

# **Measuring the Social Performance of Microfinance in Europe**

**Fabrizio Botti and Marcella Corsi**

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Nevertheless, several initiatives recently translated into the Social Performance Task Force (SPTF) attempt to explore social aspects of microfinance providing a new definition of social performance more focused on the whole process leading to a social impact.

Aim of this paper is to measure European MFIs social performance according to a core set of common indicators developed by the SPTF but using data collected in 2010 by the European Microfinance Network (EMN) on a sample of 170 microfinance actors operating in 21 countries out of 27 European Union (EU) member countries, current EU candidate countries and countries belonging to the European Free Trade Area (EFTA).

The reference framework followed in the current social performance analysis examines the whole process of translating MFIs mission into social impact and includes the analysis of three connected dimensions of the social performance process corresponding to 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.

CEB Working Paper N° 11/037  
2011

# Measuring the Social Performance of Microfinance in Europe

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## Introduction

Microfinance promise to serve low-income or disadvantaged beneficiaries excluded from the formal banking sector in a financially sustainable way (thus to achieve the so called “double bottom line” of financial and social performance) built excitement around the development of a global industry. However, for a long time an anti-subsidy position embedded in the international key donor community have shown little concern of social performance data and information on beneficiaries profiles in terms of various dimension of social and financial exclusion. Until recently, most of the emphasis of microfinance advocates has been devoted to MFIs financial performance following the “win-win” proposition, according to which financial viability should be sufficient to show social impact, a view that is supported by a controversial evidence and is based on a selective understanding of conceptual facts.

Nevertheless, several initiatives recently translated into the Social Performance Task Force (SPTF)<sup>1</sup> attempt to explore social aspects of microfinance providing a new definition of social performance more focused on the whole process leading to a social impact<sup>2</sup>.

Aim of this paper is to measure European MFIs social performance according to a core set of common indicators developed by the SPTF but using data collected in 2010 by the European Microfinance Network (EMN) on a sample of 170 microfinance actors operating in 21 countries out of 27 European Union (EU) member countries, current EU candidate countries and countries belonging to the European Free Trade Area (EFTA).

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<sup>1</sup> The Social Performance Task Force has been created in 2005 by CGAP, the Argidius Foundation, and the Ford Foundation with the task to bring together different actors carrying out social performance initiatives in order to exploit synergies, define social performance and identify a common framework for social performance measurement, reporting and rating.

<sup>2</sup> The Social Performance Task Force defines social performance as “the effective translation of an institution's social mission into practice in line with accepted social values that relate to serving larger numbers of poor and excluded people; improving the quality and appropriateness of financial services; creating benefits for clients; and improving social responsibility of an MFI.”

The reference framework followed in the current social performance analysis examines the whole process of translating MFIs mission into social impact and includes the analysis of three connected dimensions of the social performance process corresponding to 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.

## **1. European microfinance landscape**

Regardless of its NGO roots, the European microfinance sector is characterized by a large variety of players mostly as a result of a general lack of specific national regulatory environments, with the exceptions of France and Romania. Despite an ongoing process of downscaling, there are far fewer banks (11.2% including savings banks) relative to NGOs (27.3%) and NBFIs (17.4%), even if the former account for 22.4% and 28.6% of number and amount of loans disbursed in 2009 respectively. Banks are thus bigger on average and make relatively larger loans, suggesting a greater focus on less-disadvantaged populations. In contrast, NGOs disburse 23.2% and 7.8% of the overall portfolio in terms of number and value of loans respectively, offering smaller loans to more beneficiaries.

The second most common type of microlenders is the “others” charter type: these MFIs are mainly public or private entities (microfinance associations and other religious institutions) mostly found in Italy, rooted in the local context and closely connected to target groups, which are responsible for the selection process (collection of information and documents from potential clients, selection of borrowers to be presented to the formal lender, provision of guarantees directly or through a third party) and for the provision of non-financial services and/or business development services. Community Development Finance Institutions (CDFI) are British lending NGOs with a specific legal status in the UK providing a range of products (capital and other types of support) to address financial exclusion.

Most institutions remain non-profits, but the proportion has decreased from the previous 2006-2007 EMN survey consistently with the increased presence of banks entering the field.

