. MicroFinance Centre (http://www.mfc.org.pl) has instead developed a **Quality Audit Tool** (QAT), a diagnostic that is intended to be a practical tool to support MFIs in reviewing the processes in place to achieve their social goals. The QAT also helps in identifying strengths to be built on and gaps needing improvement.

Among the tools that focus on client status assessment, the most popular is the **Progress out of Poverty Index** (PPI), developed by Grameen Foundation with the technical support of Mark Schreiner, who developed a method for creating national "poverty scorecards" using a similar technique to that used in credit scoring. This tool is calculated by applying statistical techniques, using national data to derive an easy to implement instrument that is able to estimate the poverty rate among customers of an institution. The **Social Rating**, complementary to the financial rating and developed by rating agencies specialized in microfinance[10], provides an opinion on the MFI's ability to implement its social mission and to achieve social objectives. It is based on a thorough analysis of the social performance management system, social responsibility approach and an evaluation of the social performance results (output), in terms of outreach and quality of services. The introduction of social rating contributes to maintaining a high degree of attention on social performance. In particular, by being a standard and independent instrument, accepted by donors and investors, it promotes transparency in the industry. It is also a useful tool for the MFIs because it provides a clear diagnostic picture of the strengths and weaknesses of social performance. It also facilitates access to financial capital as it provides useful information for potential donors and investors for taking decisions on the allocation of resources. The new trend focuses on trying to understand how the financial and social components can actually complement each other so as to improve both.[11] One of the aspects that has been capturing the most attention in recent years concerns the protection of consumers. Controversial topics, such as high interest rates and indebtedness of clients, have raised concern, especially for poor customers. If, on the one hand, the growing competition has had the effect of increasing the number of poor people with access to credit and financial services, it has not produced fully responsible behavior from a social point of view.

This has increased the concern by both industry experts and politicians and regulators in different countries, who reacted by introducing and promoting further initiatives to introduce and strengthen transparency and client protection in the sector. In this regard, **SMART Campaign** was launched by Accion in 2008. With the precise aim of leading the world of microfinance to respect the rights of clients, six principles have been developed to ensure the protection of consumers (http://www.smartcampaign.org):

1. To avoid over-indebtedness: Clients with adequate capacity to repay and without a significant risk of over-indebtedness. To offer services other than just credit;
2. Transparent pricing: Pricing and terms and conditions are transparent, properly expressed, understandable and responsible;
3. Appropriate collection practices: The practice of collection of credits is not abusive or coercive;
4. Ethical behavior from staff: The staff has high ethical standards and there is an anti-corruption system;
5. Complaints handling and resolution: Customers have access to accurate and receptive mechanisms for the collection of complaints;
6. Security of customers' data and privacy: The privacy of customer information is respected.

It is within the same vision that the **MF Transparency** initiative (www.mftransparency.org) was launched in 2008 with the aim of promoting transparency in the microfinance sector by publishing information on credit products and their prices in a clear and consistent fashion from several MFIs worldwide. The recent crises of the microfinance sectors in some countries have underlined the need to include social performance as a key parameter so as to ensure the success of the sector. Looking at social performance is key not only to showing that MFIs actually enhance the life of their clients and reach their mission, but also to better understanding customers' needs and improving services. All these factors are crucial to ensuring the long term sustainability of operations and also to improving financial performance.

Indeed, SP measurement and management will play a key role and will make the difference between those MFIs that succumb because of crisis and those that despite some difficulties manage to survive in hard times and are able to flourish in the long term.

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[3] Ekka, R., Chaudhary, R. and Sinha, F., *Integrating social performance management into microfinance capacity building: risk management,* Imp-Act, http://www2.ids.ac.uk/impact

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[6] The control group method compares a population that had benefitted from a microcredit scheme to another group which had not.

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[8] Hashemi, S., *Beyond good intentions: measuring the social performance of micro finance institutions*, Focus Note, CGAP, 2007.

[9] The Mix Market is a global, web-based, microfinance information platform that collects financial and operational information from 1,900 MFIs worldwide.

[10] Such as M-Cril, MicroFinanza Rating, Microrate and Planet Rating

[11] Rosenberg, R., *Does microcredit really help poor people?*, Focus Note, CGAP, 2010.

Can social performance go informal?

Sophieke Kappers and Julie-Marthe Lehmann
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Introduction

During recent decades, microfinance services and products have been renewed and reintroduced into the market in various ways - depending on the different countries in the South *and* in the North (Armendariz & Morduch 2010). The discussion on Social Performance started in the South and has recently reached Europe. In this essay, we will discuss 'client satisfaction' and 'depth of outreach' in relation to our findings on Informal Saving, Lending and Insurance Arrangements (ISLIAs) among ethnic minorities in the Netherlands. Knowledge of ISLIAs can help the formal microfinance sector to reach and satisfy its clients better.

Compared to the microfinance sector in the South, the Dutch sector is relatively new. As in the South, the Dutch microfinance sector aspires to stimulate both entrepreneurship and social inclusion of financially excluded people, especially disadvantaged groups (Carboni et al. 2010: 5). Ethnic minorities are generally considered to be among those disadvantaged groups.

