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Discussion paper

For a demand-driven approach to social performance management in microfinance: The case of Argentina

David Harleman

This paper is the summary of a Master thesis written within the framework of the European Microfinance Program 2009-2010, at the Solvay Brussels School of Economics and Management.

November 2011



Introduction

The microfinance sector is going through turbulent times. A sector that was praised for the ability to finally put poverty in museums a few years ago, is now under fire for over-indebting clients with multiple loans and charging high interest rates; “making money over the backs of the poor”. Popular press shows a mood swing from the key to poverty alleviation to the big evil of microfinance and only bringing more problems to an already vulnerable target population. As with many topics in big newspapers, reality is more nuanced and complicated. Access to financial services can never be *the* panacea for poverty alleviation and there are many institutions doing an excellent job in providing financial services to poor clients previously excluded from these services. On the other hand, the sector is indeed facing serious challenges. Organizations that started from a social mission became ‘successful’ by almost unanimously focusing on financial performance management and reporting. Transparency and reporting on financial indicators and the connection to capital markets became the standard for success. The means (a financially sustainable mechanism) became the goal in some cases. MFIs lost sight of their social goals and clients interests, leading to excesses like in India and Nigeria.

The sector started focusing on social performance management in the early 2000’s. Overall aim: professionalize the way MFIs set, report on and manage their social goals. In a way, a parallel can be seen between the way MFI’s professionalized their financial performance and the way various initiatives are now aiming to professionalize their social performance. Sets of indicators are developed, MFI’s report on these indicators on MIX Market, donors develop tools that become a condition for funding and reporting and transparency becomes the standard for performance. But do these indicators, tools and reporting practices really bring about the necessary change in the professionalization of social performance management practices at MFIs?

This article provides some insight on this topic based on a field study at various - and very different - MFIs in Argentina. It does so by focusing on a specific topic within social performance management: the introduction of poverty assessment tools.

The study

This article is based on a study executed in 2010 for *Red Argentina de Instituciones de Microcrédito* (RADIM), an Argentinean network of 12 microfinance institutions. RADIM’s mission is to strengthen the Argentinean microfinance sector. The network aims to achieve this mission by helping their member MFIs strengthening their institutional capacity, by pushing for transparency and by representing their members and lobby for a better Argentinean microfinance environment. Within the area of institutional capacity building RADIM provides training and technical assistance to its member MFIs. Over the past few years RADIM paid special attention to Social Performance Management (SPM).

RADIM is working with various of its member MFIs in evaluating and improving their practices in the relatively new field of SPM, going step-by-step and continuously discovering new topics within this area of work. As part of RADIM’s efforts, the study aimed to execute a first

exploration of the possible use of poverty assessment tools. RADIM had heard about the use of this kind of tools at other institutions and wished to gain insight in the various options.

The main research question of the study, that was executed in 2010, was:

What are currently the key issues in implementing microfinance poverty assessment tools at RADIM's member institutions?

The study roughly consisted of two parts: first a desk study about measuring poverty, available tools in microfinance and main characteristics of poverty and exclusion in Argentina, and second an assessment of the local reality at RADIM's member MFIs and the environment in which they worked to understand which can be the drivers for a social performance strategy. This second part assessed the practices of the MFIs in targeting clients, analyzing client characteristics and measuring poverty. Both the current as well as the desired practice were assessed in order to include objectives and plans different MFIs might have. For this part of the study – assessment of the local reality of RADIM's member MFIs – five MFIs have been studied through interviews and observations, including client visits. The selected MFIs are considered to be a representative selection. They represent RADIM's largest and smallest institutions, individual lending, solidarity group lending and village banking, foundations and 'sociedades anonimas' (private companies) and the smallest, medium and largest average loan sizes.

Microfinance in Argentina

The Argentinean microfinance sector is one of the least developed in Latin America. Where countries such as Bolivia, Peru and Ecuador have been global frontrunners, the Argentinean market is struggling to reach significant size. In the 2009 Microscope on Microfinance for Latin America and the Caribbean¹, Argentina ranks 17 out of 21 countries with regard to the overall development of the sector, leaving only Uruguay, Venezuela, Jamaica and Trinidad and Tobago behind. In another IADB study that ranks the 100 best microfinance institutions according to the three dimensions outreach, efficiency and transparency not a single Argentinean institution made it to Latin America and the Caribbean's top 100. One explaining factor is that the Argentinean sector never received the amounts of international development assistance that other Latin American countries received (since it was never considered a poor country), and therefore it is more complicated for the institutions to grow and reach sustainability. More characteristics of the complicated microfinance environment will be discussed later on. Despite these discouraging signs, significant microfinance activities are taking place and a number of institutions is growing in this challenging environment.

