SOCIAL PERFORMANCE
of
Microfinance Institutions

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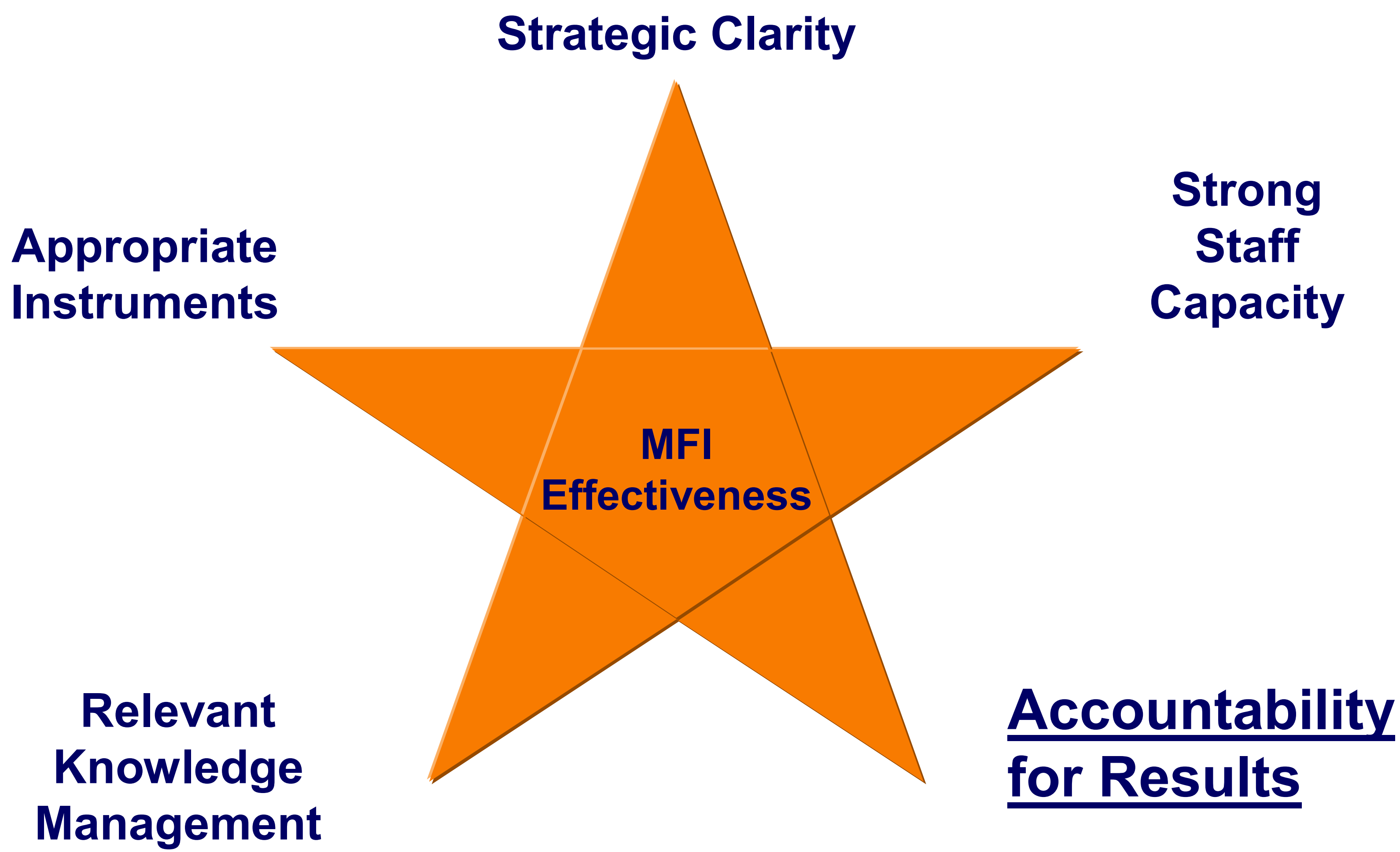
Social Performance of MFIs

Organization Effectiveness Star

(adapted from CGAP Peer Review)



Accountability for results

Results can be expressed in

- financial terms and
- social terms

We shall focus on social performance

What is Social Performance?

- Social performance measures how well an institution has translated its social goals into practice (CGAP Workshop Paris 8 October 2004)

- Social performance is measured through the principles, the actions and the corrective measures implemented (SPI final report, Oct. 2003; CERISE coordinated)

Social Performance Goals (CGAP Workshop Paris 8 Oct. 04)

- Serve increasing numbers of poor people <u>sustainably.</u>
- Improve the quality and appropriateness of financial services available to poor people.

From MFI outputs to client/community impacts

- Improve the lives of poor clients and their families.
- Widen the range of opportunities for communities.