However, different ethnic minorities - financially excluded or not - can have successful strategies and mechanisms of their own. The Centre for Microfinance at Inholland University of Applied Science carries out research[1] on these Informal Saving, Lending and Insuring Arrangements (ISLIAs) among ethnic minorities living in the Netherlands. Ethnic minorities are an important target for the microfinance sector and knowledge of ISLIAs can help to improve understanding of ways in which the formal European microfinance sector might reach ethnic minorities and satisfy their needs.

Research on ISLIAs among ethnic minorities in the Netherlands

Although some ethnic minorities might not have access to financial services, they often have access to other financial means. On the basis of research done in the South[2] on ISLIA's, it is assumed that certain ethnic minorities in the Netherlands continue to organise themselves in ISLIAs which they adopted in their country of origin. An ISLIA can be generally described as a strategy or mechanism of a group of individuals who save and lend money informally amongst themselves. 'Informal' means, in this context, that it is not linked to any formal institution such as a bank or a microfinance institution. However, there is little research evidence on the ISLIAs in the Netherlands so far (Bijnaar 2003).

The Centre of Microfinance has, therefore, launched a research programme on Informal Saving, Lending and Insurance Arrangements (ISLIAs) in 13 ethnic minorities (composed of people in the Netherlands with origins in Afghanistan, Antilles, China, Ethiopia, India, Iran, Morocco, Poland, Soudan, Somalia, Suriname, Turkey and Vietnam). The central purpose of this research is to investigate whether, and how, the Dutch microfinance sector can be linked to the ISLIAs of different ethnic-cultural groups in the Netherlands in order to improve and expand its delivery.

We have discovered that ISLIAs exist in different forms and with different intentions. Afghans and Iranians save and lend within fixed family arrangements because financial issues should not be discussed with others. Chinese, on the other hand, seem to save within groups of relatives and friends exclusively for holiday trips. The only researched minority with EU origin, the Poles, does not participate in any particular ISLIA in the Netherlands: they generally save money at home or at the bank to send or to take home to Poland.

Within at least nine of the ethnic minorities studied (Antilleans, Ethiopians, Indians, Moroccans, Sudanese, Somalis, Surinamese, Turkish people and Vietnamese), ISLIAs are a popular form of saving and lending money within a group setting. The group can consist of family members, close friends and/or colleagues. The following discussion is based on the findings of the latter nine minorities.

What can we learn from ISLIAs to successfully implement Social Performance in Europe?

The Social Performance Task Force (SPTF) defines the value of Social Performance as follows: *'Improving the quality and appropriateness of financial services available to target clients through systematic assessment of their specific needs'.* We chose two aspects of Social Performance (identified in the Social Performance Glossary, CGAP) related to this definition: 'client satisfaction' and 'depth of outreach'. In the following discussion, these aspects are linked to our findings on ISLIAs in the Netherlands. *'Client Satisfaction is an organizational measure of the extent to which the needs, wants and expectations of clients are met'* We propose to reconsider the aspect of client satisfaction by looking at why ethnic minorities actually take part in ISLIAs. The motives and objectives might be of help in improving understanding of the needs and expectations of this target group.

The most important motive for participating in ISLIAs is the social networking among the members of different ethnic minorities: taking habits to the receiving country and exchanging information related to the country of origin and the Netherlands. Furthermore, people join ISLIAs because they appreciate the positive pressure of a group to regularly put aside some money. Another motive is financial advantage: there are no complicated administrative procedures or interest rates and any extra costs are relatively low.

People have different objectives for joining an ISLIA. The money obtained through a group is mostly invested in social events, such as a marriage or a funeral, or private expenses such as fixed housing costs or schooling fees for children.

A large part of the ethnic minorities who recently took refuge in the Netherlands is using these financial arrangements to send funds back to their country of origin. However, a restricted number of ethnic minorities, mostly Ethiopians, Indians, Sudanese, Surinamers and Vietnamese, use ISLIAs for incidental economic reasons such as investing in the start-up of a microenterprise. *'Depth of Outreach is the degree to which an organisation reaches poor people with financial services'*

The 'depth of outreach' is based on how many and what kind of clients an institution reaches with its services. We have noted that ISLIAs could function as distribution channels. If microfinance organisations gain access to ISLIAs, they are able to reach a limited number of microentrepreneurs with future ambitions who do not necessarily have access to a bank.

ISLIAs do not exist only in local neighbourhoods but are also part of larger national and even international networks of ethnic minorities in the Netherlands. ISLIAs can therefore serve as a point of entry for MFIs to a diverse (transnational) network of ethnic minorities with possible financial needs.

Are there any lessons to be learnt?

We want to encourage microfinance researchers and practitioners to think outside the box and to reconsider their practices and services with respect to ethnic minorities *and* other clients. ISLIAs can be of interest if MFIs wish to target ethnic minorities in particular. Based on our knowledge of ISLIAs, we think that new forms of services and products can be developed and introduced. We have observed that ISLIAs might serve as an important distribution channel for information on microfinance because they operate within strong and diverse social networks on different levels within the Netherlands as well as elsewhere. Moreover, it will be interesting to see how much money is circulating in ISLIAs and how the microfinance sector can link up to provide better services to satisfy the needs of their clients and, in this way, to improve the depth of outreach in general.

References

[1] The indicative findings are discussed in detail in the interim report published in December 2010. Final reports will follow in 2011.

[2] The most researched form of ISLIA's are 'rotating saving and credit associations' (ROSCAs) which are used as a form of saving and lending within a group in many different countries all over the world.