Short history

Whereas small scale microcredit activities existed in the 70's and 80's, the microfinance sector in Argentina got its first real impulse during the 90's². Institutions like *Fundación Emprender*, *Fundación*

¹ Pedroza, 2010

² Crouzel 2009

Banco Mundial de la Mujer en Córdoba and *Fundación Pro Vivienda Social* were created and little later FONCAP³ was established, a fund held by the Argentinean Government, Acción International and Fundación Emprender dedicated to provide credit and assistance to MFIs. The growing problems of unemployment at the end of the 90's that reached a dramatic level during and after the 2001/2002 economic crisis had a devastating effect on the number of people living in poverty. Whereas according to INDEC⁴ 16% of the inhabitants in Gran Buenos Aires lived below the poverty line in May 1994, this figure reached 54% in October 2002. The crisis and rapid increase of poverty led to the creation of new institutions and a conscience among them for the need to professionalize and strengthen the sector as a whole. In 2005 RADIM was created.

Current state of the sector

RADIM currently has 12 member MFIs, serving around 40,000 clients and with a total gross loan portfolio of around 100 million pesos (+/- EUR 20 million). A large variety between the different member institutions can be observed: different loan methodologies, large differences in size and average loan size and different legal and organizational structures: downscaled banks, *sociedades anonimas* and foundations. The majority of the MFIs are active in the Gran Buenos Aires area, but some of the members are active in the North and West of Argentina as well. RADIM represents a large majority of total microfinance activities in Argentina.

According to a study performed by Andares⁵ in 2007, the current unmet demand in microfinance in Gran Buenos Aires only is half a million clients. Without further details it is very obvious to conclude that the microfinance market is very immature compared to other Latin American countries and there is a big demand that is currently not being met by the institutions active in the sector.

A very interesting and somehow stunning observation that arose from talks with various representatives of RADIM and its member MFIs is that, despite the fact that only a few percent of the potential demand for microfinance is met, institutions are currently competing with each other for the few percent that currently does have access to microfinance services since they are working in the same areas in which they provide similar products. It appears very challenging for the institutions to identify and approach the low-income households that currently do not have access to financial services.

Challenges for microfinance in Argentina

The big question is why microfinance doesn't develop with more success and speed in Argentina? This question does not allow for a quick answer. It is a complicated mix of various factors that contribute to its slow development. It is exactly this question that Roberto Crouzel tries to answer in his paper: "*Por qué las microfinanzas no se desarrollan con mas éxito en Argentina?*"⁶. Crouzel presents seven challenges that the sector is currently facing:

³ Fondo de Capital Social

⁴ www.indec.gov.ar

⁵ <http://www.fundacionandares.org/>

⁶ Crouzel, 2009

- The lack of funds. After several crises the financial system of Argentina is weak and characterized by distrust. MFIs are competing with banks, individuals and the state itself for the limited amount of credit available.
- Negative attitude towards commercial microfinance. The best example is the 2006 law 26.117 that aims to promote microcredit for non-profit organizations only. It made funds available to these institutions that could be used for onward lending at the rate of 6% per year, a rate obviously way below the operating costs of any institution.
- High taxes. The value-added tax paid by middle-class Argentines on the interest of a loan is 21%. However, poor entrepreneurs have to pay an additional 10.5% on their microcredit because it is considered an 'informal transaction'.
- Legal barriers. The legal environment for microfinance in Argentina is among the very worst in whole Latin America and the Caribbean. This works on both sides: for a micro-entrepreneur no legal regulation exists that is adapted to the special characteristics of the microenterprise, and for a MFI it is also complicated to get regulated. Crouzel characterizes the legal environment as a true barrier for micro enterprise development.
- Professionalization and training of 'agents of change'. Another important challenge is the lack of professional, well-educated and competent workforce that can push the sector further, develop products and create the necessary institutional capacity.
- Capital markets. Crouzel's sixth challenge further builds on the first: the lack of access of MFIs to capital markets. None of the MFIs has reached a volume that makes them interesting for commercial investors.
- Collecting savings. The last challenge also is a result of those presented above: no MFI in Argentina currently collects savings. First of all, it is not allowed. No legal model exists to become regulated and collect savings, neither does a legal structure exist that allows for cooperation between a bank and a MFI. Additionally, when it would be allowed, MFIs would have to face the challenge of creating a culture of saving at a bank and establish the trust among their (potential) clients.

