



MICROFINANCE: SOCIAL IMPACT OR SOCIAL PERFORMANCE

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Microfinance can be defined as all financial services provided to populations excluded from the formal financial system. Thus Microfinance includes microcredit as well as micro savings, micro transfers and micro-insurance. Microcredit is the extension of relatively small amounts of credit used by people excluded from traditional financial system for the development of income generating activities. In most cases, these loans are provided to impoverished populations without access to the conventional financial system due to a lack of physical collateral, a lack of education (literacy) and/or a lack of access to a formal banking infrastructure. The innovation lies in the belief that the poor can repay loans, and experience shows that they repay even more reliably than populations that have access to the traditional banking system.

The history of microfinance suffices to demonstrate its genuine social utility. The organizations involved in the microfinance sector – known as Microfinance Institutions (MFIs) – have a double bottom line: a social performance target and profitability target, or at least the aim of covering costs. These two aspects are complementary and ensure that efforts are sustainable, with the ultimate goal being the reduction of poverty within partner populations. This is achieved through several channels: the improvement of income, assets and family finances through savings and the income generating activities developed through the use of microcredit; the improvement of the family's standard of living; and the empowerment of entrepreneurs within their families and their communities, especially with respect to women. In addition, microfinance can strengthen the economic and financial security of families as well as reducing their dependence.

Although it is a recurrent theme in the microfinance sector, the question of the social impact of microcredit is not yet settled. It is commonly accepted that microcredit has a positive social impact. However, it is difficult to assess and measure the impact and direction of the correlations.

Much research and many studies have been conducted and developed with the aim of measuring the social performance of MFIs and of microfinance in general. These tools are generally known as tools for measuring poverty (Poverty Assessment Tool or PAT – Progress out of Poverty Index, or PPI), which aim to assess the living standards of the MFI's clients and to compare these living standards over time to highlight any changes. These tools are built on a simplified set of non-financial indicators reflecting the living standards of the populations: possession of material objects, type of diet, possession of administrative documentation, level of children's education, dwelling type, health costs, condition of sanitary facilities, etc. These criteria must be adapted to local situations to be as relevant as possible.



However, it is very difficult to isolate the specific effects of microcredit on the living standards of the recipient populations. Thus many recent studies and analytical tools have been developed to improve the practice of microcredit rather than to prove the existence of its social impact, thereby increasing the utility of research and studies that are often lengthy and expensive. This is the case for the SPI (Social Performance Indicator) tool developed by CERISE (*Comité d'Echange, de Réflexion et d'Information sur les Systèmes d'Epargne*). It is used not to evaluate the social impact of microfinance, but to measure the social performance of a given MFI, taking into account 4 main criteria: targeting of the impoverished populations, adaptation of services to customers, enhancing benefits for clients and their families in terms of living standards, and the social responsibility of the MFI.

<http://www.cerise-microfinance.org/>

Beyond microcredit in the strict sense, it is the way that all microfinance activities work together that creates an extremely effective development tool. Savings and microinsurance are microfinance services that must often be introduced prior to the introduction of credit for a more credible and durable impact. Credit is not a tool for poverty reduction if it is not part of a larger whole. These financial services may also be accompanied by non-financial services such as management consulting, training, financial education or other support services for the entrepreneur, as well as social welfare, health and/or education services which support the entrepreneurs' families and communities.

Emmanuel de Lutzel