



CERISE

Comité d'Echanges, de Réflexion et d'Information
sur les Systèmes d'Epargne-crédit



iram GRET cnearc

SPI3 - DISCUSSION PAPER N°2

From social strategy to impact: How can impact studies be improved?

Cécile Lapenu, CERISE
& Carine Reboul, IEDES – Université de Paris 1

CERISE Discussion Papers contain preliminary material and research results
and are circulated to stimulate discussion and critical comment.

November 2006



SP13 – Methodological Articles

From social strategy to impact: How can impact studies be improved?

Cécile Lapenu, CERISE¹ and Carine Reboul, IEDES – Université de Paris 1
November 2006

Summary

Created in March 2005, the Social Performance Task Force² counts actors from various social performance initiatives in the microfinance industry and has been charged with clearly defining social performance and addressing questions about measuring and managing social performance. The SPTF gave a definition of the social performance in microfinance:

“Social performance is the effective translation of an institution's social mission into practice (actions, corrective measures, outcomes).

The social value of microfinance relates to:

- *Improving the lives of poor and excluded clients and their families.*
- *Widening the range of opportunities for communities.*

To create this value the social objectives of an MFI may include:

- *Serving increasing numbers of poor and excluded people sustainably by broadening and deepening outreach*
- *Improving the quality and appropriateness of financial services available to the target clients*
- *Creating benefits for microfinance clients, their families and communities, relating to social capital and social links, assets, reduction in vulnerability, income, access to services and fulfilment of basic needs.*
- *Improving the social responsibility of the MFI towards its employees, its clients and the community it serves.”*

An MFI which sets itself a social mission will find that this provides lines of direction for its activity, based around the four dimensions of outreach, adaptation of services, client benefits and social responsibility. It also needs to be able to monitor the effects of its activity and feed its findings into its decision-making in order to further improve its social impact.

Operational impact studies should have this aim. However, MFIs and their partners may sometimes be lost in the variety of tools available, discussions of the methodological limits of

¹ www.cerise-microfinance.org

² http://www.microfinancegateway.org/resource_centers/socialperformance/

impact studies and the dilemma between conducting a one-off in-depth study and less detailed regular monitoring.

The main idea of this discussion paper is to show that designing an impact study based on a prior analysis of the MFI's social strategy offers an opportunity to focus the study's lines of attack, adapt it to the MFI's questions and choose from among the tools available those which will most precisely fulfil the information requirements of those commissioning the study.

In this article, CERISE shows how the SPI-CERISE tool is integrated among the tools on microfinance assessment and presents an approach based on its work in this area, which can help to design a simple and relevant impact study based on SPI-CERISE, so that the MFIs or their professional networks can use this impact study as a feedback and monitoring tool.

First, the social strategy is evaluated using the SPI-CERISE questionnaire, which aims to find out if the MFI has the available means to attain its social objectives. This questionnaire examines the MFI's internal operations and allows the MFI's strategies and the means in place for achieving a positive social impact on clients and their environment to be identified. Second, the implementation of a client study, designed in relation to the strategy evaluation, should reveal different client characteristics and determine the MFI's impact on beneficiaries and their families.

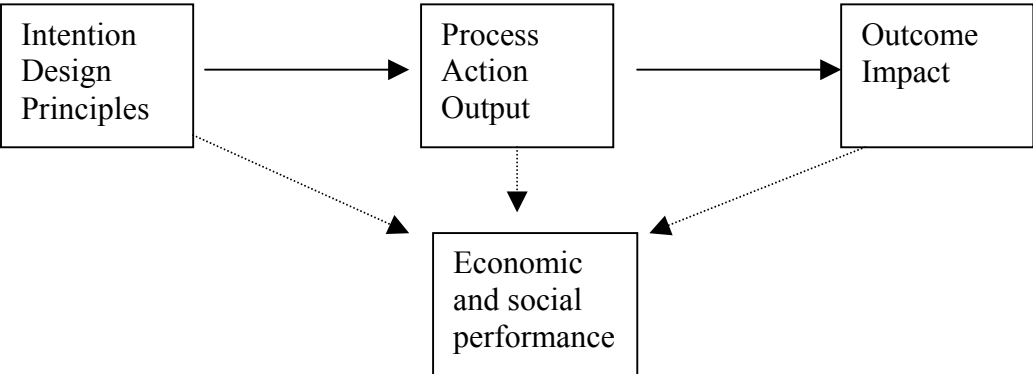
Impact analysis makes it possible to assess the extent to which financial services have contributed to improved living conditions for clients and those around them. It gives an overview of different client behaviours and can be used to develop the products and services provided in a manner tailored to clients' constraints and needs.