A point that has been touched upon, but not explicitly put forward by Crouzel, that came up at numerous visits at the institutions, is the perception of the informal economy. This perception is very negative, and instead of accepting the informal economy as a valuable source for poor people to gain a living, this part of the economy is perceived as illegal and treated this way instead of facilitating it. As presented above, it is almost impossible for a micro-entrepreneur to escape this informal economy. A story told by one institution shows the possible consequence. Their clients in *Capital Federal* that were growing had two options. One was to grow even further, meet the requirement to get registered and enter into the extremely time-consuming process of getting regulated, or move outside the city to a place where there are less controls. One possible explanation for this perception of the informal economy is that the country does not have a long history of widespread poverty and an active informal economy. Before the crisis, Argentina was not considered (by itself) as a poor country and the focus was very much on creating formal jobs for almost everybody. After the crisis an enormous amount of people became and remained poor, but the general perception towards informality remains negative.

A last complicating factor that can also be presented here is the huge amount of consumer credit companies that have been present in Argentina since before the first MFIs were created, especially in Buenos Aires. This works two ways. First, they are directly competing with MFIs for the same clients and have an advantage in terms of resources and visibility and second, they create a very bad image of lending money for people that are currently not using credit. A client of one of RADIM's member MFIs that prior to her loan used a consumer credit at the so-called *Préstamos por día* was visited for this study. She withdrew 1000 pesos at the beginning of the month, repaying in daily quotes summing up to 1600 pesos at the end of the month. The daily collection practices were not very friendly and they would charge a penalty when she couldn't pay on that day. She told me she was basically working only to pay her loan and keep her small shop alive. Luckily she made the switch, but many people don't, and the way of working of these companies withholds many people from lending money anyways.

Poverty assessment in microfinance

Measuring poverty in general is a very complicated challenge. Different sources that study various approaches of defining and measuring poverty and exclusion present a history of more than a century of studies, theories and methods. The pioneering work by Booth and Rowntree at the end of the 19th century in England is used as a first reference to the development of a poverty standard⁷. From that point on, the debate starts and many studies have been published that contrasted rather than complemented each other. There is obviously no agreement on how poverty should be defined, and the complexity of the phenomenon also leads to different ways of grouping and categorizing the various approaches. Some sources distinguish unidimensional from multidimensional methods⁸, others use terminology such as money-metric or monetary concepts versus capability concepts⁹, and another source groups different methods in economic well-being, capabilities and social exclusion¹⁰ concepts. Maxwell¹¹ even uses nine 'fault lines' to characterize the different views in the current debate about poverty definitions. The main methods that have been analyzed for the study such as the World Bank's traditional income-based poverty assessments, Amartya Sen's capability approach, the UNDP Human Development Reports and other subjective or participatory methods provide interesting insights, but also show the enormous complexity of building practical and reliable poverty assessment practices.

Objectives of measuring poverty in microfinance

Microfinance originated from the aim to provide financial services to the poor and the ones excluded from access to the mainstream banking system. A number of questions related to the poverty levels of (potential) clients arose within this sector over the past years. Who are *'the poor'*? Do MFIs really reach these poor people? Are they serving microenterprises or do they provide loans to SMEs that are generally already better-off? If donor money is meant to contribute to poverty reduction, how do we know which MFIs work with people that are poor? Do the

⁷ For example: Ruggeri Laderchi 2003, Fusco 2003 and Maxwell, 1999

⁸ Fusco, 2003

⁹ Johanssen, 2007

¹⁰ Wagle, 2002

¹¹ Maxwell, 1999

products and services offered by these MFIs contribute to an improvement in the lives of these people? Various tools have been developed to provide answers. Looking at the questions raised, and the tools that have been developed, four possible objectives for measuring poverty in microfinance stand out:

- Targeting
The first objective a MFI could have to measure poverty of prospective clients is to determine a household poverty level before providing services in order to identify and target the type of clients the MFI wants to work with. Setting certain loan amounts and geographic targeting are the more implicit ways of achieving this objective, but poverty assessment tools could be used to provide a more precise and explicit way of targeting.
- Outreach evaluation
A second objective is to assess the poverty level of the existing client population in order to investigate if the MFI reaches relatively poor clients. This objective can serve two purposes: internal evaluations by the MFI and providing information to external stakeholders such as donors and investors.
- Measuring progress
A next objective to use poverty assessment tools is to measure progress of clients over time. By measuring poverty levels of clients at various times (for example after each loan cycle) the progress of an individual client or the aggregate client population can be assessed. The term 'impact assessment' is purposely avoided here because this article does not intend to get into the complicated topic of attributing the client's progress to the service provided by the MFI.
- Better adhering to client needs
The practice of gaining insight in client characteristics and the living standards of these clients can serve to better understand their needs and develop products and services that fit these needs according to different poverty levels. As the Grameen Foundation states it: "Knowing your clients is the first principle in any business"¹². If the primary objective of a MFI is to gain insight in clients' needs, this obviously goes beyond measuring poverty alone, but using tools to measure poverty levels of MFI clients could contribute to this practice.

