EMN
Policy Note

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Microfinance generates a positive **Social Return on Investment (SROI)**

This is a policy note to demonstrate that Social Return on Investment (SROI) is measurable proof that microfinance activities have a positive impact on the budget of public governments, by facilitating reduction strain on welfare systems and by raising direct taxes and social security income.

At the same time, SROI assesses the impact of microfinance on financial and social inclusion, contributing to the achievement of the ESF policy objectives.

EUROPEAN MICROFINANCE NETWORK

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For further information: http://ec.europa.eu/social/easi

Introduction

Public policy and microfinance have been allies since its inception. However, when designing measures to support the microfinance sector, policymakers often don't have reliable quantitative data on all the positive primary and secondary consequences of microfinance. This makes it harder to design new programmes in support of microfinance. **What kind of results can a policymaker realistically expect, for any given amount of public money invested in the sector?**

> *"1 euro invested in this MFI generates X euro(s) of return to the public budget."*

For this reason, many microfinance institutions (MFIs) have taken it upon themselves to come up with a way to calculate such results. The methods explored usually focus on the decrease in welfare payments needed, plus the valuable tax money and social contributions that are generated from renewed economic activity. This holistic method has come to be known as measuring the Social Return on Investment (SROI) and can lead to a substantiated conclusion such as "*1 euro invested in this MFI generates X euro(s) of return to the public budget*".

The SROI Method

SROI is a methodology designed to measure revenue generated for society, and costs avoided, thanks to MFIs' work.

The ratio of the graph below indicates how many euros of impact are generated by every euro invested in microcredit.

Attribution | Drop-off | Deadweight | Displacement

$$SROI = \frac{\text{Social Return (Value of Outcomes)}}{\text{Investment}}$$

The SROI calculation involves:

- Collecting information on the changes experienced by borrowers (the "**Outcomes**"), which can be positive or negative.
- Assigning a monetary value to these changes, in order to quantify the impact ("**Social Return**" or "**Value of Outcomes**").
- Comparing the Social Return with the monetary inputs used for the activity ("**Investment**").

Using SROI

- MFIs gain more in-depth insight into the impact they are having on all their customers and local communities – they learn what is and is not working, and use this as input for strategy, management strengthening, and improvement of monitoring systems.
- Public governments are provided with compelling, reliable, and accessible evidence of the social value achieved with the funds invested.

Initiatives already undertaken

In different EU countries, MFIs have already tested this SROI methodology, and microfinance stakeholders have also carried out case studies using the SROI method. For example:

1. **ADIE** (France) together with KPMG[1], carried out an analysis to assess whether ADIE's professional microcredits: a) reduce the burden on welfare systems, b) generate revenue for the public budget. The goal was to understand if microcredit is a worthwhile investment for society.
2. **microStart** (Belgium) in collaboration with KPMG[2] and Vlerick Business School[3] did a similar exercise and identified that 3 different socio-economic impacts had been generated: a) savings for the Belgian government in their social benefit programmes; b) additional revenues for the Belgian treasury generated by the activities of microStart clients; c) the enhancement of local economies and economic inclusion of communities.
3. **Working Paper (2020/065)** published by the EIF[4] introduces and applies – in the form of 4 case studies – the SROI methodology, to measure the impact of microfinance on financial and social inclusion. As such it provides useful guidance and ideas for microfinance practitioners who want to analyse non-financial returns.

Findings

The results of the SROI analysis show that investment in microfinance has a positive leverage on public budgets:

- ✓ €1 invested in ADIE's professional micro-credit programme generates a revenue of €2.38 for society after 2 years.
- ✓ €1 invested in microStart pays back €4.04 to the community after 2 years.
- ✓ For the four MFIs located in Spain, Italy, and Bosnia-Herzegovina, every €1 invested in microcredit generates at least €2 of social return.

The SROI technique is a valuable tool to promote existing or potential projects by helping to attract new funding and it also helps stakeholders to understand the full value of the benefits delivered.

What are the next steps?

We encourage ESF managing authorities to consider SROI as a strong motivator to set up programmes that enable microfinance institutions and local authorities to achieve their mutual goals. Microfinance is a cost-effective tool to further the objectives of social inclusion and inclusive entrepreneurship, with proven and measurable positive effects on the economy.

We urge microfinance actors to start embracing a systematic approach in the evaluation of their impact, using either the SROI method or other tailored methodologies. The approach needs to show and highlight the positive outcomes for clients (job creation, financial access, social improvements) and the positive effect for public administrations (savings and increased tax income).

[1] The economic impact of Adie's work
[2] microStart Social Return on Investment (SROI) analysis
[3] Socio-economic impact valuation of the activities of a microfinance institution in Belgium
[4] The social return on investment (SROI) of four microfinance projects