



Midday Goes **Social** Seminar



Microfinance Social Performance in the EU: Recent trends and trade-offs

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Thursday 12th November

13:00-14:00



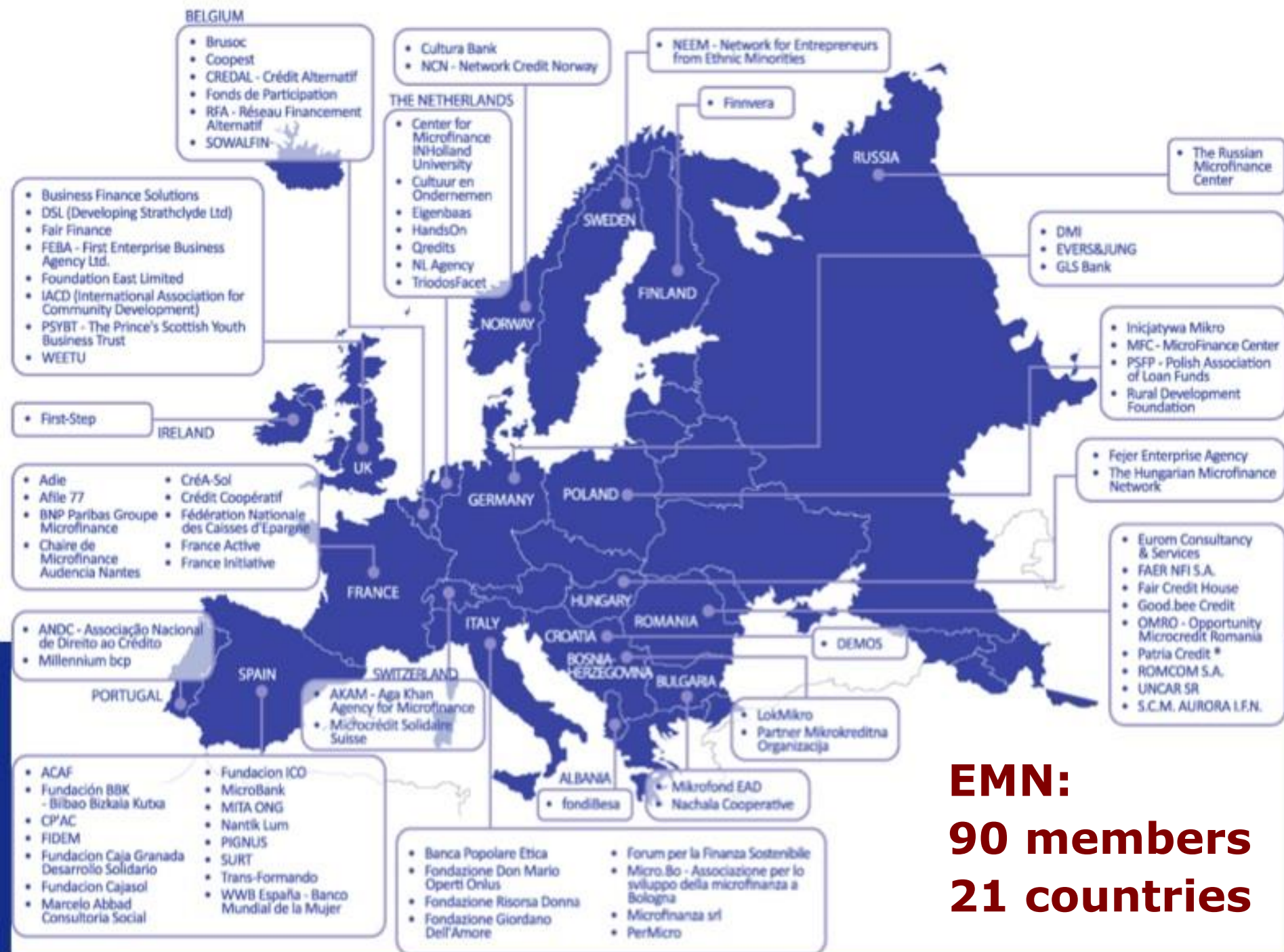
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Microfinance and EU