Microfinance poverty assessment tools

In 2002 the United States re-authorized the Microenterprise for Self Reliance Act of 2000 confirming the government's commitment that 50% of all US funding for microenterprise projects should target the very poor. In the original act, the very poor were defined according to the size of the loans, with different sizes for different continents. Following a lot of international debates¹³ and studies (the research done by Zeller¹⁴ played an important role) the US pushed for a more practical tool to measure poverty, ultimately leading to the development of the USAID Poverty Assessment Tool (PAT). In parallel, the development of a poverty assessment tool for the Bosnian MFI Prizma¹⁵ laid the basis for the Grameen Foundation's Progress out of Poverty Index (PPI). In the appendix of this article, these two tools, as well as other practical poverty assessment tools will be presented, with a focus on those currently most commonly used.

¹² Grameen Foundation, 2008, p. 8

¹³ Microfinance Gateway Archived Discussion, 2003

¹⁴ Zeller, 2004

¹⁵ Schreiner, 2005

Results MFI analysis

This paragraph presents the results of the assessment of a number of MFI members of RADIM, aiming to highlight the main issues with regards to current and desired practice of these MFIs and a rough insight into client profiles. The assessment answered the following research questions:

What is the current, and what is the desired, practice of RADIM's member institutions according to their own objectives of targeting, with regard to analyzing client characteristics and measuring poverty levels of their clients?

The assessment, consisting of interviews, study of documents, numerous MFI visits and loan officer engagements and clients visits lead to the following observations:

1. *Unclear social objectives*

A first interesting observation is that following the SPM project RADIM initiated in 2009, none of the member MFIs has formulated very clear and measurable social objectives. The first step in managing social performance is defining the objectives of the organization. Assuming that the four MFIs that voluntarily participated in the SPM project are among the most advanced institutions in terms of SPM, there is a good chance that no – or at least very few – MFIs in the maturing Argentinean sector have these objectives. The field of SPM in microfinance obviously goes way beyond the topic of measuring the poverty level of (potential) clients. As part of the exploration of this topic, it is useful to place it in the wider context of SPM. When looking at the sector from this context, the conclusion is that the current practices among RADIM's members in measuring and managing their own social performance are not very developed. When looking if and how member MFIs could benefit from measuring poverty among their clients, it makes sense to analyze if this is the topic with most priority within the spectrum of SPM topics. This analysis logically starts with defining the institutions' social objectives.

2. *Defining the target population*

Finding new clients seems to be one of the biggest challenges the Argentinean microfinance sector is facing today. As stated above, the sector is characterized by an enormous unmet demand, but at the same time some institutions are competing for the same clients. A second result that came forward from the various cases is that none of the MFIs have a clear definition of their target population that goes beyond 'people with limited resources that do not have access to financial services'.

The MFIs almost collectively target and accept new clients following two dimensions: geographic location and payment capacity. When asked the question which clients they want to serve and which clients they don't want to serve the most common answer was: 'anyone that comes into the office and has the capacity to pay back the loan'. One exception to this is that one of the MFIs adds one dimension: gender (only targets women). Looking at the characteristics of poverty and exclusion in Argentina, geographic targeting makes sense following the geographic segregation. However, following the difficulties MFIs face in attracting new clients, it could be useful to gain additional insights into client characteristics and use these insights to target new clients and adapt products accordingly. One could reason two ways here: one way is to conclude that MFIs first need to define their target population in order to use a poverty assessment tool to determine if certain clients are within this population, while the other way is to state that these tools can help MFIs gain insight in the characteristics of the clients they currently serve which could facilitate the definition of a target population.

Either way, these first two case study results provide an interesting insight in the current practice and put forward important challenges. If an institution believes that measuring poverty levels of clients serves them in meeting these challenges, this could be a useful step. However, it could be the case that other steps need to be taken before the MFIs will benefit from implementing one of these tools.

3. *Insight in client characteristics and needs: beyond poverty assessment*

A third result that is very much in line with the previous observation, is that there is a serious lack of insight in the characteristics and needs of the clients served by the MFIs that were subject to this study. No segmentation of different client groups takes place and no assessment of the needs of these various clients groups is undertaken.