Serving the poor

We may distinguish:

- *vulnerable non-poor* , clients in a household above the poverty line but vulnerable to slipping into poverty;
- *moderate poor* clients are in the top 50 percentile of households below the poverty line;
- *extreme poor* clients are in the households in the bottom 10 to 50 percentile below the poverty line; and
- *destitute* clients are in the bottom 10 percent of households below the poverty line

Social Performance Goals

(adapted from SPI Final Report Oct. 2003, CERISE coordinated)

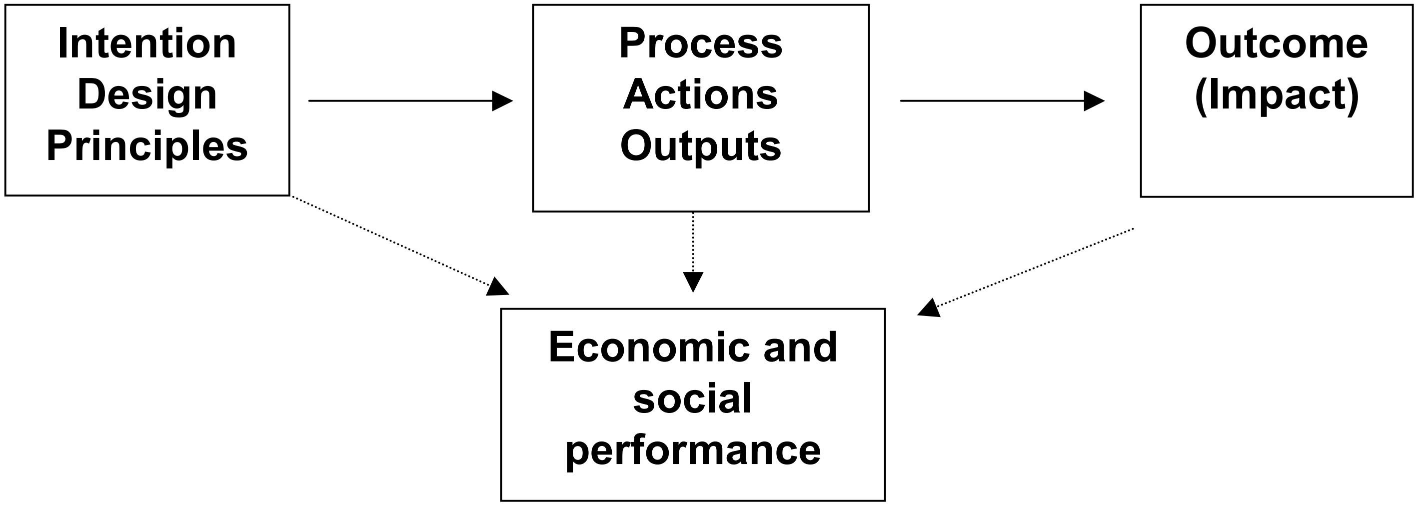
Structure ▸ Conduct ▸ Performance ▸ Impact

(Impact on clients/non-clients, communities, etc. in various dimensions)

Social performance, thus conceived, precedes impact and leads to impact

Conceptual frame

(adapted from SPI Final Report Oct. 2003, CERISE coordinated)



In the CERISE approach:

Performance = Results obtained in terms of design, action and outcome

Impact = Changes among clients, non-clients (and communities) imputable to MFI activities.

Measuring social <u>performance</u> implies evaluation of principles, actions, outputs, some elements of outcome, and corrective measures

<u>Impact</u> measurement is too demanding, complicated, costly etc. for average MFI. Some proxy indicators for impact might be added