The findings regarding the process in place for achieving social performance and the findings of the impact study can then be combined in order to understand the links between the MFI's strategy and its effects on its clients.

This article firstly presents the concepts of social performance and impact, then gives a broad overview of the principal tools available to practitioners on these topics and lastly shows how an impact study can be designed based on an MFI's social strategy by using an example drawn from the Sanduk network of village banks in the Comoros.

Impact and social performance: what links and synergies?

The functioning of an MFI follows a logical chain : « intention – action – effects ». The concept of performance focuses not only on the final impacts, but provides a framework for understanding the process by which social objectives are achieved – this is summarized in the flow diagram below.



Social performance assessment relates broadly to the analysis of the social mission, actions, corrective measures and outcomes of the MFI. It does not focus only on final impact. The aim is to check whether the MFI gives itself the means to attain its social goals and to understand how to improve on a regular and operational basis its impact on the households and communities it serves. It relies mainly on internal information (principles and rules, business plan, MIS, etc.).

Impact is generally defined as the change among clients and non-clients imputable to MFI activities. The measure of impact is a subset of performances.

Impact analysis is aimed at understanding, measuring, evaluation the effects of an action. It requires external information (situation of the clients, non clients, of the local community, etc.)

Given the complexity of the multidimensional effects linked to the action of an MFI, methodological difficulties are linked with impact analysis.

Impact analysis and assessment of social performance are thus complementary methods to assess MFIs' activities.

To describe and assess the chain of activity of an MFI, the assessment can follow the same process for greater coherence, from the social strategy to the social impact.

Nature of current tools for measuring impact

The issue of impact has always been relevant for MFIs. However, approaches and methods have evolved over time.

Considering impact in microfinance: a change of approach³

The first impact studies for microfinance at the end of the 1980s attempted to show impact (chiefly economic) with scientific methods, tools and rigour. They were most often carried out by university teams, used complex survey methodology and were lengthy, costly and hardly suitable for use by microfinance practitioners.

A new approach to impact, which could be described as “minimalist”, developed in the mid 1990s, coinciding with a feeling that microfinance had been successful, in part justified by the sector's achievements and rapid growth.

This approach held that the existence of an institution over an extended period, i.e. its financial performance, was ultimately the best proof of impact. Institutional performance was emphasised, to the detriment of reflection on the suitability of the financial services themselves and their impact on clients.

Several factors have in a manner set this approach on its head, and put the client at the centre of the debate. These factors include in particular growing competition between MFIs, increasing non-payments, the first bankruptcies of institutions and desertion by massive numbers of clients. From the point of view of impact studies, methodological difficulties have been difficult to avoid and it has quickly become apparent that compromises would have to be made between the desire for scientific rigour and the means available.

³ From an article by CERISE, *Techniques Financières et Développement*, N°70, march 2003.

As a result of these difficulties, donors, clients and operators involved in microfinance have a growing interest in analysing how suitable MFIs' financial services are for their target clientele. In recent years, impact studies have increasingly focused on *improving* services rather than *proving* impact. MFIs are feeling a need for simple operational tools, which are as yet insufficiently developed and well-known.

Little by little, a set of tools has been defined to help in the impact analysis. Those tools (PAT, AIMS, Microsave tool kit, etc.) offer a general framework that must be adapted to the MFI strategy. It is necessary to see what are the information already available, how the information can be completed and used to help at the end the MFI increase its social impact (see for example the different Practices Notes from Imp-Act ⁴).