A good example is given by an anecdote about a loan officer of one of the institutions subject to this study. She found out that several of her clients in a certain neighborhood used the housing credit they received from the MFI for changing the material of their roofs. A typical new roof in this neighborhood costs 2000 pesos, while the maximum loan amount in the second loan cycle was 1500 pesos. As a result, she has to exceed the maximum to adapt to her client's needs. The organization she worked for never undertook a thorough client needs assessment, as none of the organizations subject to this study did. In a sector where the big challenge is to reach many more of the huge amount of people that currently do not have access to microcredit, an assessment of the needs of (potential) clients seems a bigger priority than an assessment of the poverty level of the clients.

Again there are two ways of reasoning here: implementation of poverty assessment tools could serve to adapt practices of collecting client information and provides insights in clients needs, or: it is more important to do client needs assessments than poverty assessments. Poverty assessments do have the ability to provide information about client needs, but a thorough assessment of these needs goes beyond the poverty level. Either way, gaining insight in these needs should be the starting point, whether or not the use of poverty assessment tools is the proper next step in serving this objective depends on other objectives the MFI might have.

4. *Objectives to start measuring poverty*

As presented above, there are basically four objectives of measuring the poverty level of a MFI's clients: targeting, outreach evaluation, measuring progress and better adhering to clients needs. None of the MFIs visited for this project have strong awareness and priority for one of these four objectives. No MFI presented a list of current priorities of which one of these objectives was part, nor were they undertaking projects in which one of these objectives played a central role. Furthermore, when presenting these various objectives, it attracted the personal interest of the person they were presented to, but it did not directly fit into any plans or priorities for the near future. The MFIs did not give the impression this was something they are currently missing and the introduction of this topic did not immediately lead to start developing plans to measure poverty levels of their clients. One exception was a MFI that is currently making case studies of best practices which they have to present to one of their funders on a continuous basis. Measuring progress on the aggregated level of the entire client population would serve their funder's needs and therefore fits into their current practice. If RADIM would take first steps in pushing for the measurement of poverty among its member MFIs, this MFI would be very interested and support this initiative.

5. *Lacking practice in analyzing client data*

When assessing the current practice of the MFIs subject to this study, two things received special attention in the interviews: collecting client data and analyzing client data. Without exceptions, it can be concluded that no MFI executes a structured follow-up analysis of the data they collect from their clients other than financial indicators reported to RADIM on a quarterly basis.

Cases exist where loan officers have no idea why certain indicators on the forms they use are collected, with the result that many times these forms are not completed. An example is one MFI that asks for the level of education of the client. This information is not part of the credit decision, neither is it used in a follow-up analysis of the client population. For the loan officers, collecting this information is completely useless and they therefore many times do not want to bother the client asking for it. This is not a very exceptional example. In many cases loan officers do collect information on social indicators, but no institution currently aggregates this information and uses the information to take any business decisions, adapt products or for any other purpose.

Furthermore, a lacking practice in actualizing the client data is observed - except for one case where client data is actualized at every loan cycle, the majority only collects data before the first credit - and at three out of five MFIs that were visited for this project, there is a difference between the data that is collected through the forms used by the loan officers, and the data entered into the MIS. The two MFIs that do enter all data collected into their MIS are - not surprisingly - a step further in thinking about how they can use these data to their benefit. In order to improve the insight in the characteristics of the clients served by RADIM's members, it seems useful to decide which indicators are collected for what reason and to align the collection of these indicators between the forms used by loan officers and the MIS of the institution.

It is interesting to note here that a few years ago the same situation existed in terms of financial indicators. The transparency project of RADIM pushed for a big improvement in collecting and analyzing financial data. This was a step-by-step process, starting with a few indicators only and resulting in all members currently reporting at a wide range of indicators at both RADIM and MIX Market. RADIM is now aiming to go through the same process with social performance indicators, starting collecting a few indicators end 2010 and step-by-step building towards a full set of social data, thereby improving the practice as described in this paragraph. RADIM could consider if they use the data that is subject to this study (client characteristics or 'poverty indicators') or the wider set of social performance indicators as for example laid out in the Cerise SPI¹⁶ tool as the basis for this next step within their transparency activities.

6. *Other priorities*

The following result of the case studies should be presented carefully - since some organizations always have priorities other than social performance management - but it cannot be ignored that within the maturing and complicated Argentinean sector, institutions have other priorities and

¹⁶ See www.cerise-microfinance.org

currently face challenges that are more important to them than measuring the poverty level of their clients. MFIs are really struggling to build strong sustainable organizations.