Social performance management in microfinance in Europe: between theory and practice

Aurélie Dagneaux (Réseau Financement Alternatif, Belgium)

A recent concern of microfinance: the "double bottom line"[1]

It has been forty years since microfinance first emerged in Bangladesh, but it has only been a decade since microfinance has looked in depth at social performance. Indeed, originally, the "social" dimension of microfinance was taken for granted, or rather was inherent in the very mission of microfinance, which is to fight against poverty and financial exclusion. Merely to provide microentrepreneurs with the necessary funds for their activities would enable them to escape poverty and financial exclusion.

This paradigm has recently been challenged, and it was in the early 2000s that social performance made its appearance in the landscape of microfinance under the combined influence of various factors asking for this change of focus: competition between microfinance institutions, increase in delinquency, first institution failures, massive withdrawals of clients[2] ... This shift was made possible by the emergence of the concept of investors' "social responsibility" in the microfinance field. These investors have become promoters of this change.

MFIs went from a search for purely financial performance, called "financial goal", to the pursuit of "a double objective: financial and social", seeking to maximize both the financial and the social impact. The recent trend concerns even the search for a "threefold objective" with the emergence of a focus on the environmental impact of microfinance institutions.

Even if some still dispute the possibility of pursuing a dual policy, financial and social (necessary trade-off between both[3]), it is now generally accepted that social and financial performance have a mutually beneficial relationship, and that good social performance has a positive impact on financial performance[4].

Many initiatives during the 2000s have helped define social performance in microfinance, identify relevant indicators to be implemented, test and promote their use and, more generally, promote social performance among investors, customers and institutional organisations who are involved in microfinance.

Our intention is not to list comprehensively these initiatives here, but simply to highlight the major recent ones that contribute to the development of social performance.

Since 2002, Cerise[5] has been the pioneer, with the financial support of the Argidius foundation. This committee was the author of a first reflection on social performance in microfinance and, more importantly, of the first definition of social performance indicators (SPI)[6]. Followed two other phases of reflection (2004-2005 and 2006-2008) during which these indicators were tested, redefined, and then promoted. Today, over 250 MFIs worldwide have used the SPI methodology.

Cerise opened the way for the "Social Performance Task Force"[7] (SPTF), which was created in 2005 and which brings together more than 600 microfinance professionals willing to agree on common indicators[8]. The SPTF aims to disseminate and promote the use of reporting tools for social performance.

Thanks to the funding and the impetus of actors such as the consortium "Imp-Act", "The Rating Initiative" and "Oikocredit", MFIs wishing to measure their social performance are able to do so. More than 200 MFIs reported their social performance to Mix Market[9] in 2008, and this number continues to grow. Europe is lagging behind in this regard with only 32 institutions from 14 countries[10] that have reported on their social performance, all being providers of microfinance in Eastern Europe or Central Asia. No institution in Western Europe is reporting on its social performance to Mix Market (even if some of them measure it).

To assess the differences between theory and practice, we interviewed thirteen practitioners in Europe to determine their definition of social performance and its daily management. The interviews were conducted by telephone in December 2009 and the operators interviewed are the following:

Operator	Country
ADIE	France
Crédit Coopératif	France
Fédération Nationale des Caisses d'épargne françaises	France
Permicro	Italy
Banca Etica	Italy
Fair Finance	United Kingdom
Weetu	United Kingdom
Business Finance solutions	United Kingdom
Integra	Slovakia
Kosovo Enterprise Programme	Kosovo
Women World Bank	Spain
Transformando	Spain
MFO Credo	Georgia

Therefore, this study combines theory and practice to give an idea of the reality of the implementation of social performance in the field.

Social Performance Measurement: what are we talking about?

Social performance is traditionally defined as the "implementation of the mission of a microfinance institution."[11]

Although the dimensions of this performance differ depending on the players, the concerns remain the same: to reach the target (poor clients), provide them with quality products and services tailored to their needs and be responsible and able to report to different stakeholders (investors, customers, MFI employees).

For the practitioners we interviewed, social performance is the measure of the direct and indirect impact that microfinance has on the lives of its beneficiaries and their families from financial (inclusion), social, economic and professional points of view. It is the "capacity to improve the living conditions of beneficiaries through the provision of financial and non-financial services." Keywords regularly mentioned by these professionals are "to measure", "fulfill its mission", "transform the mission into specific actions", "show and prove the effect and impact of microfinance" and particularly the notion of "sustainability" of the impact on the lives of microentrepreneurs.

From "not doing wrong" at the beginning, microfinance has indeed now gone to a rationale of "doing well/having a positive and lasting impact."

To do this, social performance follows a three-step process[12]:

1. Define the objectives and mission of the institution;
2. Collect the information needed to evaluate and monitor the reality of the latter;
3. Use information collected to improve the process of operational and strategic decisions.

It is appropriate here to distinguish social performance management (social performance management or SPM) and evaluation of social performance (social performance assessment or SPA).

The management of social performance is the prerogative of microfinance institutions. It incorporates all the goals, the processes in place to achieve them, the daily (or monthly) monitoring of social performance by indicators, and its improvement, while the evaluation of social performance is an analysis after the fact of all actions taken to manage social performance.

When we asked our panel of practitioners if they were managing social performance "daily" or whether they were content to measure it once or twice a year, we were surprised to note that over half of them had not established a system of social performance management and that, for the other half, this management was at best monthly, at worst annual, usually quarterly using indicators of social performance.