Main questions and related tools

Monitoring impact and social performance is characterized by the variety of questions, objectives, requirements and parties concerned. Likewise, emphasis has been laid on the risks and methodological concerns relating to such work. This explains to a large extent why there cannot be universal tools that are perfectly harmonized and applicable in all circumstances. Everything depends on the objectives set and the means available, both human and financial. For this reason, the following review of tools takes its cue from the questions that may be asked. It proposes a range of tools and methods resulting from these questions, which impact monitoring practitioners can then make use of in fulfilling their requirements. The following presentation of tools, methods and approaches is organized according to objective. The interest of the analysis of the MFI social strategy through the use of the SPI-CERISE tool, before the impact analysis, is to identify the key questions to be integrated in the impact analysis.

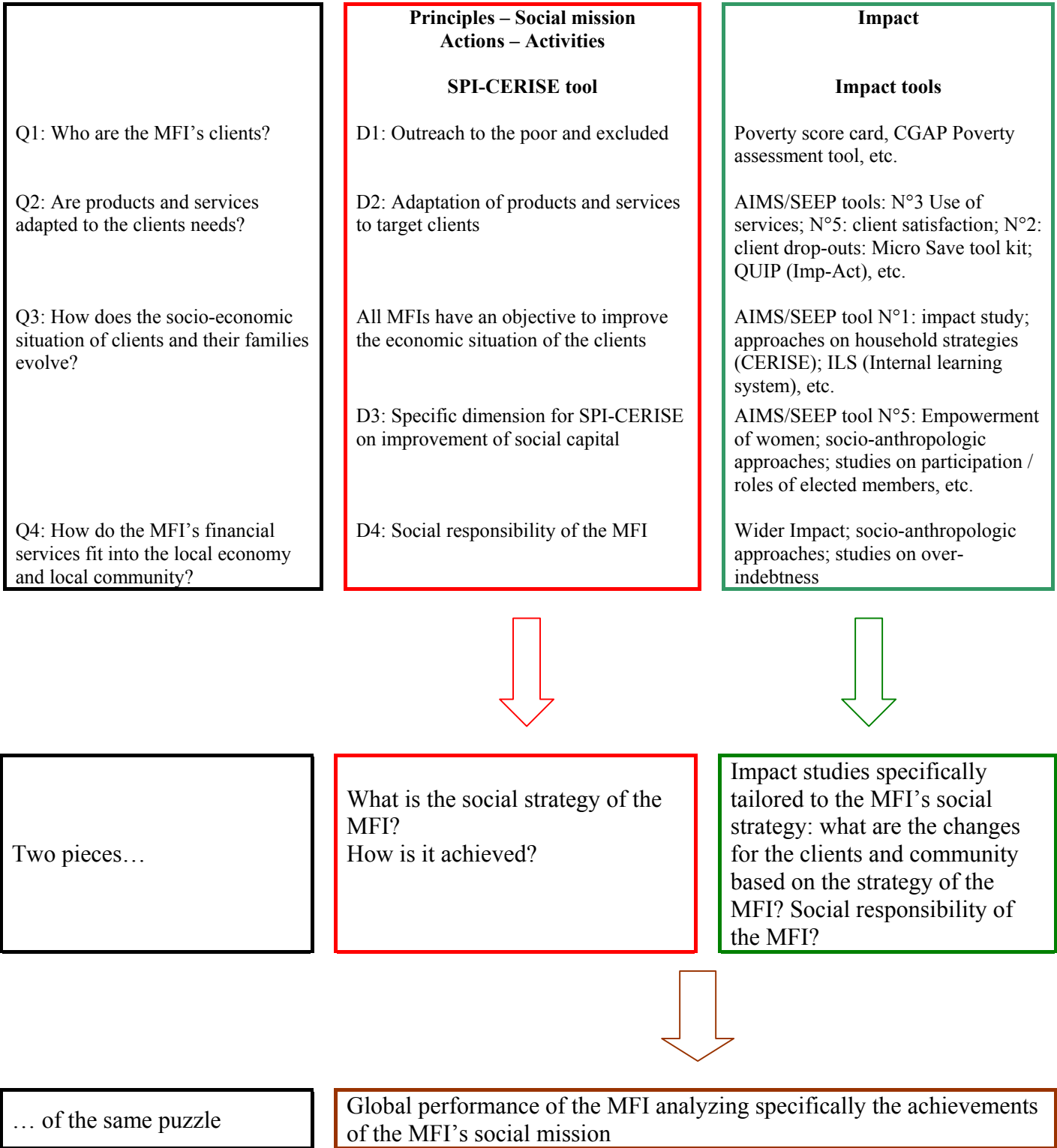
In order to have an operational approach of the tools, it is interesting to present them according to the questions they try to answer, along the chain of activity of the MFI. In most of the case, the MFIs and their partners focus on the four main questions in terms of impact: who are the clients ? Are the services adapted ? What are the benefits for the clients ? How is the MFI integrated in its environment and what is its social responsibility ? These four main issues are also the basis of the social strategy of an MFI.

