

**FROM SOCIAL PERFORMANCE ASSESSMENT TO MANAGEMENT:
CASE OF ESAF MICROFINANCE AND INVESTMENTS PRIVATE LTD., INDIA**



Thrissur, June 2010 - Noémie Renier wrote this case study in the course of her Complementary Master at the European Microfinance Program 2009-2010, at the Solvay Brussels School of Economics and Management, Free University of Brussels. The case is based on interviews with EMFIL's management and with the support of CERISE. Constructive comments by Benita Sarah Mathew and Sandhya Suresh from EMFIL's Research and Development Department are gratefully acknowledged. This is intended to be used as a basis for discussion of social performance assessment and management rather than to evaluate situations.

Promoted by ESAF social development association, ESAF Microfinance and Investments Pvt Ltd (“EMFIL”) has been one of the leading Kerala-based providers of micro finance products since 1995. The MFI provides a myriad of micro finance products and services along with non financial services to the bottom of the pyramid, with a focus on women in rural areas. EMFIL has witnessed impressive growth of its clientele over the last four years, increasing its outreach to 253,163 borrowers in 2010, and achieving over 50% CAGR in portfolio since 2006. The MFI envisions to positively impact the life of 1 million families by 2015. In the course of its transformation into a Non-Banking Financial Company (“NBFC”), ESAF’s has preserved its integrated approach toward economic and social empowerment. However in view of its new ambitions, EMFIL’s management is increasingly concerned about measuring and preserving social performance, hereby fostering sustainable growth both in term of social and financial performance.

1. ABOUT ESAF MICROFINANCE AND INVESTMENTS Ltd., Kerala, India

From development NGO to NBFC

Evangelical Social Action Forum (ESAF) was established in 1992 in Kerala with the mission to create opportunities for social and economic growth of the marginalized sections of the society through the promotion of sustainable and integrated livelihood options. In 1995, ESAF started its Micro Enterprise Development program in three villages of Thrissur district, capitalizing on microfinance as an effective mean for poverty alleviation and employment creation. ESAF Microfinance rapidly expanded in most districts of Kerala and in some parts of Tamil Nadu, Maharashtra, Gujarat and Chhattisgarh and Jharkhand. In August 2007 the microfinance operations were transformed into a NBFC under the name ESAF Microfinance and Investments Pvt Ltd (“EMFIL”). Since then, the MFI has witnessed impressive growth of its client base, increasing its outreach from 46,677 borrowers in 2006 to 253,163 borrowers in 2010, resulting in over 50% CAGR in portfolio.



Integrated approach toward economic and social empowerment

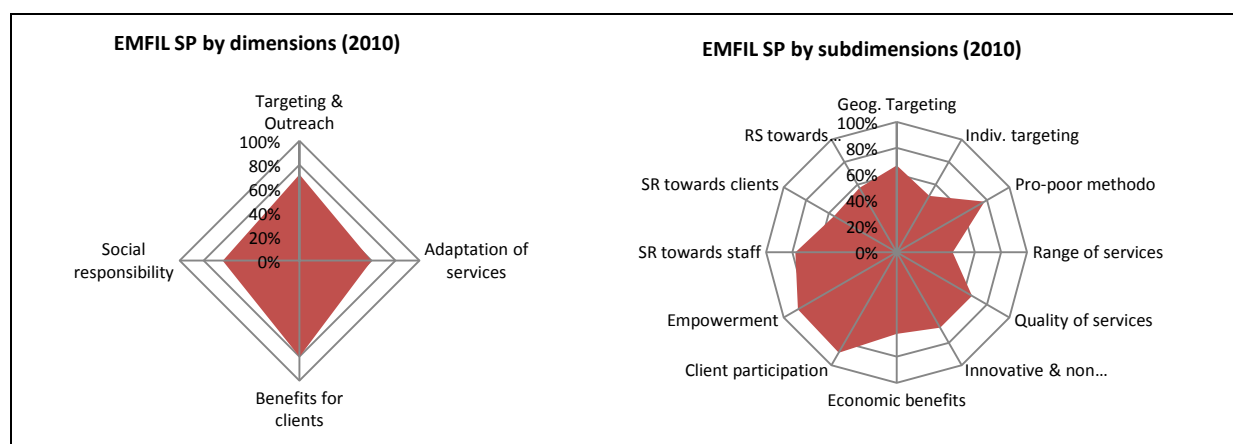
EMFIL’s mission is to “empower the poor and marginalized especially women, children and youth by providing access to financial, marketing, health, natural resources and technological support to explore the human potential and create opportunities for sustenance, development”. To meet this mission EMFIL has developed a broad range of loan products to meet clients’ needs, such as productive loans, consumption loans, working capital loans, house repair or construction loans and also environmental loans (for sanitation, water or solar energy light). Beyond micro credit, ESAF provides a combination of micro financial and non financial products to the bottom of the pyramid, with a focus on micro insurance, business development services, training, research and advocacy, consultancy, networking, community health, education, disaster management, rehabilitation and natural resource management. Non financial services are provided through the associate concerns of EMFIL, i.e. ESAF Swasraya Producers Company Limited (promoting capacity building and value addition), ESAF Healthcare Services Pvt. Ltd (affordable healthcare), ESAF Home & Infrastructure Pvt. Ltd. (affordable housing) and ESAF Retail Pvt. Ltd (selling and marketing).