Nevertheless, the will seems to be present, since virtually all players have indicated being in the process of implementing social performance management or to be thinking about it "very actively". It will be interesting to analyse in a few months/years if these good intentions were translated into action.

Whom to measure social performance for?

This measure makes sense only if it is aimed at stakeholders, whether these are investors, customers, employees or the community to which the MFI belongs.

At this stage, very few interviewed institutions reported measuring social performance to better understand the needs and expectations of their clients. Some of them reported being anxious to ascertain the impact and results obtained in order to "improve the achievement of their mission" (for the most social of them, still a minority), but the main reason for MFIs to measure social performance is to provide information or justify their work to funders and authorities. Indeed, the main reason indicated is to attract “new investors” or to "report" to existing investors. This explains why it is these same investors - such as Oikocredit - who fund these studies.

In line with the advent of responsible finance, the development of social performance measurement is being driven by - and funded by - public and private actors eager to show the positive impact that microfinance may have. Among them we have already mentioned "Imp-Act", "The Rating Initiative" and "Oikocredit", sponsors of these studies mainly in southern countries.

It would be simplistic to think that the measurement of social performance responds to a simple logic of investors and financiers being the driving forces of this development, even if this seems to be the case for the majority of institutions surveyed in Europe, recently involved in the management and measurement of this performance (between 2007 and 2009).

Indeed, for the more mature institutions in the field of social performance, the discourse is slightly different. Even if the investors’ demands are often the primary reason for the approach of management and evaluation, these institutions, players of social performance development since the early 2000s, invoke the desire to convince the public of the microfinance impact and to develop "a model of responsible finance".

This is indeed the picture that seems to emerge after ten years of measuring social performance. After some time, institutions appear to go from the logic of investors to the desire to promote the social aspect of microfinance and register this as a model of responsible finance. It is the discourse that the profession holds globally along with the development of principles of customer protection (ACCION Client Protection Principles)[13]. "Not doing wrong" or "doing well" are no longer sufficient; the microfinance sector wants to go further and be proactive in protecting the client.

What are the tools available and what do we measure?

Our purpose here is not to present an exhaustive list of social performance measurement tools currently used by the sector, but to allow the reader to have a global vision and to tick off the multiplicity of approaches to and the lack of consensus on performance measurement. To simplify the understanding, the approach here is the one adopted by CERISE and the Microfinance Gateway. The tools are divided into two categories, depending on whether they measure the **process** (intentions, systems in place and actions) of achieving social goals and the missions that MFIs have set, or the **result** in terms of living standards and client poverty and the impact of microcredit.

Among the tools aimed at measuring the process in place, we should distinguish between internal tools called "social audit" and external ones called "social rating".

Social audit is an "internal assessment of the institution's ability to implement its social mission"[14]. Led by the institution itself, it has the advantage of being inexpensive and participatory.

The **social rating** is an external evaluation led by an independent rating agency. There are four rating agencies in the microfinance field: M-CRIL, Microfinanza, Microrate and PlanetRating. The rating usually concentrates on the context and the institution profile, the management of social performances and social responsibility, and the results and the outcome of the activities undertaken to achieve social objectives.

Audit and rating allow intentions, systems and actions, and the results of the portfolio to be measured. They do not permit the measurement of results in terms of financial inclusion and out of poverty or the impact on clients (there are tools called "of result" that allow this).

Existing tools for measuring social performance[15]

	Process	Results	
	Social Audit	***Clients living standards and poverty***	***Impact analysis***
Internal	*Social Performance Task Force*	- *Progress out of poverty Index* (PPI) of Grameen/Ford/CGAP - *Poverty Assessment tool* (PAT) of USAID - FINCA *Assessment Tool*	- SEEP - *MicroSave*
	Cerise SPI		
	Quality audit of MFC (QAT)		
	Performance Audit (SPA) of USAID		
	ACCION Social[16]		
	Triodos GRI		
	Financial and social audit of FMO		
External	***Social Rating***		
	M-Cril		
	Microfinanza		
	Microrate		
	PlanetRating		

Conclusion

Nowadays, while most practitioners agree on the need to manage and measure social performance and on the need to define the latter, the implementation of social performance appears to be wishful thinking in Europe whether it is its management, let alone its measurement.

Today, the main obstacles to the implementation of social performance management seem to be the lack of money, time and human resources to manage it. The players are aware of tools to help them, but do not necessarily foresee how to set them up and especially how to finance them.

In terms of the measurement of social performance, the actors in the North are lagging behind. While Belgian institutions providing microcredit to the south, such as Incofin and Alterfin have already put in place indicators based on those set by CERISE to measure social performance, those from the North have barely heard about them and even less implemented them.

The North has to look at how the South deals with microfinance. The South already has 40 years experience, since it was there that microcredit was invented in its contemporary form. The learning curve seems to be similar concerning social performance management. If the institutions from the South have developed tools to manage this performance and "report" successfully to Mix Market, perhaps northern MFIs would do better to emulate their counterparts in the South?

A simple “copy and paste” of southern practices will not directly allow European MFIs to manage and measure social performance successfully, because the conditions are different - and as a result, the indicators are also different. Nevertheless, the outline and the state of mind are the same.