Table 1. Main characteristics of the European microfinance sector

	% of European total		
	MFI (169)	n. loans (69,266)	value loans (€ 783,375,048)
<b>Charter type:</b>			
NGO or Foundation	27.3	23.2	7.8
Others	23.8	35.2	34.8
NBFI	17.4	10	5.1
Credit Union/Coop	8.4	1.6	0.6
CDFI	7.7	0.4	0.5
Bank	5.6	22.4	28.6
Savings Bank	5.6	1	12
Government body	4.2	6.2	10.6
<b>Profit status:</b>			
Not for profit	63.9	59.6	42
Profit	36.1	40.4	58
<b>Age (years):</b>			
New (0-4)	19.1	13.5	13.6
Young (5-8)	36.4	2	1
Mature (>8)	44.4	84.6	85.4
<b>Size (GLP):</b>			
Small (<€2mln)	69.7	12.2	5.5
Medium (>€2mln, <€8mln)	22	13	11
Large (>€8mln)	8.3	74.8	83.6

Authors' calculation on EMN 2008-2009 Survey database.

The microfinance sector in Europe is relatively young as the 55.6% of MFIs began their microlending activity 8 or less years ago. In part as a consequence of their lack of maturity, lender size in terms of gross loan portfolio (GLP) is still predominantly small, as almost 70% of respondents have a GLP that is less than €2mln.

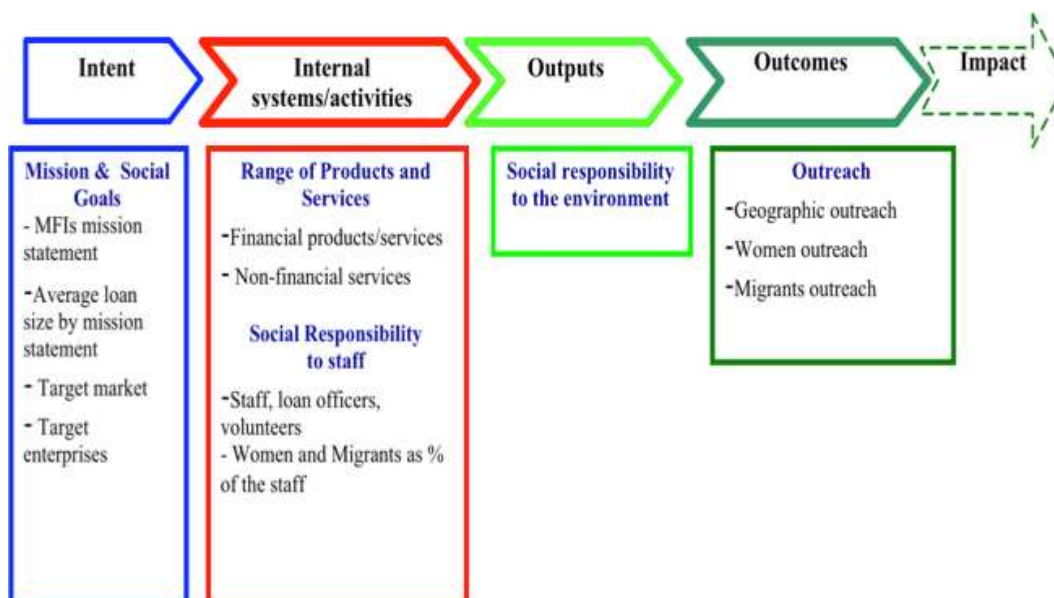
## 2. EMN Social Performance Indicators correspondence to SPSR reference framework

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" on a sample of 170 microfinance actors operating in 21 European countries.

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.

Figure 1. EMN Social Performance Indicators in the SPSR reference framework



Data collected on European MFIs involved in the survey through an *ad hoc* questionnaire allow focusing on just part of the entire set of 22 core indicators included in the Social Performance Standard Report yet enable to investigate spheres of the social performance issue relevant to a young and dynamic sector as the European one.

In what follows we present a revised set of standards, in order to fit the EMN indicators into the SPTF framework, taking into account the specificities of European MFIs.