- **The European Commission (EC)** has launched several initiatives in the field of microfinance and is part of a dynamics to promote microfinance as an economic development tool.
- The EC defines microcredit as *“the extension of very small loans (micro-loans) to entrepreneurs, to social economy enterprises, to employees who wish to become self-employed, to people working in the informal economy and to the unemployed and others living in poverty who are not considered bankable. It stands at the crossroads between economic and social preoccupations. It contributes to economic initiative and entrepreneurship, job creation and self-employment, the development of skills and active inclusion for people suffering disadvantages”*
- **Microloans do not exceed 25.000 Euro.**

European Microfinance Network (EMN)

- The creation of the EMN has been an essential step in the promotion of microfinance in the EU, assisting the fight against social and financial exclusion.
- The EMN was launched in 2003 in Paris, with the valuable support of the European Commission and the French Caisse des Dépôts et Consignations (CDC). Since December 2012, has legally transferred its activities from France to Belgium.
- Microfinance in West-, East-, South-, and North-European countries evolves in very different environments. EMN strives to listen to the expectations and the needs of its members and find common ground between all of them, in order to speak with one voice.



Trends

EMN Overview survey 2013
(September 2014)

European microfinance and social performance: where do we stand?
(October 2014)

For EMN publications visit
<http://www.european-microfinance.org/index.php>

Key Findings – Scale and development

- **Sustained growth in surveyed EU microfinance provision (total volume) due to:**
 - Increased coverage of organizations in certain EU-member states.
 - More loans provided per institution covered (e.g. in France).
 - A higher average loan size per institution.

	2003	2004	2007	2008	2009	2010	2011	2012	2013
Number	27,000	35,553	42,750	90,605	84,523	178,572	204,080	324,406	387,812
Value (million EUR)	210	295	394	802	828	779	1,074	1,303	1,528
Responses	109/139*	94/206*	94/206*	118/170	138/170	102/148	108/148	122/150**	122/150**

Key Findings – Scale and development

- A sample of 35 MFIs was constructed by clustering reporting data on no. & vol. of loan provision by MFIs that participated through time.
 - Value of microloans disbursed increased by 22% from 2011 to 2012 and by 17% from 2012 to 2013.
 - Number of microloans disbursed increased by 20% from 2011 to 2012, but slightly decreased by 3% from 2012 to 2013.
- However, insights are not representative, since no explicit panel data.

Country	Value of loans disbursed					No. of loans disbursed			
	n	2010	2011	2012	2013	2010	2011	2012	2013
Total	35	566,390,213	656,720,997	799,812,587	933,690,670	128,775	148,282	177,356	171,730

Key Findings – Institutional types and missions

- European MF is characterized by a wide range and diverse set of institutions.
- Highest shares of institutional types: non-bank financial institutions and NGOs or foundations.
- Majority of mission statements still centers on employment goals: microenterprise/SME promotion and/or job creation.

Key Findings – Outreach

- Availability of data for employment impact, client outreach and social performance still limited.
- Microcredit sector in Europe had an impact on at least 250,000 jobs according to lending activity in 2013 (based on rough calculation).
- Slightly increased outreach to women (+3%) and ethnic minorities (+6%) compared to the past. But availability of data remains scarce (1/3 of all participants reported distribution of loans to women and ethnic minorities).

SP: Where do we stand?

- **Objectives:** to assess the level of awareness among European MFIs on social performance initiatives, identify practices already implemented and offer perspectives considering MFIs' constraints and needs.
- **Methodology:** survey submitted to a sample of EMN members in May 2014. Online questionnaire composed of 18 questions articulated in 4 sections:
 - *Profile data;*
 - *Awareness / knowledge of social performance;*
 - *Social performance management;*
 - *Intentions / perspectives.*
- The questionnaire was sent to 119 MFIs, with a response rate of about 30 per cent (35 participants).