And perhaps it is necessary to find, among those involved in microfinance in Europe, a consensus on the indicators to be implemented for a harmonization of the tools used.

Is it not the role of a professional microfinance institutions network? There is precisely one in Europe: the European Microfinance Network with 87 institutions from 21 European countries. Maybe this is where we should start...

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[1] The double bottom line means that beyond the first objective of the business (financial performance) which is economic, a second objective, social, is sought.

[2] "Recent evolution of the stakes and tools of impact assessment in microfinance", Cerise for Financial Techniques and Development

[3] Cull and Hermes and al

[4] Cerise

[5] CERISE means "Exchange, Reflection and Information Committee on Savings-Credit Systems"
[6] See "Impact and Social Performances" on the website of Cerise: www.cerise-microfinance.org

[7] http://www.sptf.info/

[8] « Mesure de la performance sociale de la microfinance : pour une pratique uniformisée en Belgique », RFA, 2009

[9] www.mixmarket.org, the reference microfinance institution for knowing the performance of microfinance institutions.

[10] See www.themix.org/standards/eastern-europe-central-asia

[11] Cerise and CGAP

[12] See www. microfinancegateway.org, section on "Social performance tools."

[13] Visit ACCION website for further details. The campaign is underway to get MFIs to join. There are 6 principles: 1) Avoid overindebtness, 2) Transparent Pricing, 3) Appropriate collection practices, 4) Ethical staff behavior, 5) Mechanisms for redress of grievances; 6) Privacy of client data.

[14] CERISE

[15] Source: classification by CERISE

[16] ACCION Social: measures the success of the MFI in fulfilling its social mission and its role in the community. The six dimensions measured are 1) the social mission, 2) targeting the "poor", 3) customers, 4) transparency of information, 5) association with the local community and 6) the atmosphere at work.

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Social performance management: First trends in best practice

Veronika Thiel (Independent Consultant, United Kingdom)

Social performance management (SPM) seeks to ensure that social performance is just as much at the heart of an MFI's operations as financial management. There are strong indications that balancing social and financial considerations increases profitability of an MFI: reports show that staff retention increases, that arrears and defaults are reduced as products are better suited to match clients' needs, and that MFIs with strong SPM systems often stand out from the crowd as responsible and responsive lenders, thus increasing their competitiveness.

Implementing SPM in an MFI is a big task, as every area of operation needs to be looked at and reformed to be brought into line with SPM standards – but there are good guides that help MFIs embark on the process and accompany them in the process. These guides for example show which areas of operation need to be covered, and what questions an MFI needs to ask itself in the process[1].

What is still missing is the practical experience: what actual practical action do MFIs take in the implementation of SPM? Who initiates the process? Who decides? This lack of practical information is unsurprising given the relative newness of SPM. In addition, comparisons are difficult to make because of the great variety of MFIs as well as differences in the operational and regulatory environments across the globe.

Nevertheless, it is important to flesh out the sometimes abstract concepts of SPM. Practical examples, whilst they can rarely serve as blueprints, can give inspiration and guidance to MFIs who set out to mainstream SPM. In addition, some commonalities and best practice in the mainstreaming of SPM are emerging. The Imp-Act consortium and MIX Market commissioned qualitative research in 2010 to gauge the state of practice in SPM across the globe, and this short article will highlight the main outcomes of this research.

The research was based on a short survey and interviews with MFI experts in the field of SPM across the globe, and also drew on results of a two-year research project by the Imp-Act consortium that gathered the experience of seven MFIs on their path to implementing SPM.[2]

Setting goals and targets

MFIs seeking to manage their social performance need clearly defined goals and targets that reflect their mission, and reflect a deliberate strategy to capture intentional social benefits.

For MFIs to follow this principle, their missions and goals need to be aligned, i.e. there needs to be stringency between set goals and what the mission describes. There is some debate as to how clearly missions need to spell out goals (i.e. in numeric terms), but at the very least, they cannot be in contradiction with each other, and they need to reflect the social awareness of the MFI.

In order to assess how well missions and goals fit, MFIs seek to establish if they are reaching their target groups and if their products have the intended effects. Who are their current clients, and are these the clients they intend to serve? If they are not the envisaged target groups, MFIs appear to think about the changes they need to make to improve their outreach to the targeted groups.

One way of establishing the client base is, for example, through poverty assessments. MFIs often find that their clients are less poor than the target group they actually seek to reach, and this assessment then enables MFIs to analyse why they do not reach them and what they need to do to reach out to this group. Product development plays an important role here – for example, matching repayment schedules to cash flows of farmers or other seasonally-dependent activities.

In developing goals and matching them to the mission, MFIs focus first on areas that are clearly connected with financial performance, such as market segmentation (creation of a niche market) and client retention (retaining/increasing market shares), especially in competitive environments: demonstrating that they care about their clients' needs rather than offering a one-size-fits-all product makes them stand out among the crowd and can increase their market share. This is one of the demonstrable benefits of balancing financial and social performance.

Governance and organizational structure

One of the prerequisites for successful SPM implementation is the support of the board. It is yet to be established how active boards need to be in order to facilitate SPM but it is clear that a board that does not understand or support SPM is a major barrier. Securing board buy-in is thus of greatest importance. MFIs employ a variety of tactics to ensure this buy-in, and organisations supporting SPM implementation (for example the Microfinance Centre, MFC) target board members and senior managers to encourage SPM mainstreaming in the organisations they work in.

