

MINUTES OF THE SAVINGS & CREDIT FORUM NOVEMBER 19TH, 2004

Social performance of micro finance institutions

To the participants of the Savings & Credit Forum
and other interested persons

December 14th, 2004

Dear colleagues, dear Madam, dear Sir,

When talking about microfinance institutions (MFIs) we often want to hear first about their financial performance: does the institution cover its costs? Does it operate in an efficient way? How big is the portfolio at risk and what is the volume of loans? This shall not make us forget that microfinance institutions' original and most important mission is to serve poor women and men, who are excluded from the formal banking sector and who can only benefit from such institutions if services are adapted to their needs and special conditions. The latter is about **measuring the social performance of the institutions**: To what extent does the institution serve the poor and excluded? Are the services adapted to the needs of the clients? Does it have a positive influence on the social cohesion among clients? The quality of the services provided by the institution will depend on the level of satisfaction of its staff, measured through the staff turnover, for example.

In recent years, several initiatives from the donor community and development organizations in the North have contributed to develop social indicators to **measure the poverty outreach and the impact of** microfinance. **SDC's Savings & Credit Forum**, held in Bern on November 19th, gave us the opportunity to learn about these different initiatives, in particular to see how much work is needed to develop a tool that can be used by microfinance institutions around the world to measure and compare their social performance.

In the morning, Dr. Koenraad Verhagen, consultant on microfinance and co-operative economy, introduced the topic of "social performance", situating it in the **project planning, implementing and monitoring cycle**.

Social and financial performance indicators provide us with information about the institution's effectiveness in achieving its objectives. The strategy, staff capacity, instruments and knowledge management complete the information about the institution's effectiveness.

"Social performance measures how well an institution has translated its social goals into practice". These goals, which have to be predefined in the institution's strategy can be: increase the number of "poor" clients, improve the quality and adequacy of products, improve the living conditions of clients, etc.

Social performance has to be distinguished from impact evaluation. While social performance indicators provide regular information about an organization's product design, actions and outcome, an impact evaluation is a more in-depth and expensive exercise of measuring the changes in the clients socio-economic situation imputable to the organization.

In the plenary discussion following the presentation, different interesting aspects came up:

- Although the willingness to measure social performance is stronger among donors than MFIs, the instrument is also very useful for the MFIs. It **helps them ask the right questions** about whether their products are adapted to clients' needs, whether clients are satisfied with the institution, whether the institution is contributing to increase the social links among clients/members. All these are indicators of the institution's social sustainability.
- For donors and investors in microfinance, the social performance indicators can **help them take decisions** about which institutions still need subsidies and which not. For example an MFI which serves only poor people in remote rural areas might need more subsidy than an institution which serves small enterprises in densely populated cities.
- Since more and more MFIs transform into banks, it is important to **ensure that they still fulfil their social mission**.

The second presentation, by Dr. Cécile Lapenu, executive secretary of CERISE (platform of France-based microfinance support organizations), provided us with **one specific instrument to measure social performance of MFIs**, developed in the framework of a social performance indicators initiative. Over a period of 3 years a group of researchers and practitioners joined forces to design a **questionnaire that allows to measure and compare MFIs' social performance**. It is a complement to financial performance indicators which are now widely disseminated and accepted in the microfinance industry. Cecile stressed the importance of including different stakeholders in the development of the questionnaire and of field-testing it among different types of institutions and environments, in order to obtain a tool adapted as much as possible to the diversity of the industry.

The questionnaire looks at **four dimensions of social performance**: 1. Outreach towards the poor and excluded. 2. Adaptation of the services and products to the target clients. 3. Improvement of social and political capital of clients. 4. Social responsibility of the institution towards its staff, its clients and the community. A comprehensive analysis of the results and of the tool itself will be available by march 2005 (<http://finsol.socioeco.org>). Meanwhile, Cecile has shown us some **interesting applications of the tool**: for example, we will be able to analyse whether there is a positive, negative or zero causality relation between financial and social performance of an institution.

The questions and remarks which came up in the plenary discussion:

- The questionnaire can be an important piece of information for donors to negotiate with the partner MFI and **fix common goals** as to the social performance of the institution, in addition to the financial performance.
- The tool does not allow measuring impact. It is **complementary to impact assessment** and client satisfaction surveys.
- The measure of corruption has been left out of the questionnaire on purpose, because **indicators should be easily verifiable** and should not be source of trouble!
- The results of the questionnaire will contribute to the recurrent debate on financial versus social sustainability. It will provide insight on **whether there is an antagonism between financial sustainability and poverty outreach**.
- The instrument provides **important information to the MFI's board of directors** and allows to analyse the evolution of activities over the years.
- The data provided by the questionnaire cannot be read independently of the institutional and political context of the MFI. Not all dimensions of an institution (organizational set-up, legal and political framework, infrastructure, etc.) can be addressed in such a questionnaire. A **comparison of results has to be done carefully and weighted according to each institution's specificity**.

The last input of the forum, by Dr. Verhagen, provided us with a comprehensive overview of **other current initiatives** in the area of development of social indicators for the microfinance industry. Besides CERISE, the main actors involved financially and operationally are SEEP, CGAP, Accion International and Opportunity international.

Mr. Verhagen also explained that all these initiatives have developed **different - but complementary - tools with different purposes** related the social aspects of MFIs. These tools (impact assessment, market research, poverty assessment, social performance assessment) should **serve the MFI to self-assess its social performance** and to inform its donors and investors about its social plus financial performance, and should provide socially responsible investors and donors with a "social audit".

The powerpoint presentations of the forum and a list of references on social performance can be downloaded under: <http://www.intercooperation.ch/finance/download/#pvsc>.

Finally, this forum was the occasion for SDC and the participants to say **thank you and goodbye to Dr. Ruth Egger**, who is retiring after 20 years at Intercooperation. Ruth has been the initiator of the Savings & Credit Forum in 1996 and has contributed to bring together stakeholders from Swiss NGOs, SDC collaborators, consultants involved in microfinance, to exchange experience and debate around topical themes presented by international specialists and practitioners from MFIs in the South and East. We wish her all the best for her future endeavour and hope to see her in the next Savings and Credit Forum.

On behalf of the BSM Finance team,
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