Definitions

- **Social Performance (SP)**: effective translation of an institution's social goals into practice, integrated into the organization's strategy, with a focus on:
 - *Serving poor and/or financially excluded people in a viable manner;*
 - *Improving the quality and appropriateness of financial services and products;*
 - *Improving the economic and social conditions of clients; and,*
 - *Ensuring social responsibility to all stakeholders.*
- **Social performance management (SPM)**: process of managing an organization to achieve a social mission and put client focus at the centre of decisions and activities. SPM begins with a clear social strategy, which is then carried out by the governance bodies and management, and subsequently disseminated throughout the institution.

Lessons learnt

Awareness / knowledge of social performance

- For the majority of respondents, social performance seems to stop at awareness (i.e. awareness through publications, direct exchange with partners, conferences, etc.). The implementation of initiatives is still lagging.

Social performance management

- Majority of the respondents have defined a social mission and integrated it in strategic documents. In most cases, the social mission has been translated into specific targets. This trend is stronger for MFIs providing business loans. Two thirds of the organizations surveyed have established social indicators to measure progress toward their social objectives. It confirms that microfinance in Europe is primarily used as a tool for job creation and enterprise promotion, and to a less extent for empowerment of specific groups (e.g. women, rural, poor, etc.).

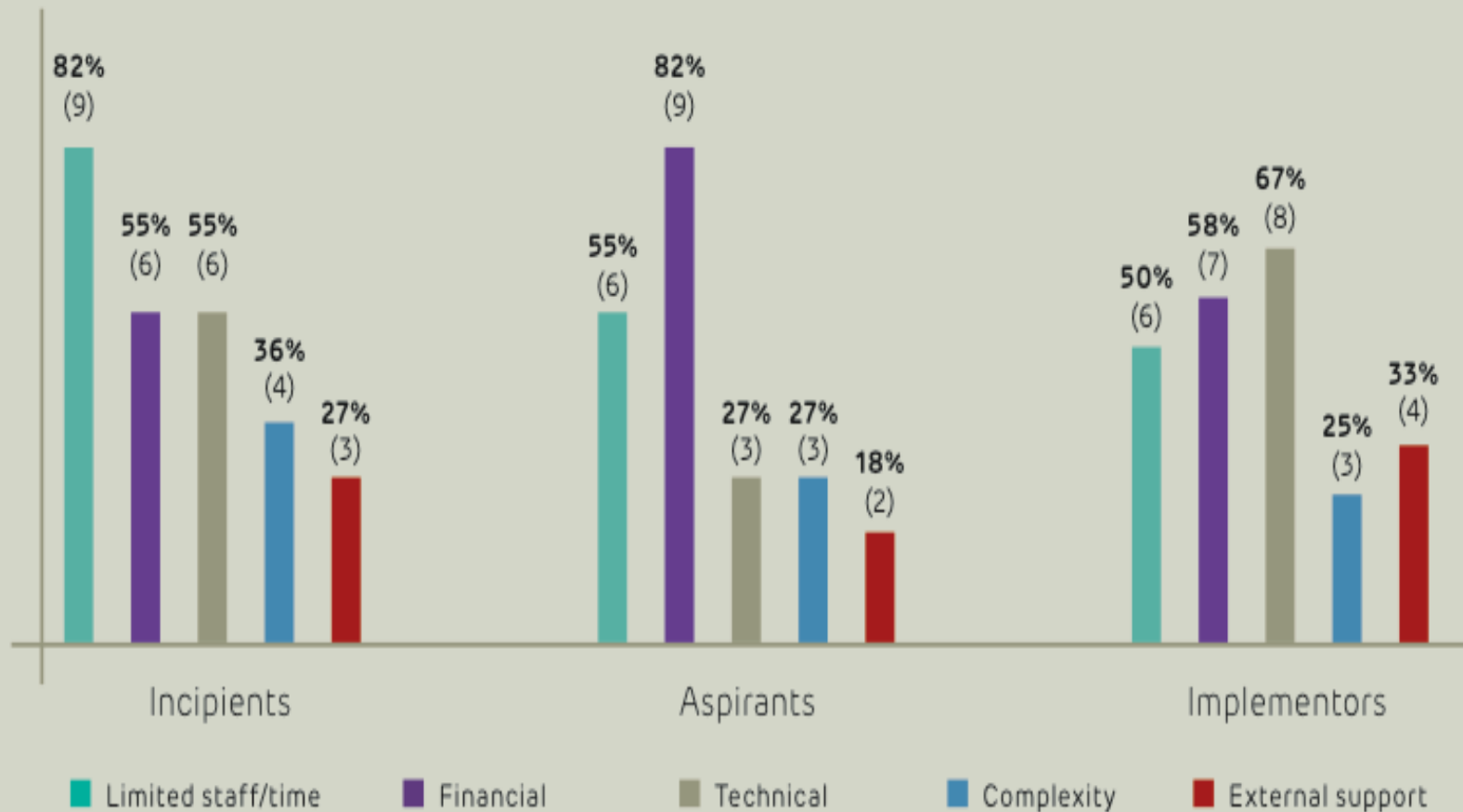
Lessons learnt

Four profiles of respondents emerged through analysis of the survey results:

- **Incipients (31%):** no clear social objectives or target clients, no/limited SP indicators set, limited knowledge of sector initiatives and standards, no recent social assessment conducted, unclear SPM strategy.
- **Aspirants (31%):** defined social objectives and/or target clients, advanced knowledge of sector initiatives/standards (trained/endorsed), recent social assessments conducted.
- **Implementers (34%):** clear social objectives and target clients, social indicators monitored on a continuous and regular basis, sector standards endorsed or implemented, social assessments conducted, clear SPM strategy.
- **Champions (3%):** integrated SPM and demonstrated good practices and granted certification.

Lessons learnt

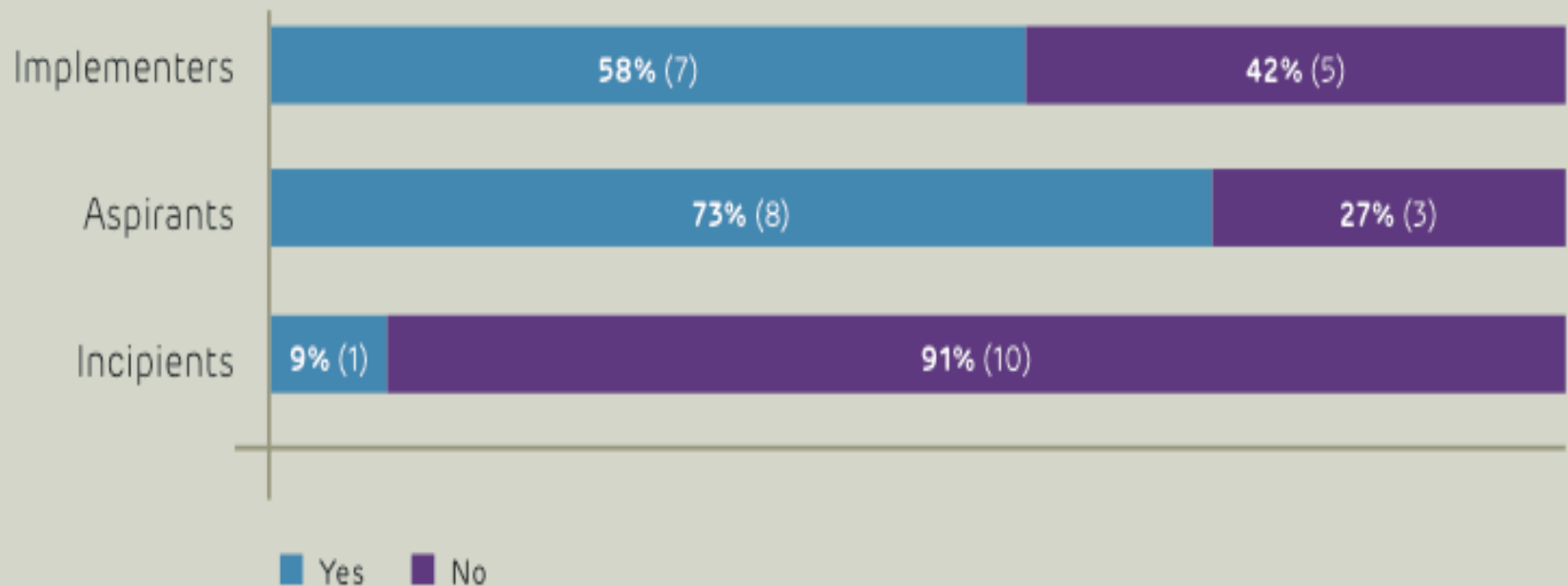
➔ Constraints for improving social performance management