With regard to the organisational structure of an MFI, the creation of a common focus point clearly emerges as best practice in mainstreaming SPM. This can be an individual person or a team, but it needs to have the authority to introduce changes to all areas of operations in an MFI and its advice needs to be listened to and acted on by senior management and boards. Reporting and communication are important steps here, too: all staff as well as the board need to be informed of the process and its purpose. More importantly even, as the research indicates, it is important that staff information that feeds into the SPM mainstreaming process is acted on and that staff are informed of this. In an example where senior management did act on information provided by field staff, but didn't inform staff of this, the latter felt frustrated and ignored. After improving communication streams, the support among field staff for SPM increased, and resulted in tangible improvements in operations.

In this context, evolution of decision-making to lower levels of management, especially in larger organisations with several branches, also appears to be beneficial for the promotion of SPM.

Social responsibility: policies and compliance

MFIs need to take responsibility for the clients they work with, their staff, and the communities they are working in. A key principle of SPM is thus that MFIs should have systems in place to ensure that they are not harming their clients. To this end, MFIs need to develop deliberate policies that spell out appropriate mechanisms and behaviour of staff to deal with clients' problems arising with repayment or their business performance.

Partially driven by the fallout of cases of overindebtedness, prevention of overindebtedness has progressed most and commonalities begin to emerge. This is particularly helped by the existence of the SMART Campaign (http://www.smartcampaign.org/), which gives clear guidance on the topic. Mostly, MFIs seek to ascertain the level of indebtedness of their clients and if they have loans from other MFIs or lenders. In countries where centralised credit checking agencies do not exist, some MFIs start co-operating by comparing client files – not without problems in relation to data protection, it is nevertheless a helpful step in preventing overindebtedness. In addition, many MFIs develop policies on how to deal with arrears and payment problems, emphasising a solution that protects the client rather than insisting on a flawless repayment record. Staff are trained to act according to these policies. However, the level of detail reported for these policies (how they are implemented and monitored) is still low, and there are thus question-marks on the effectiveness of these policies, especially in large repayment crises. Despite this paucity of detail, it is clear that awareness of the issue is on the increase, and time will tell which policies work best.

Drivers of SPM integration

Another important aspect is to find out what prompts an MFI to begin the process of mainstreaming SPM, and what helps MFIs succeed in the process. The research has identified several key drivers that, individually or in combination, appear to be conducive to SPM mainstreaming:

- Competition: In competitive markets, for example in Latin America, MFIs seek to stand out from the crowd. Developing products that fit clients' needs and target niche markets is one way of doing so – and helps reach out to otherwise neglected target groups.

- Regulatory environments can help with client protection especially in relation to transparency and product pricing. For example, in some countries MFIs need to advertise the APR on all their loans, as well as associated fees. Regulation can also ensure clear and concise annual accounts, and drive MFIs towards improving systems to protect client data.

- Investor support can play a key role in encouraging SPM integration if they fund the costs associated with SPM (although, in the long run, SPM, because of its benefits for financial performance, should be cost-neutral). Some investors are becoming increasingly aware of the benefits of social performance, and are starting to request social reporting and social management systems from MFIs. While this top-down approach is sometimes seen as imposition, the combination of an MFI willing to engage with SPM and an investor supportive of it can lead to beneficial results. Developing common reporting standards, such as currently undertaken by MIX Market, will contribute greatly to creating a seal of approval for investors seeking to support those organisations seeking to mainstream SPM.

These early findings from the qualitative research show interesting trends and, over the years, a clearer picture of good practice in SPM will emerge. Social reporting and rating will increase, and organisations such as MIX Market and Planet Finance will contribute greatly to completing this picture.

In the meantime, MFIs interested in SPM should look to this evidence as inspiration on how to best change their own operations and to achieve a balance between financial and social performance that helps them achieve their goals.

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[1] See for example http://sptf.info/, http://www.imp-act.org/ or http://www.cerise-microfinance.org for further information.

[2] The forthcoming final research report by Mix Market will answer a wider remit of questions, including some quantitative analysis of social performance reporting by MFIs worldwide.

A Social Performance Analysis of European Microfinance

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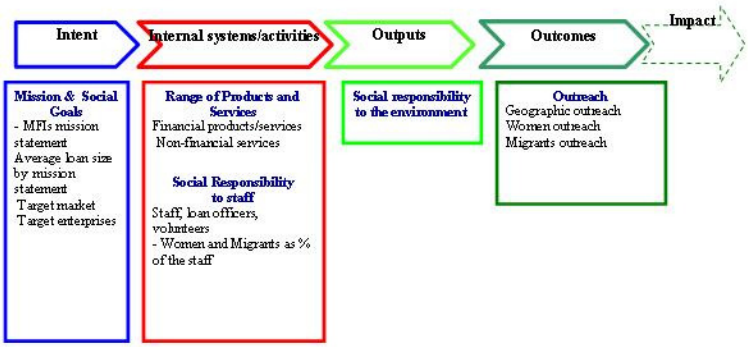
We analyse European MFIs social performance according to the core set of common indicators and framework developed by the Social Performance Task Force using data collected in 2009 for the European Microfinance Network (EMN) "Overview of the Microcredit Sector in EU 2008-2009"[1] on a sample of 170 microfinance actors operating in 21 countries from the European Union (EU) 27, current EU candidate country Croatia and countries belonging to the European Free Trade Area (EFTA).[2]

The reference framework and methodology followed in the social performance analysis, as specified in the Social Performance Standard Reports (SPSR), examines the whole process of translating MFIs mission into social impact and includes the analysis of several connected dimensions of the social performance pathway corresponding to areas covered by different set of indicators: the intent of the MFI, the effectiveness of the internal system and activities in achieving its targets, MFI outputs and eventually its capacity to positively affect clients life and achieve social goals. In what follows we present a revised set of standards, in order to fit the EMN indicators into the SPTF framework, tacking into account the specificities of European MFIs.