### 3. MFIs intent: mission and social goals

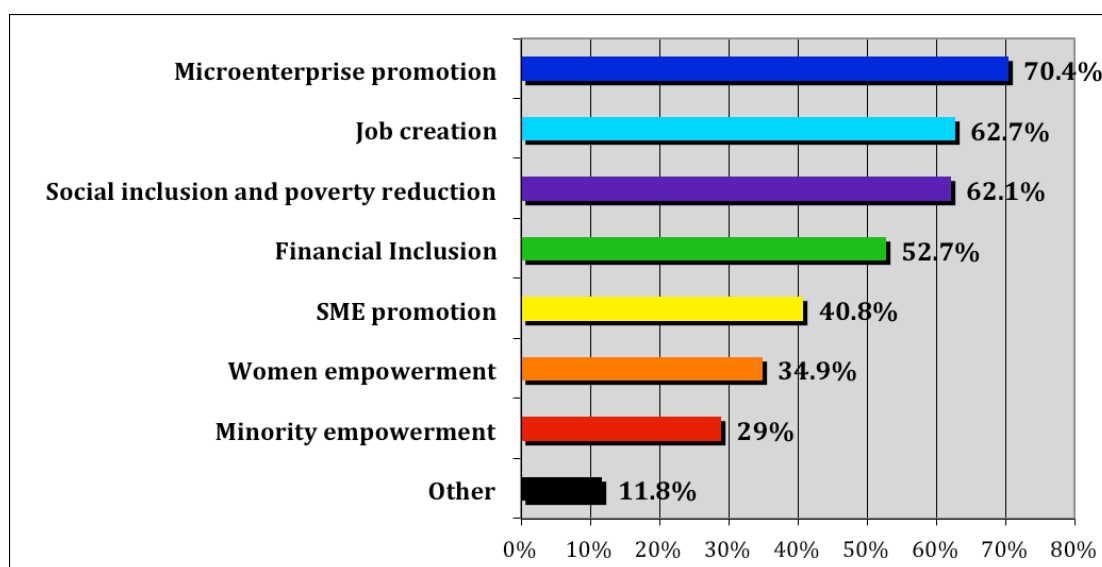
#### 3.1 MFIs mission statements

According to MFIs mission statements, main goals of European microcredit are microenterprise promotion (70.4%) and job creation (62.7%), despite a considerable share of respondents focus on social inclusion and poverty, and financial inclusion. SME promotion (20.8%), women (33.9%) and minority empowerment (29%) concern less than half of responding MFIs (See Figure 2).

An exact comparison with previous survey data is not possible as two new options were introduced: women and minority empowerment. Organizations were also allowed to select as many options as they deemed applied better to their programme mission. However, MFIs in Europe seem to maintain their preferential concern on enterprise promotion and job creation.

NGOs and foundations showed a prevalent focus on social inclusion and poverty reduction (86% of them), while Community Bank Financial Institutions (CBFI), 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%).

*Figure 2. MFIs mission statements*



Authors' calculation on EMN 2008-2009 Survey database.

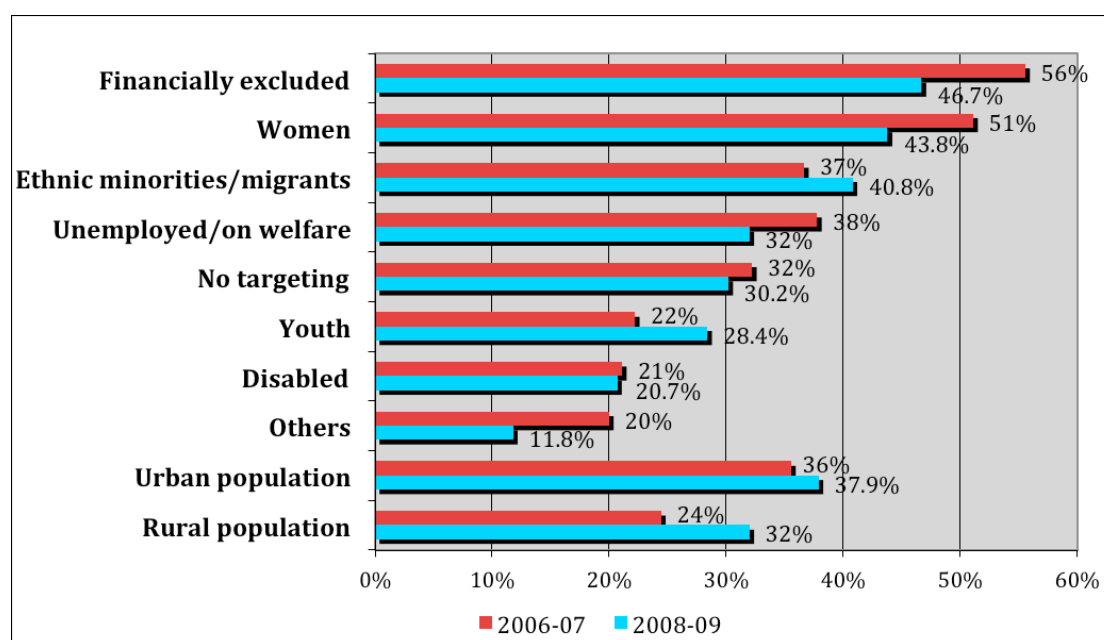
Smaller loan sizes are usually associated to a greater orientation towards disadvantaged target groups. In terms of mission statements, MFIs that focused on social inclusion and poverty and “others” exhibited average loan balances below the European average in 2009.