Two of the five MFIs literally stated that measuring poverty is an interesting topic, but that Argentinean MFIs in general have other issues to worry about that are more important. Strengthening their internal organizations, retaining and finding new capable loan officers and attracting new clients with adapted services are among the most important challenges that have been put forward and in which the scarce resources available are planned to be invested. The use of poverty assessment tools could contribute to understanding (potential) clients needs which could ultimately support the search for new clients, but in general implementing a tool to measure the poverty level of your clients is not the first thing you think about when these are your three main challenges.

7. Reluctance to ask clients for more information

A last (minor) observation that came forward when assessing the current and desired practice with regard to this topic is that one MFI reported the reluctance to ask more information from its clients. This was presented as a cultural aspect, typical for the north of Argentina. This is something that could be taken into account – how to break through this reluctance - by RADIM when taking next steps.

Conclusions of the study

A first conclusion, coming from the overview of microfinance poverty assessment tools, is that no poverty assessment tool is available for Argentina at the moment. After consulting the research teams developing the USAID PAT and the PPI, it became clear that it is not likely that such a tool will be developed in the near future. This leads to the conclusion that if RADIM or one of its member MFIs aims to implement a poverty assessment tool, they will probably have to develop one themselves. The overview of tools also showed that even if a tool is available, the implementation of such a tool at a MFI level is an intensive process, for which a significant amount of resources needs to be made available. Adding to that the time needed for the development of a tool brings us to the conclusion that the introduction of poverty assessments at RADIM's member MFIs is a big project. Consequently, this kind of project should only be initiated if it is clear that it serves a future objective that adds serious value to the sector and its institutions.

The case studies at the five member MFIs brought forward a number of other issues that are relevant for the exploration of this topic. Overall, it seems too early for a full development and implementation of a poverty assessment tool for all MFIs that were subject to this study. The institutions have other priorities in strengthening their organizations in the complicated Argentinean context, the typical objectives for the use of these tools do not immediately fit the objectives the institutions are currently focusing on, they do not have a clear view of their target population and they lack a practice of executing a follow-up analysis of the client data they

collect. However, with a number of these arguments for the conclusion that it is too early one could reason two ways, either the issue is a reason for not yet starting to use these tools or the use of these tools can help strengthening the practice on these issues. A full-blown project would be a bit over the top considering the current stage the institutions are in, but the approach followed by RADIM in a previous project of reporting financial indicators can be interesting in answering to a number of these issues. When starting to ask their members to report financial indicators, similar arguments were present for not asking the MFIs to report on the full set of indicators. RADIM started with just a few and slowly expanded to the current situation of all members reporting on MIX Market. RADIM plans to follow a similar path with social performance indicators, in which it aims to include some 'client poverty indicators' or client characteristics. By pushing their member to start looking at these indicators, they could adapt a practice of analyzing client data, shape their objectives of gaining insight in the poverty level of their clients and build a clearer view of their target population. Within this project RADIM could consider using both a wider set of social performance indicators such as laid out in the Cerise SPI tool.

Whereas it might be too soon to introduce a full development and implementation of a poverty assessment tool, it is definitely not too soon to take next steps in social performance management. Looking at the most important challenges the MFIs are currently facing, taking these next steps might be a very important way to encounter these challenges. One of the priorities within this field seems to be to define clear social objectives and within these objectives especially defining the target population the institutions want to reach. The current practice of geographic targeting might be very logical following one important characteristic of Argentinean poverty and exclusion, but it is possible to conclude that this is not enough to reach the large amount of potential clients that currently have no access to microfinance services. A better definition of the target population – maybe after a market study and as part of a broader set of clear social objectives – could contribute to expanding this reach. Another priority within the next steps in SPM that is closely related to the previous one is to gain insight in the needs and preferences of (potential) clients. As presented in previous sections, this goes beyond gaining insight in the poverty level of these clients. A structured client needs assessment followed by the adaptation of products and services to these needs could be a valuable next step, a next step that could also bring the institutions closer to benefiting from an eventual project related to the assessment of poverty and exclusion. Finally, another priority that (at least some of) RADIM's members are facing and that is also related to social performance is the challenge of finding and keeping good quality human resources. This topic will not be discussed in further detail since it is somehow off the core focus of this article.

The study explored a new topic for RADIM and a new topic for the Argentinean microfinance sector. It resulted in highlighting a number of key issues that will hopefully serve RADIM and its members to take next steps, next steps in social performance management and next steps in keeping on pushing up that stone and bring the sector to the next level.

Reflection: towards a demand-driven approach

Getting back to the question posed in the introduction of this article - *But do these indicators, tools and reporting practices really bring about the necessary change in the professionalization of social performance management practices at MFIs?* – this final section reflects on the study executed for RADIM. This question has not been at the core of the study, and this section therefore in no way intends to provide a well-founded answer to this question. Its sole purpose is to reflect on a field experience and share some thoughts that came across during this one experience, in one country only.