Figure 1. EMN Social Performance Indicators corresponding to SPSR reference framework



Intent

1. MFIs mission statement

According to MFIs mission statements, main goal of European microcredit organization is microenterprise promotion (70.4%), and despite a considerable share of respondents focus on job creation (62.7%), social inclusion and poverty (62.1%), and financial inclusion (52.7%). SME promotion (20.8%), women (34.9%) and minority empowerment (29%) concern less than half of responding MFIs.

NGOs and foundations showed a prevalent focus on social inclusion and poverty reduction (86% of them), while Community Bank Financial Institutions (CBFI) and Credit Unions and Cooperatives combine it with microenterprise promotion (respectively 61.1% and 85.7%). Most of savings banks mission statements concentrated on job creation (90.9%). Government bodies promoting microcredit programmes are mainly concerned with SME promotion (75%) and banks with microenterprise promotion (88.9%).

2. Average loan size by mission statement

Smaller loan sizes are usually associated to a greater orientation towards disadvantaged target groups. In terms of mission statements, MFIs that focused on social inclusion and poverty disclosed average loan balances below the European average in 2009. MFIs selecting women empowerment as part of their mission, combined it with microenterprise promotion and job creation in almost 40% of the cases. Furthermore, minority empowerment was associated with women empowerment in 84% of the cases.

3. Target market

Targeting policies are relevant as significantly affects MFIs cost-efficiency while they appear to have no impact on productivity (Gonzalez, 2010). Client-specific targeting policies in general restrict potential borrowers and thus worsen MFIs cost efficiency. More explicitly, targeting poor or disadvantaged groups of clients is more expensive (in terms of cost per borrower) and worsens operating efficiency by limiting the scope of diversification and the possibility of disbursing larger loans with respect to more relaxed forms of targeting (like not having a specific targeting policy at all).

People excluded from mainstream financial markets, women, ethnic minorities and migrants are the most common target groups in Europe, more in urban compared to rural environment. Almost one third of respondents do not apply any client-specific form of targeting.

As highlighted by Jayo *et al.* (2010), Bulgaria (3 out of 16 exclusively dedicated to rural populations where poverty is deemed to be widespread), Estonia, Croatia and Latvia are the countries with the highest incidence of rural interventions. On the other end, a complete focus on urban environment emerges in Belgium, Finland and Germany.

4. Target enterprises

European MFIs largerly and increasingly tend to serve enterprises in start-up phase (77.5% in 2009; +41.1% if compared to the previous EMN survey). A still remarkable share of responding MFIs lend to unregistered informal sector business, especially in Bulgaria (22.5%) and Italy (20%), even if the proportion is slightly declining with respect to the previous EMN survey (32%).

Internal system and activities

Range of products and services

5. Financial products/services

Several factors make microenterprises loans and credit-related activities dominate portfolios: regulatory framework restrictions affecting provision of financial services by non-banking institutions (in most European countries), a pre-existing well developed financial sector and the relative young age of operating MFIs. Financial services different from microcredit are provided to their clients by only 34.3% of respondents: debt counselling is offered by many organizations in Bulgaria, Hungary and Italy, and in general by NGOs. Only 38 MFIs provide personal microcredit loans, even if some cases collected in the "other" category may well apply to personal lending (usury, emergency and housing loans). Banks, savings banks and credit unions in general play a dominant role in the provision of savings products, while it is interesting to highlight the involvement of Government bodies as money transfer services promoter.

6. Non-financial services

Only a small share of European MFIs is dedicated exclusively to microfinance (24.3%). The large majority of participants are also involved with Business Development Services (BDS, 35.5%), and entrepreneurship training (25.4%). Lower shares are focused on business incubators (15.4%) and financial education programmes (13%), while 17% are traditional banks.

One of the most remarkable features of the European microcredit is its relative low incidence on the MFIs overall business activity in terms of sales volume: for almost half of the respondents (48%), microlending account for less than 25% of their activity portfolio. For 35% of respondents, microlending is rather the prominent activity representing more than 75% of overall portfolio. Amongst the latter group of MFIs, Bulgarian and Romanian organizations are predominant, given their original orientation towards SME loans.

The crucial role played by training services and technical support to microenterprises in Europe is showed by the significant supply of Business Development Services (BDS) to MFIs clients: only 17.8% of surveyed institutions do not provide BDS at all, while the remaining majority have access to them on a compulsory basis, on request, in identified cases, or by referring to external providers (for 17.2% of surveyed MFIs the share of participating clients is more than 90% of clients).

7. Social responsibility to staff

7a. Total number of staff

European MFIs are generally characterized by a small-scale in terms of the total number of staff members employed: the selected micro-lending institutions as a whole employ slightly more than 3,000 people, and an average of 20 members per MFI, despite the two largest organization in terms of staff employ 611 and 500 members (respectively *France Initiative* and *ADIE* in France).