Self Help Groups Federation

Delivery of the microfinance services is done through Self-Help Groups (“SHGs”) of village, called “Sangam”, which are administrated through a network of branch, area and regional offices spread across the target states. In parallel, Sangams are coordinated in clusters which elect their own leaders to represent them through Branch Advisory Committees and ultimately at the ESAF level. This network of SHGs forms the SHG Federation. ESAF SHG Federation, which is fully owned by the Sangam members, is composed of three sub-federations, one in each of the states of Kerala, Tamil Nadu and Maharashtra. The Federation provides voice and stake to the Sangam members and offers voluntary savings facilities. Furthermore, it supports the social and economic empowerment of women by providing training for capacity building and skill development along with social events and workshops addressing social concerns at the community level. Acting as the interface between EMFIL and its clients, the SHG Federation facilitates linkage and customer feedback, and enables the MFI to better understand the market dynamics.

2. SOCIAL PERFORMANCE ASSESSMENT

Using the Social Performance Indicators (SPI) tool developed by CERISE and its network, EMFIL has performed an internal evaluation of its capacity to put its social mission into practice in light of four fundamental dimensions: Who are the clients and how are they targeted? Are products and services adapted to clients’ needs? How are client capacities reinforced? How does the organization carry out its social responsibility? EMFIL’s SPI results demonstrate a strong focus on client involvement and empowerment and a balanced effort between adaptation of services and social responsibility.



Below we describe EMFIL’s social performance for each of the four dimensions:

- Outreach to poor and excluded populations:** The MFI uses geographic targeting to reach the bottom of the pyramid and the excluded in rural areas. Therefore it has strategically expanded 20% of its operations in the most backward districts of India and 85% of its operations are located in rural areas. EMFIL has a strong focus on women, with 99% of its target market being female. Adapted product’s design – i.e. small loan amounts and installments – enables EMFIL to reach the bottom of the pyramid. Field staff used to measure systematically the poverty level of its clients, and since January 2010, Progress Out of Poverty Indicators (“PPI”) have been included in all credit application forms. However, full formalization of the PPI as an individual targeting or as monitoring tool is not yet happening throughout the organization. Effective implementation of the PPI as a targeting and monitoring tool will enable EMFIL to verify that it is reaching its target market.

- Innovation of products and services:** EMFIL provides several quality financial services and a myriad of innovative non financial services via its associated companies, such as skill training, business development services, capacity building, marketing support, and affordable healthcare and housing. In addition, EMFIL has developed partnerships with remittance and insurance providers. Its comprehensive and innovative social approach represents a strong competitive advantage and has been highlighted during customers' interviews. However, only few customers have been granted access to services and products other than Income Generation Loans ("IGL"). Indeed IGL still represent more than 96% of EMFIL total's portfolio. EMFIL could further leverage on its integrated business model to better disseminate and communicate its innovative product offerings (e.g. by increasing frequency of trainings, distributing brochures on services in all branches). The social audit also shows that the Federation's saving products could be better adapted to its clients. The Federation could encourage savings as a real alternative to credit by developing special purpose deposits.



Suhara (Chettuva, Kerala) - EMFIL has supported Suhara to develop her own catering unit. Together with her neighbours, she produces local delicacies called Patthiris, which are sold to restaurants and shops. In order to expand their business, she is now looking to learn new recipes through skill training



Najeeba (Chettuva, Kerala) - With her microcredit, Najeeba has been able to buy material to develop her own production of elephant's decorations. Today she employs several women in her village and expects to expand her business further thanks to the registration process initiated by EMFIL in partnership with ILO.

- Improvement of social and political capital of clients:** The SHG Federation owns 61% of the MFI, which allows for direct ownership and involvement of its members. Through the SHG Federation and its associated companies, EMFIL strives to support economic and social empowerment of its members, for example by organizing workshops on education for children, natural resource management, rural water and sanitation, and addressing public health issues such as HIV. According to EMFIL's clients, "ESAF is more than credit". The MFI has also developed a formal and transparent policy to allocate profit to the direct benefits of the clients via semi-annual review of interest rates. EMFIL has not limited its effort to reduce costs, thereby decreasing interest rates. Nevertheless EMFIL's lower score on economic benefit reflects its difficulty to structure its social approach and to measure improvement in the clients' economic situation. The audit has indeed highlighted the need to structure initiatives addressing the social needs of client, by systematically mapping all projects and tracking customer feedback. A more structured approach will support EMFIL to reap the full potential of its integrated business model by developing scale and synergies between projects, as well as potential gaps and ultimately benefiting its customers.