### 3.2 Target Market

People excluded from mainstream financial markets, women, ethnic minorities and migrants are the most common target groups in Europe, while almost one third of respondents do not apply any client-specific form of targeting.

Targeting policy has proven to have a significant impact on MFIs efficiency while it appears to have no impact on productivity. 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) (Gonzalez, 2010).

Figure 3. Target market



Authors' calculation on EMN 2006-2007 and 2008-2009 Survey database.

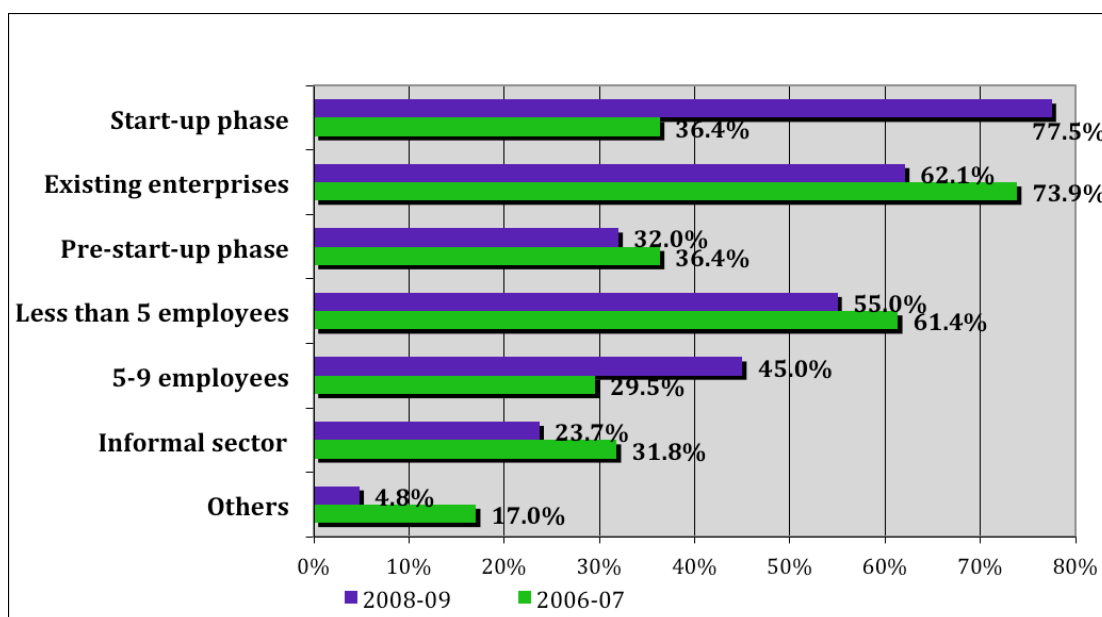
### 3.3 Enterprises supported

According to the age of enterprises, European MFIs tend to mostly serve those in start-up phase.

Despite enterprises with 5 employees or fewer were the most served business size, those with five to nine employees grew by 15% with respect to 2007 data (EMN, 2008 and 2010) suggesting a gradual shift to larger registered business.

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 declining with respect to the previous EMN survey (32%).

*Figure 4. Types of enterprises supported*



Authors' calculation on EMN 2006-2007 and 2008-2009 Survey database.

#### **4. Internal system and activities: range of products and services (financial and non financial)**

##### **4.1 Financial products and services offered**

All the MFIs participating to the EMN Survey provide microloans of €25,000 or less to microenterprises of 9 or fewer employees according to the definition agreed at European level.