Institutions with 5 or less employees represent 63.9% of the surveyed MFIs, while only a smaller share of 14.8% employ 20 or more people. Both staff size categories are declining if compared with 2007 (respectively -9.3% and -0.6%) showing a remarkable increase (+4.6%) of middle staff size MFIs (6-20 employees). The majority of MFIs amongst the latter group of those with larger staff size are non-bank financial institutions (39.1%) and government bodies (21.7%), with a profit legal status (66.6%), and almost 40% of them are in Bulgaria and Romania.

It is also crucial to stress the collaboration of almost 18,000 volunteers in microlending activities (in 84% of responding MFIs, a substantial increase with respect to half of the previous survey participants), especially in France (where *France Initiative* and *ADIE* rely on respectively 14,000 and 1,530 volunteers, but also an important savings bank as *Fédération Nationale des Caisse d'Epargne* count on 70 volunteers), UK (840 for *Prince's Scottish Youth Business Trust*), Italy (11 out 32 surveyed MFIs count on 10 or more volunteers).

The use of volunteers is almost absent in more mature national industries as those in Bulgaria, Hungary, and Romania, and in Germany and Spain where predominant microlenders institutional types (respectively government bodies and savings bank) tend to count on hired staff.

7b. Total number of loan officers

Total number of full-time loan officers working in microlending and related BDS programmes is above 2,000 people and represent a substantial share of MFIs staff as a result of remarkable data showed by *DSK ABV* (1,000), *ADIE* (181), *OTP Bank Nyrt.* (150), and *ALMI Företagspartner* (135) with respect to the European average (5 loan officers per MFIs without mentioned outliers).

8. Women and Migrants as % of the staff

Of the paid staff working in European MFIs, 56% are women and 13% are ethnic minorities or migrants: in Ireland (*First-step microfinance*) and Norway women are 80% of the workforce while the gender balance is below 50% in Belgium, Croatia, and Latvia (only 26% of women in staff); it is worth noting that in Switzerland (Microcrédit Solidaire Suisse) and Croatia ethnic minorities and migrants represent respectively half and one third of the staff.

Outputs and Outcomes

9. Social responsibility to the environment

Only 28.7% of the 146 responding MFIs have a official policy on environmental impact and 17% publish results about environmental performance.

10. Geographic outreach

MFIs operating in rural environment are assumed to be less productive and efficient given the higher operating costs and staff efforts associated to serving population in remote areas with poor quality infrastructures, and narrow scope for cost compression in low population density areas. Recent evidence questioned the above-mentioned common hypotheses by showing a higher productivity of rural MFIs with respect to urban, as a result of a more disperse target client population of the latter.

European MFIs focus more on urban beneficiaries (37.9%) despite the orientation towards rural target markets in 2009 (32%) increased by 8% with respect to 2007.

11. Women outreach

A significant share of European organizations disclosed their lending activity in 2008 (124 MFIs, 73% of the EMN sample group) and in 2009 (139 MFIs, 82%). A smaller set of organizations detailed their women outreach providing the actual number of loans disbursed to women in 2008 and 2009 (61.2% and 64.1% respectively). Lending rates to women of the EMN survey respondents declined between 2008 (35.5%, 21,169 loans) and 2009 (31.6%, 18,504 loans) and are substantially below microfinance benchmarks in other regions of the world.

However, remarkable differences emerge across countries. With the exceptions of the two Latvian and Swiss participating MFIs providing few loans (100% and 50% of women clients respectively), in each of the explored European countries men are served more than women with greater average loan balances. Bulgaria and Finland offer remarkable number of loans to women (1,437 and 881 loans respectively) while still slightly privileging men in their overall loan portfolio (45% and 49% respectively). Hungary, Croatia and Ireland perform below the EU average in terms of women outreach, despite a considerable number of loans to women of the former.

Most of the loans to women are disbursed by NGOs and foundations (6445 loans), especially in France, Italy, Spain and Hungary, and by non-bank financial institutions, mostly in Eastern European countries.

12. Migrant outreach

The number of loans disbursed to ethnic minorities or migrant clients is still modest and declined during the survey time interval: of the 92 responding MFIs in 2009 (90 in 2008), 24.9% served the category of the immigrants/ethnic minorities (27.6% in 2008). According to MFIs institutional types, the large majority of lending activity was carried out by NGOs (70%), associations and private entities in Italy and Germany, and few banks.

Next Steps

The attempt to carry out a SP exercise revealed, on the one hand, the opportunity to identify meaningful SP indicators at European level from the already available biennial EMN survey dataset, and, on the other hand, the limits of the latter in capturing the multidimensional aspects embedded in the concept of SP as a process, and in the corresponding standards agreed at global level in the context of the Social Performance Task Force (SPTF).

References

[1] Jayo B., González A. and Conzett C. (2010), "Overview of the Microcredit Sector in the European Union 2008-2009", *EMN Working Paper,* n. 6, July.

[2] The survey used the accepted definition of microloans as loans of 25,000 euros or less made to microenterprises or businesses with nine or fewer employees. Nevertheless, some EU lenders have reported loans for higher amounts and have been included in the report to give a better picture on how microcredit is being used by their main providers. These were specific loans and did not represent their overall lending practices.

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