We present here a summary of these questions and the corresponding tools, as shown in the figure N°1⁵.

⁴ www.imp-act.org

⁵ For more details, in French, see the Ressource Center « Impact et performances sociales » on the French Microfinance Gateway : <http://www.lamicrofinance.org>

Figure N°1 :
SPI-CERISE and Impact studies: two pieces of the same puzzle



Preliminary question on the strategy of the MFI: Does the MFI have the available means to attain its social objectives?

Approaches and tools exist, or are currently being implemented, to help MFIs monitor their actions on a daily basis: measurement through indicators, social audit, social rating. Their objective is to evaluate whether the implemented means and ongoing actions are appropriate for the institution's social mission. These are piloting tools that evaluate the "upstream" process in an MFI's chain of activity. They are based on the hypothesis that proportionality of means to objectives can provide better client impact at the end of the chain. We can find for example the approaches on monitoring by IRAM⁶ or the SPI-CERISE tool.

The SPI Tool for social performance evaluation⁷

The SPI tool (Social Performance Indicator) evaluates the intentions, actions and corrective measures implemented by an MFI, with a view to determining whether it has the available means to attain its social objectives. It can be used internally, as a basis for reflection on the MFI's social mission and the means of pursuing it; or externally, as a basis for dialogue with the MFI concerning its social objectives. In a later version of the tool it will be possible to use it as the basis for social rating.

The tool gathers information available within the MFI, obtained from management and from the departments involved (training, human resources, etc.) and from the information and management system.

Quantitative and qualitative data are articulated in 4 dimensions:

1. Targeting the poor and the excluded
2. Adaptation of services and products to the target clientele
3. Improvement of clients' social and political capital
4. The MFI's social responsibility

Question N°1 on impact: Who are the MFI's clients?

There are two sorts of tools for evaluating clients' standard of living:

- Firstly, selection tools which help MFIs choose certain categories of clients: in particular, the selection of poor clients when the principal objective of the MFI is to fight against poverty by targeting the most deprived.
- Secondly, evaluation tools which can be used to understand who is actually participating in the programme (and who is excluded from it) and, as a result, to know whether the targeting objectives of the MFI are being attained. Such information can then be used in adapting products and services to the real needs of clients. Aside from this, determining clients' standard of living is useful in any subsequent evaluation of the programme's impact, and generally constitutes part of the first phase of impact evaluation.

In terms of evaluation, one can use in particular the *Poverty assessment Tool*.

⁶ Gentil, D. & al. (2000), *Microfinance – Orientations méthodologiques* (2e édition), Union Européenne.

⁷ <http://www.cerise-microfinance.org/publication/impact.htm>

Question N°2 on impact: Are products and services adapted to the clients needs?

Sub question N°2.1 : How are the products and services used by the clients?