- **Social responsibility of the MFI:** Social responsibility and community involvement are at the heart of EMFIL's "Microfinance Plus" approach. EMFIL provides good working conditions to its employees along with systematic training and strong corporate values. In addition, it strives to proactively promote local social and economic development of its communities. The "Microfinance for decent work" project launched recently in partnership with the International Labor Organization ("ILO") is a good illustration of its community involvement. This project aims at promoting decent working conditions by supporting women clients to formalize their business through a process of identification, awareness building, information dissemination and training, and thus facilitate their access to government support schemes and the market. EMFIL has developed a strong culture of fair behavior toward its clients and has developed effective grievance procedures. It has recently signed the code of conduct of the Indian microfinance network Sa-Dhan. EMFIL also supports its clients to decrease their indebtedness, although no formal policies explicitly aim at preventing over-indebtedness. EMFIL's next step is to formalize and integrate customer protection principles into its credit policies and collection practices acknowledged by all stakeholders.

3. IMPLEMENTING SOCIAL PERFORMANCE MANAGEMENT

Based on the social audit, EMFIL has identified its fundamental strengths and weaknesses in term of social performance. Next step for the Microfinance Institution is to promote systematic social performance assessment and management thorough the organization and integrate it into management decision. In so doing the MFI must translate its social mission into measurable key performance indicators ("KPIs") for tracking and monitoring social performance on a regular basis. Key elements for the implementation of social performance management were identified as follows:

- EMFIL can monitor and improve its effective outreach and targeting by using KPIs such as the number of clients located in rural or in backwards areas as well as by formalizing the implementation of PPI. The later requires appropriate incentives and training, at the same time decreasing the workload for the loan officers. In order to effectively implement the PPI, frequency will be reduced to once a year and only in selected branches taking a representative sample.
- Communication is essential in order to improve the distribution of its innovative products offering. Brochures and handouts will be prepared and printed after compilation of information on all products and services offered by EMFIL and from the SHG Federation, ESPCL, Healthcare and other departments and associated companies. In parallel the MFI is mapping all initiatives addressing social needs of its clients.
- The MFI needs to track key statistics for each product and services under ESAF umbrella, including the SHG Federation. Key indicators to be tracked are number of clients for each product, number of participants per training, number and type of training, number of product per clients, and revenue and cost per products and services.
- Customer surveys will be performed on an annual basis and will enable EMFIL to adapt product offer and design according to client feedback and benefits. The Board decided also to focus its effort on one specific product, through more effective promotion and tracking of customer feedback. The potential launch of special purpose saving products as an effective alternative to credit will be analyzed in the medium term.

- The six customer protection principles developed in the SMART campaign need to be formalized and incorporated into written policies and processes. The actual code of conduct will be adapted accordingly and new guidelines for staff and systems will be formulated and incorporated into staff training.

4. CONCLUSIONS

Despite its impressive growth and transformation, EMFIL has preserved and continuously reinforced its integrated approach towards social and economic empowerment and has not limited its effort to develop a comprehensive assortment of services. However in view of its new ambitions, the management has recognized the need to further integrate, promote and track social performance across the organization. Beyond its integrated “Microfinance Plus” approach, social performance management must be implemented through systematic policies and procedures acknowledged by all stakeholders, and promoted via appropriate training and incentives.

First area of improvement identified is the formalization of PPI. Formal implementation of PPI as a monitoring and targeting tool will enable the MFI to verify that it is effectively reaching its target market. **Secondly**, EMFIL needs to leverage further its innovative product offering by improving distribution through better communication. **Thirdly**, the MFI needs to structure initiatives addressing the social needs of clients by systematically mapping all projects, thereby developing scale and identifying potential synergies and gaps. EMFIL needs to identify KPIs for each product and service, systematically track customer feedback in order to adapt its product offering and design accordingly. **Finally**, customer protection principles need to be translated into clear policies and procedures acknowledged by all stakeholders. Effective translation, dissemination and implementation of best practices into a formal code of conduct is even more crucial for an MFI with tremendous ambitions for portfolio growth, geographical expansion, and subsequent extensive recruitment plans.

Author Contact: Ms. Noémie Renier, noemie.renier@gmail.com

CERISE Contact: Mrs. Cecile Lapenu, cerise@globenet.org

EMFIL Contact: Mr. Paul Thomas, md@emfil.org