A combination of regulatory framework restrictions affecting non-banking institutions provision of financial services in most European countries, a pre-existing well developed financial sector and the relative young age of operating MFIs make microenterprises loans and credit-related activities dominates portfolios. 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. Spanish savings banks and their foundations cross-sell financial products to their clients (EMN, 2010). Only 38 MFIs provide personal microcredit loans, even if some cases collected in the “other” category may well apply to personal lending (anti-usury, emergency and housing loans). Personal loans are different from microcredit because they are not intended for the creation or development of a microenterprise, but they support specific needs or unexpected expenses of people excluded from the mainstream financial system with the aim to reintegrate them and prevent over-indebtedness. 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.

#### **4.2 Non-financial services offered**

Only a small share of European MFIs is dedicated exclusively to microfinance (24.3%). The large majority of participants are mainly 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.

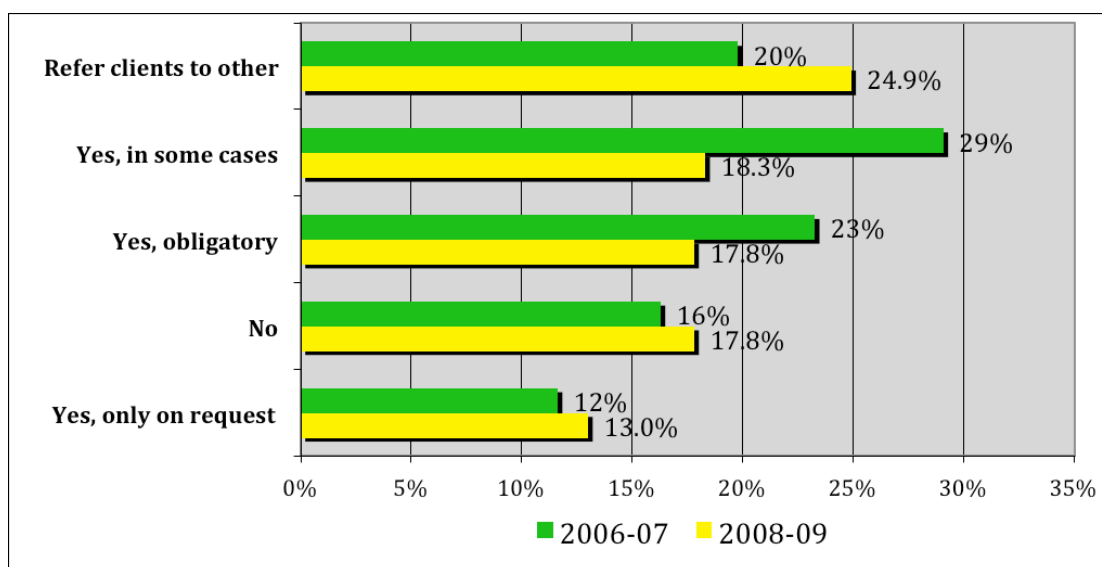
One of the most remarkable features of the European microcredit is its relative low incidence on the microlenders overall business activity in terms of sales volume: for almost half of the respondents (48%), microlending account for less than 25% of their activity portfolio. For 35% of respondents, microlending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

#### **4.3 The provision of Business Development Services (BDS)**

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 provide 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).

Figure 5. Business Development Services (BDS)



Authors' calculation on EMN 2006-2007 and 2008-2009 Survey database.

## 5. Internal system and activities: policies and compliance

### 5.1 Staff issues

European MFIs general small-scale also involves 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'Épargne* 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.

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).

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 Sweden (*Microcrédit Solidaire Suisse*) and Croatia ethnic minorities and migrants represent respectively half and one third of the workforce.

## **6. Output and outcomes**

### **6.1 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 less disperse target client population of the former, even if global data are mostly driven by high population density developing country as India and Cambodia (Gonzalez, 2008).

As showed in Fig. 3, European MFIs maintain a prevailing urban focus, despite MFIs targeting clients in rural context increased by 8% with respect to the previous EMN survey. According to EMN (2010), Bulgaria (3 out of 16 MFIs exclusively dedicated to rural populations where poverty is 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.

