

SPI and the investors

Brief DP N°6



Social Performance Study by Oikocredit: SPI in Latin America

The implication of a social investor in Social Performance Assessment

Oikocredit is an International Development Finance Institution established in 1975 at the initiative of the World Council of Churches. Oikocredit's mission is to promote global justice by challenging people, churches and others to share their resources through socially responsible investments and to empower people with credit. At the end of December 2007, investment capital from members exceeded €318 million. Oikocredit is the second largest investment fund in the world.

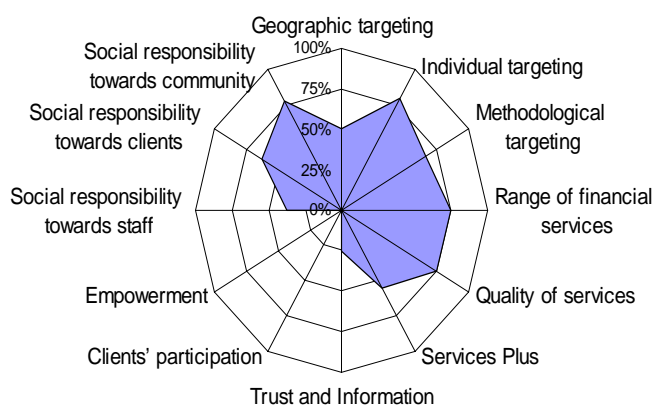
Oikocredit's core business is development financing to SMEs, Fair Trade enterprises, Micro Finance and community based enterprises in over 60 countries. A network of 11 Regional Offices and 29 country offices is involved in project identification, evaluation, monitoring and administration. During the last years, the increase of the Microfinance projects in Oikocredit's portfolio has been significant. As of April 2007, 78% of Oikocredit's funds were oriented to financial services, and 58% of those funds were granted to Microfinance projects.

Even though Microfinance has been originally created to reach poor and excluded population, the activity has experienced a great development all over the world, increasing outreach and achieving financial and institutional sustainability. The important growth these last years has made the donors and social investors more concerned about the destination of funding. Oikocredit's donors and support associations are also concerned about measuring the social performance of the microfinance projects in order to assure the correct allocation of funds. For this reason, the Uruguayan Regional Development Center (RDC) has carried out a pilot experience of a Social performance study based on the SPI-CERISE tool.

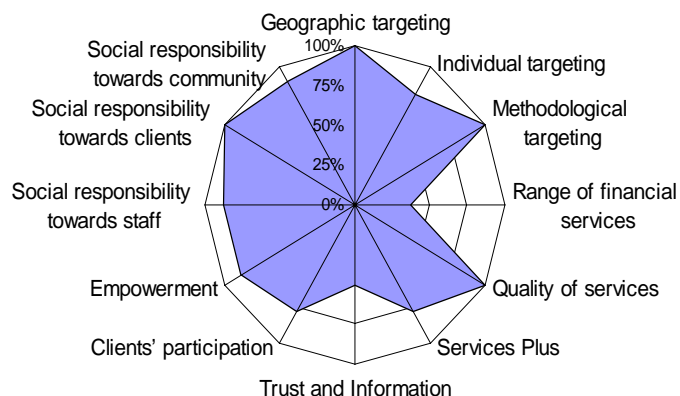
Methods and results

The Uruguayan RDC has administered the questionnaire as a pilot experience in 2 Argentinean MFIs, (FIE Gran Poder, FIS) in 2007. In 2008, the questionnaire was applied with two Brazilian MFIs (Banco da Familia, Casa do Microcredito), in several Bolivian MFIs (Funbodem, Aned, Idepro, FIE, Emprender, Crecer, Fades, Diaconía, Fondeco - this last 4 MFIs were interviewed by Foro Lac and Oikocredit obtained the authorization to use the results to complete its market study) and in two Paraguayan MFIs as well (Vision, Fundación Paraguaya). A total of 15 SPI assessments has been conducted.

Results for MFI 1 (Argentina-2008)



Results for MFI 2 (Bolivia-2008)



In Argentina and Brazil, even if institutions have reached a moderate social performance, there are some areas where superior efforts are needed. MFIs have been concentrated in reaching the target group and focused in adapting their products and services to clients' needs. Institutions have obtained relatively good score on the fourth dimension measuring the social responsibility towards staff and clients. The area with the lower score is the third dimension which assesses the actions of the MFI to improve its clients' social and political capital. The subdimension on CSR towards community is also low. As discussed with the MFIs and Oikocredit, one of the reasons is the fact that in Argentina and Brazil, the microfinance market is its first stages of development, so MFIs, which moreover in some cases are still quite young, have been concentrated in consolidating their clientele and products. Nevertheless, it can be expected that once they have consolidated their financial situation, they begin to dedicate more efforts to improve the area of social capital for the clients.

If we take the case of Bolivia, Oikocredit works with mature MFI, in a more mature sector. Moreover, previous crisis in the sector (overindebtedness, risks of mission drift, etc.) have pushed the agenda of social performance which is now an important dimension for the MFIs.

Perspectives

In general, within the microfinance industry, appreciation for social performance management (SPM) has deepened over the years although there still remains ambivalence about the effort and time needed before significant information and trends can be seen. SPM is considered important and yet SPM work is also still perceived as being a "cost centre", not having any direct impact on portfolio or sustainability and to a certain extent, peripheral to core business.

In the past, Oikocredit reported on its social performance primarily through client stories and case studies. Although these provided interesting insights into how individuals or organizations benefited from Oikocredit financing, these were soon felt to be inadequate. What has changed? First, within Oikocredit, there was a desire for greater transparency in reporting on whether and how social goals were being realized. Stakeholders required reliable and regular information on whether and to what extent Oikocredit's social goals were being achieved. Furthermore, since Oikocredit seeks to realize its social objectives by supporting intermediary organizations, the choice of these organizations is crucial. Do they share Oikocredit's values? By supporting their work, does Oikocredit reach the poor and help to bring about positive change in their lives?

With the SPI assessments in Bolivia, Brazil and Paraguay, Oikocredit exchanges with its partner MFIs order to analyse and discuss their commitment to achieve a good social performance.

Conclusion

Based on this experience, four main conclusions are driven by Oikocredit:

- 1) The more the tool is experienced, the faster the team deals with the questionnaire. In some cases, the team has reduced the time to one hour and a half. It is important to do a good preparatory work with a pre-questionnaire (before the interview), on basic subjects which do help later on, not only during the interview but also when writing the conclusions.
- 2) Having the full questionnaires filled by the MFIs (complete self-evaluation) results in fair enough replies, but poorer than the more comprehensive analysis done when it is the Oikocredit person in charge of the tool who does the questionnaire.
- 3) Staff has acquired more capacity in assessing MFIs through the use of this tool and the tool is an asset for monitoring. Many of the questions asked in the SPI tool should be questions asked during pre-investment appraisal.
- 4) The tool provides information which complements and deepens the institutional profile of partners already available and monitored in Oikocredit's database. It provides systematic, qualitative information on the value placed by an MFI on social performance and the ways by which it reflects this in various areas of its operations.

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This brief is based on the inputs of Oikocredit: papers on the results in Argentina, Bolivia-Paraguay, Brazil by Andrea Dominguez (2007 and 2008), the article in the European Dialogue by Ging Ledesma (2008) and comments by Leonel Roland (2008).