A first reflection is that no MFI is the same. This sounds very much like a cliché, but the differences between the various institutions are vast: different loan methodologies (solidarity groups, individual lending and village banking), different legal and organizational structures (non-profit foundations, corporations – SA's - and a cooperative), different sizes, different loan sizes, working in different regions or neighborhoods, different stages of development and very different cultures. Even within the context of a single country and given the fact that all institutions are microcredit organizations, the variety is enormous. Given this variety, any project intending to successfully contribute to strengthening the sector, should be aware of these differences and focus on the local context of the MFI. A one-size-fits-all approach does not seem very suitable.

Further to the first reflection, a lesson learned from the project is that it is very important to look at the needs and objectives of the individual MFI when thinking about implementing tools or procedures that have been developed in other countries or at an international level. A lot of very good and interesting work is done on the level of CGAP, MIX Market, Social Performance Task Force and the international donor and investing community of which many MFIs will surely benefit a lot. However, projects developed at this level should maybe not be a goal as such and they should fit the individual goals and stage of development of the MFI. Before visiting the various MFIs for this study it could have been tempting to state that a PPI should be developed for Argentina and the MFIs should start implementing the tool. However, none of the MFIs visited for this project had ever heard of the idea of measuring poverty levels of clients of MFIs, neither did they know these tools exist. More important, many of them currently seem to have priorities other than measuring poverty levels of their clients (for example growing their client base first) and not many objectives we found among these MFIs could very well be met with these tools. A developing sector can obviously not ask for things they are not aware of and it is always good to present developments from other markets from which they can learn, but when considering implementing initiatives that did not surge from the sector itself, it should be carefully assessed if these initiatives fit the needs of an individual MFI. It is important to act between the boundaries of the MFI and carefully assess how a project fits within its stage of development.

A last reflection that surged from this field experience is that, even when the above is taken into account, the introduction of a tool should not be a goal as such but a means to a clearly defined goal. Just as a financially sustainable mechanism is a means to providing an excluded population with sustainable access to financial services, any social performance tool should be a means towards the core goal of the institution.

It is apparent that the professionalization of social performance management in microfinance is an important topic. This study confirms this thought, since many challenges that Argentinean MFIs are facing closely relate to social performance topics. It is important to keep these challenges in mind when working on this topic and carefully assess the local needs of the various institutions; towards a demand-driven approach of the professionalization of social performance management.

Appendix: overview of available poverty assessment tools

USAID Poverty Assessment Tool (IRIS PAT)

The USAID Poverty Assessment Tool¹⁷ (further referred to as PAT) is a tool that has been developed by the IRIS Centre of the University of Maryland in assignment of USAID. It initially aimed to provide a practical tool to measure the prevalence of extreme poverty of households in a group of clients of MFIs¹⁸. In April 2010, the method was adjusted to include other poverty lines and measure ‘poverty’ next to ‘extreme poverty’. All partners of USAID that receive funding to execute microfinance activities in countries where a PAT is available are obliged to use the tool to report back to their donor. The tool is obviously designed to report an external party (USAID) what part of their beneficiaries is poor; it was initially intended to typically serve the second objective of outreach evaluation as described in the previous paragraph. A PAT is currently not available for Argentina.

PAT uses country-specific household questionnaires of 10-25 questions. The composition of the questionnaires and the calculation method that follows are based on nationally representative household data and available national or international poverty lines. Questions typically consist of topics such as household composition, possession of durable consumer goods and education. An important characteristic is that PAT cannot be used for individual targeting. USAID acknowledges the limitations in terms of accuracy in deciding whether or not a household is living below the poverty line and designed the tool to assess poverty on an aggregate level, thereby balancing out errors of misqualifications of households¹⁹. The questionnaires are filled-in by interviewers in the field and results are submitted into a custom-designed computer program that will calculate the number of clients in poverty and extreme poverty of a client population. Although it is possible to repeat the exercise to measure progress over time, the tool was not designed to track client progress and this is only possible on the level of the entire population.

If a PAT would be made available for Argentina, the implementation or execution of a PAT survey at the level of the individual MFI involves an intensive process which is described in the USAID PAT Implementation Manual²⁰. Among the various steps of this process are the setting up of a project organization and appointment of staff, train staff, sampling the part of the client population that will be interviewed, executing the field work (interviews), entering the data into the system and write the final report. The end result of this exercise is to know which part of the population served by the MFI is considered to be ‘extremely poor’ and – according to the very recent addition – ‘poor’.