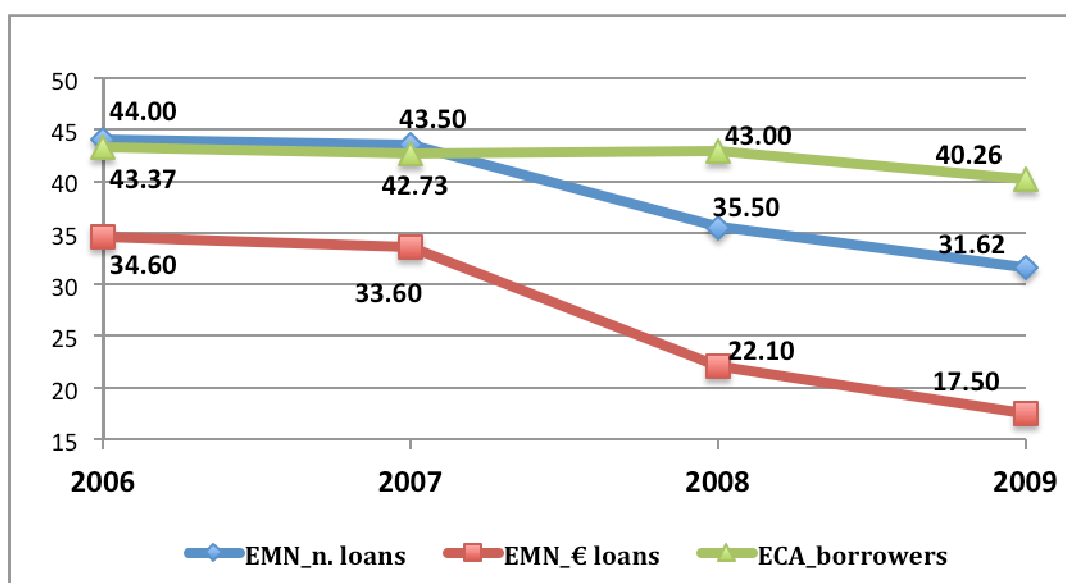
## **6.2 Women outreach**

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 organization 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 (Asia, Latin America and the Caribbean, and Africa). In Fig. 6, European Microfinance data are compared to MIX Market data on Eastern European and Central Asian MFIs for a matter of geographical proximity.

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.

Figure 6. Women clients trends compared



Authors' calculation on EMN 2006-2007 and 2008-2009 Survey database, and MIX Market Benchmarks for European and Central Asia (ECA).

### 6.3 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 by few banks.

## 7. European Microfinance potential trade-offs between social and financial performance

Recent research efforts explored potential relationships between social and financial performance challenging one of the most controversial issue in the microfinance debate by suggesting the existence of selected synergies rather than trade-offs between the two major microfinance goals, despite some of the results are not statistically significant owing to small samples to offer any final resolution on the issue (Gonzalez, 2010; Bédécarrats et al., 2009; Dewez and Neisa, 2009; Microfinanza Rating, 2010).

Across the above-mentioned studies, comparable and consistent results are only found for the social performance area of non-financial services provision: no trade-offs between non-financial services and all areas of financial performance explored are reported. Some conflicting results involve on one hand consumer protection and social responsibility to staff, and on the other hand MFIs portfolio quality. More broadly, conclusive evidence are threaten by a lack of statistically significant results and small reference samples.

### 7.1. Efficiency and Social performance

Potential efficiency trade-offs of a subset of the previously described social performance indicators may be examined with respect to an efficiency measure, the operating expenses ratio, and a standard indicator of MFIs financial viability, the Operating Self-Sufficiency ratio (OSS).

According to Pearson's correlation coefficient in Table 2, a trade-off between women or migrant outreach, and the operating expenses ratio emerges in the European data, despite limited responding MFIs on efficiency and depth of outreach measures makes it more difficult to generalize results on larger populations.

Smaller loan balances are often associated to MFIs focused on disadvantaged beneficiaries. For the selection of European MFIs disclosing their financial indicators, smaller loans are more expensive and only MFIs disbursing larger balances exhibit better performance in terms of OSS. European MFIs providing smaller loan balances are less efficient in terms of operating expense ratio and less financially sustainable.

*Table 2. Correlation between selected financial and social performance indicators*

	ALB	% Ethnic minority (loans value)	% Ethnic minority (n. loans)	% Women (loans value)	% Women (n. loans)
Operating Expenses Ratio	-.347*	.666**	.714**	.526**	.560**
Operational Self-Sufficiency	.327*				

\*\* Correlation is significant at the 0.01 level (2-tailed); \* Correlation is significant at the 0.05 level (2-tailed)  
 Authors' calculation on EMN 2006-2007 and 2008-2009 Survey database.

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