Conceptual frame

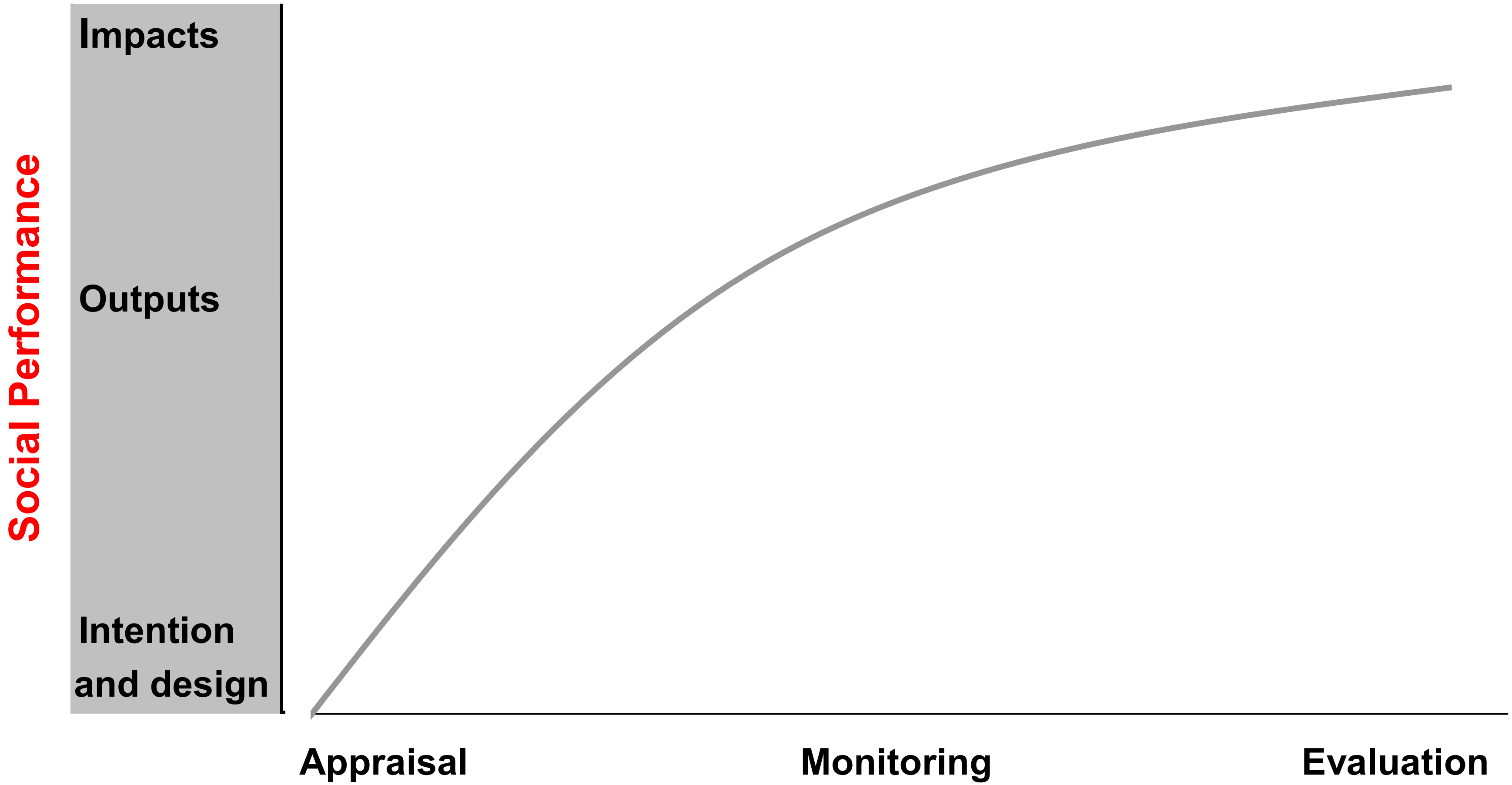
For example

- Output : Number of loans and savings accounts, and average size (relatively easy to monitor and assess)
- Outcome: Improved money management at household level (assessable)
- Impact : Effects on income, education, nutrition etc. (complicated to assess)

Note: CGAP definition of social performance is wider than the CERISE approach - see next slide)