¹⁷ See www.povertytools.org

¹⁸ USAID, 2010, p. 7

¹⁹ USAID, 2010, p. 7

²⁰ USAID, 2010

Progress out of Poverty Index (PPI)

Next to the PAT the Progress out of Poverty Index²¹ (PPI) is the other most commonly used poverty assessment tool in microfinance today. In a number of ways it is similar to the PAT, but there are also some differences. The PPI is developed by the Grameen Foundation and is designed to measure poverty levels of groups and individuals and to track changes in poverty levels over time²². It can also be used for targeting and therefore serves all objectives mentioned before. Whereas PAT was initially designed for identifying the percentage of beneficiaries in extreme poverty, PPI assesses the likelihood a client falls under an applicable poverty line, that have been set after reviewing a number of available national and international poverty lines. It allows categorizing clients according to different poverty bands. The PPI gives each individual client a poverty likelihood score, which serves as a baseline from which client progress is measured. A PPI is currently also not available for Argentina.

PPI uses country-specific household survey that consists of ten non-financial indicators such as family size, characteristics of the house and the number of children attending school. As with PAT the composition of the questionnaire and the calculation method are based on available national household surveys or the World Bank's Living Standards Measurement Survey. The questionnaire is filled-in by field staff that directly calculates the poverty likelihood of an individual client using a simple chart, no computer program is needed to calculate the score. Various examples of poverty scorecards can be found on the PPI website (www.progressoutofpoverty.org).

Implementation of the PPI in Argentina would also have to be pre-conditioned by the PPI team developing a PPI for Argentina. Furthermore, once a PPI would be available, implementation at the level of an individual MFI would require similar steps as the implementation of a PAT. It involves an extensive project plan for collecting data, assuring data quality and data analysis. It differs from PAT in the sense that the reporting format will be less designed in terms of reporting to external stakeholders. Data analysis is mainly recommended from the perspective of internal objectives. The PPI website²³ provides detailed information and training material.

Social scorecards by individual institution: example of Buusaa Gonofaa

Another approach to developing a poverty assessment tool has been taken by individual MFIs that developed tools based on their existing client base or local community in which they work. An example is the Ethiopian MFI Buusaa Gonofaa. This MFI has internally developed a poverty scorecard – or 'social ledger' – consisting of 20 poverty indicators that highly fit with the poverty level of their clients²⁴. Indicators are developed within five categories: housing condition, household assets, business growth, food security and children's education. Loan officers complete the questionnaire as part of the intake of a client and the assessment is repeated after every loan cycle.

²¹ See www.progressoutofpoverty.org

²² Grameen Foundation, 2008

²³ www.progressoutofpoverty.org

²⁴ European Microfinance Platform 2009, p. 7

So far, there does not seem to be a big difference with the previously discussed PAT and PPI. However, in designing the method Buusaa Gonofaa followed a different approach. The questionnaire and calculation method have not been derived from national household surveys but from the MFI's local reality²⁵. Buusaa Gonofaa used a participatory method with client panels to construct the indicator set. Because of this method, the scorecard could be weak in terms of comparability beyond the own institution, but it serves the MFI's internal objective of better segmenting the target population, gain more insights into the client's needs and adapt products to fit these needs. Another example of a MFI that followed a similar path is the South African Small Enterprise Foundation²⁶.

Others methods

The four practical tools described above are the main examples in current practice, with PAT and PPI dominating the landscape. Various other tools paved the way towards the current practice over the past years. In his article "Review of Poverty Assessment Tools", Zeller²⁷ assessed the 2004 landscape as part of the preparation of the USAID PAT development. Examples are the ACCION Income and Expenditure Tool (uses household-level income and expenditure data to assess the poverty level of a client compared to national or international poverty lines) and the Housing Index by CASHPOR, AIM and ASA (focuses on observable housing conditions as a subset of basic needs). Another example also referred to by Zeller and other sources²⁸ is the CGAP Microfinance Poverty Assessment Tool²⁹. The tool seems to have had a major influence in the development of current tools, but is not one of the practical tools currently used on a MFI level. A last example that will be mentioned here is the FINCA Client Assessment Tool³⁰. This is a very extensive assessment of client characteristics, containing 125 questions that go beyond assessing poverty levels. All these tools and more have played a role in shaping the current practice of microfinance poverty assessment tools.

²⁵ European Microfinance Platform 2009, p. 8

²⁶ Imp-act, 2007

²⁷ Zeller, 2004

²⁸ See also: SEEP Network, Social Performance Map, p. 179

²⁹ Henry, 2003

³⁰ FINCA, 2009

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