Lessons learnt

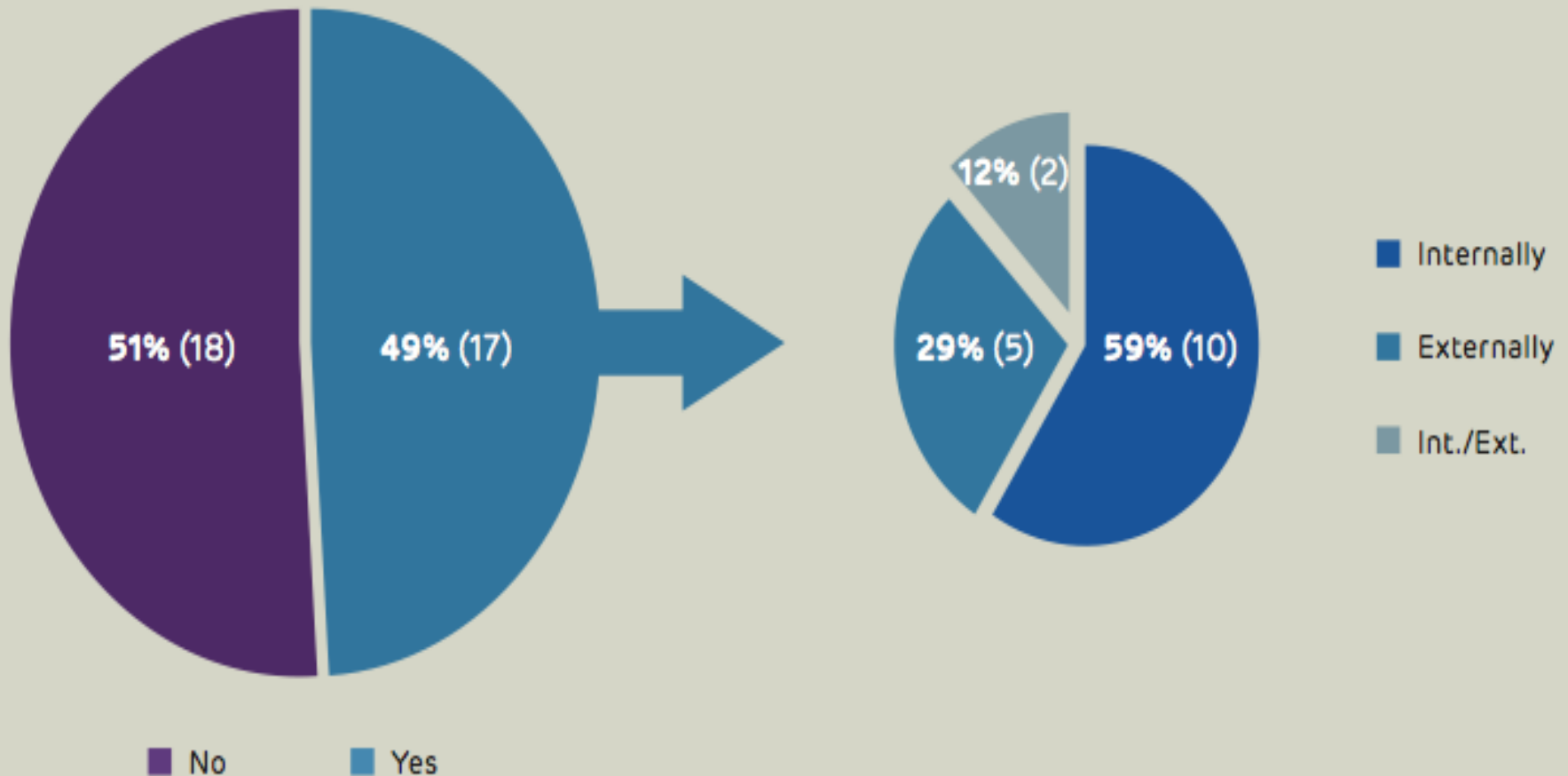
➔ Plans for social assessments

Does your institution plan to conduct a Social Performance assessment in the coming year?



Lessons learnt

➔ Plans for a social assessment in the coming year



Trade-offs

- Build a panel dataset of European MFIs for 2006-2013 based on EMN survey data.
 - Identify a set of social performance indicators aimed at convergence between EMN data and the Social Performance Task Force (SPTF) standards.
 - Preliminary investigation of potential trade-off between social and financial indicators.
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Literature

- Increasing attention on the relationship between social and financial performance (Angora 2009, Dewez and Neisa 2009, Gonzalez 2008, Guarneri and Spaggiari, 2010a 2010b, Hoepner *et al.* 2012).
 - Results based on small samples suggests both trade-offs and synergies.
 - Focus on developing countries.
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Data

- EMN self-reported data on a non-random sample of **350 MFIs** in **30 countries** for **2006-2013**:
 - **EU Member States**: Austria, Belgium, Bulgaria, Croatia, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Spain, Sweden and UK.
 - **EU candidates**: Albania, Bosnia and Herzegovina, Macedonia, Moldova and Serbia.
 - **EFTA countries** Norway and Switzerland.
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Method

- We estimate selected **financial performance indicators** as a function of a number of MFI and context characteristics (“control variables”) and, crucially, **social performance indicators**.
 - We run “pooled cross-section” estimates, in which we control for correlations of the residuals of a same MFI.
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Method