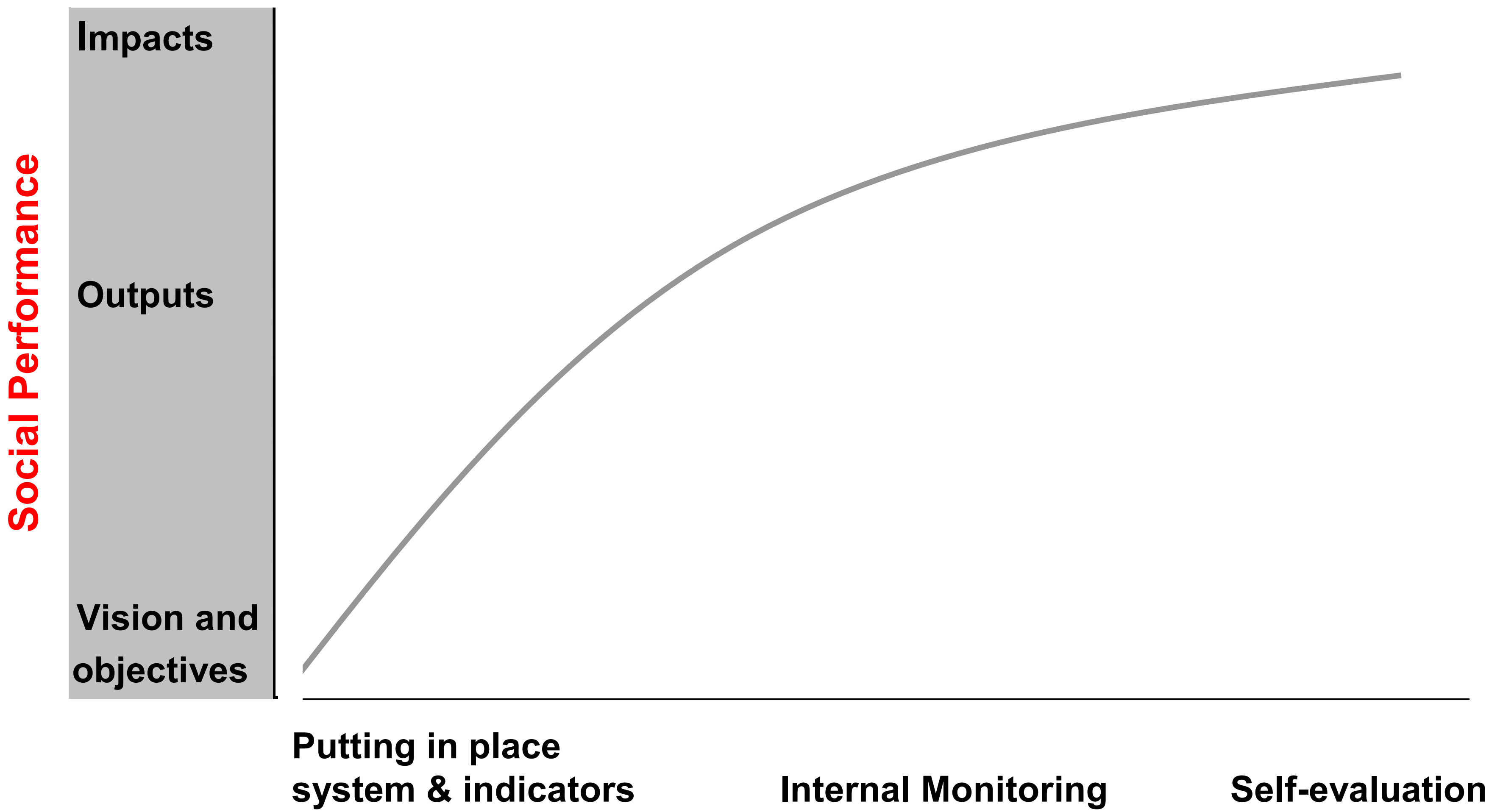
Social Performance: The Donor Perspective

(CGAP Workshop Paris 8 Oct. 04)



Social Performance: The MFI Perspective

(adapted by KV from previous slide)



Dimensions and levels of Social Performance

Intention and Design

1. MFI vision and social objectives
2. Systems and indicators for monitoring and assessment

Outputs

1. Outreach: Breadth (How many do you reach?)
2. Outreach: Depth (Outreach to poor/poorest and poor regions)
3. Quality and appropriateness of services

Impacts

1. Change in client status (link to MDGs)
2. Community-wide impact

Tne internationally accepted vision

from ‘ International Year of Microcredit ’ documentation

« Comprehensive impact studies of microfinance have demonstrated that

1. Microfinance helps poor households meet basic needs and protect against income fluctuations and other risks;
2. The use of financial services by low-income households is associated with improvements in household economic welfare and enterprise stability and growth;
3. By supporting women’s economic participation, microfinance is important to women and improves household well-being; and
4. The magnitude of impact is positively related to the length of time that clients have had access to financial services. »

The debate

- Microfinance is household finance, rather than micro-enterprise finance
- For impact on enterprise growth, especially among the poor, more is needed than credit.
- Yet, access to microfinance is a highly valued tool for household liquidity management (an effective and often indispensable ‘safety net’)
- Mobilisation of savings and other local resources has been neglected for many years.
- Impact on rural economy, so far, is very limited

What do critics further say:

- Most MFIs force clients to take a new loan at the end of each loan cycle (4 months); 1st cycle, 2nd, 3rd, etc ; the ‘ micro-debt ’ industry
- Effective interest rates are still very high; up to almost 100 % (such as in Uganda)
- Most MF credit is small trade financing; a ‘ zero sum game ’ in a saturated market (Thanks to the loan I can buy and sell more tomatoes, but my neighbour will sell less)
- Too much donor money for new MFIs and expansion of outreach; rather than for improving quality of services and products
- For years, Micro Finance has been overadvertised as a solution to poverty

Microfinance and poverty alleviation

Conclusion: Microfinance is primarily an effective tool for improved money management at household level, enabling poor people to cope with economic stress and shocks due to:

- Natural disasters (floods, droughts etc.)
- Individual emergencies (illness, accidents, fire, etc.)
- Life cycle events (marriages, funerals, etc.)

Note: Inability to cope leads often to sale of assets, lending at usurious rates, or very poor nutrition resulting in a downward spiral.