Control Variables

- Contextual:
 - Year (from 2006 to 2013)
 - Geographical area (Central Europe, “MIX” Eastern Europe, Western Europe)
 - MFI-specific:
 - Gross loan portfolio
 - Year of foundation
 - Type of institution (NGO, bank, non-bank financial institution, public sector entity)
 - Status (profit, not for profit)
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Method

Selected SP and FP indicators

SOCIAL PERFORMANCE	<i>Poverty outreach</i>	SP₁ . Average loan size (ALS)/GNI p.c.
	<i>Women outreach</i>	SP₂ . Women % n. loans
		SP₃ . Women % loan amounts

FINANCIAL PERFORMANCE	<i>Revenues</i>	FP₁ . Portfolio yield
	<i>Portfolio quality</i>	FP₂ . Portfolio at risk >30days (PAR30)
	<i>Efficiency</i>	FP₃ . Operating expenses ratio
	<i>Profitability</i>	FP₄ . Operational Self-Sufficiency (OSS)

Main results

	OSS	PAR 30	Portfolio yield	Operating expenses ratio
ALS	+ +	+ +		- -
% of women borrowers	- - <i>less pronounced in Central and Eastern European countries</i>		+ <i>only in some estimations</i>	- <i>slightly more pronounced in Central European countries, slightly less in Eastern European countries</i>
% of loans value to women	- <i>less pronounced in Central and Eastern European countries</i>			
"no profit"			+ <i>only in some estimations</i>	+ <i>only in some estimations</i>

Conclusions

- Consolidated consensus on the need to combine SPI and FPI.
 - Efforts needed to introduce a set of core indicators at the European level comparable to converging global practices.
 - Some preliminary evidence of trade-offs between SP and FP indicators.
 - Further steps: more rigorous analysis of panel dataset.
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Thanks!

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