Questions relating to the use made by clients of products and services are of greater relevance to marketing and the analysis of client satisfaction. Nonetheless they can be used as a basis not only for understanding clients' needs but also for measuring the impact of the services offered.

These are evaluation tools for analysing the links between implemented actions and their results at client level (in terms of outreach, usage and satisfaction) in an MFI's chain of activity. These tools and approaches belong to the category of measures taken by MFIs in the context of service improvement ("Improve") rather than that of impact demonstration ("Prove").

We can cite for example AIMS/SEEP tool N°3 on strategies of use of the loans, benefits and savings over time or the approaches on the analysis of the households budgets.

Sub question N°2.2 : Are the clients satisfied with the services?

Creation of new products can follow client satisfaction analysis, either through a complementary market study, or simply by analysing the reasons for satisfaction and dissatisfaction.

Different tools are proposed such as AIMS/SEEP tool N°5 on client satisfaction, MicroSave Africa tool kit or AIMS/SEEP tool N°2 on client drop-outs.

Question N°3 on impact : How does the socio-economic situation of clients and their families evolve?

The question of the evolution of the economic situation of clients and their families goes right to the heart of the question of impact.

One can aim to follow observed changes, take stock of clients' situations and make use of the information in adapting services (the "Improve" method); or one can aim to establish a more direct link between the MFI's activity and the observed changes, in a method designed to "prove" the MFI's impact. One can also monitor the financial strategy of households over time in order to understand this strategy and see how the activity of an MFI relates to it.

One of the most classical tool is the AIMS/SEEP tool N°1.

Although impact *per se* (the notorious issue of "proof") is an extremely complicated issue, studies aiming to analyse strategies and behaviour of clients are easier to implement. They can be more reliable and extremely useful from an operational point of view. In the end there must be a compromise between proof and improvement. Close analysis of strategies can probably highlight types of impact more realistically and more reliably than impact studies based on control groups do. At the same time it provides information on the use of financial services, how they are appropriated and any limitations they may have: both relating to the MFI and to its exterior environment.

The work that has been carried out by CIRAD for example on household strategies aims primarily to establish a typology of households in a given area (system of economic activity and level of wealth), and subsequently to understand the economic strategies of different

types of household, their needs and financial constraints. A household's budget can therefore be characterized by identifying different sources of finance and the use made of them by the household. Taken as a body, these analyses help to grasp the MFI's impact on different types of household.

Question N°4 on impact : How do the MFI's financial services fit into the local economy and local community?

This last question deals on the one hand with the links between the financial services offered by the MFI and the other sources of services (banks, informal sector) and their complementarities. Analysis of the economic impact of the MFIs can be conducted along the lines of their different functions (savings and loans), the observation of the ways in which they complement informal and banking systems (both in terms of consumers and activities) and the evaluation of their institutional sustainability (economic and social).

On the other hand, the question of the integration of the MFI in its environment deals with the way the MFI takes into account its social responsibility and act as a tool for sustainable development⁸: links between the MFI, its services and the clients, social sustainability, social links, potentialities and risks of microfinance as a tool to fight against poverty (Servet 2004): exclusion, overindebtedness, etc.

For this last question, standardized tools are not yet defined, and different approaches are used (socio-anthropological analysis for example). Building impact analysis on these issues need to be done on a case by case approach with the MFIs.

Tools are diverse, the questions are complexe but very important for the MFIs. The next section tends to show that the impact analysis can be guided on the basis of a preliminary analysis on the social strategy conducted with the SPI-CERISE tool.

Designing an impact study based on the MFI's social strategy

To illustrate the benefit of basing a simple and relevant targeted impact study on the MFI's social strategy, we will analyse the methodology used in the particular case of a study carried out on the Sanduk network of Anjouan in the Comoros⁹.

The Sanduks of Anjouan

Following a study which revealed a strong associative culture in the villages on the island of Anjouan, a microfinance institution was set up in the shape of a village association for credit and saving which was self-managed at village level. The first Anjouan microfinance banks were set up at the beginning of 1994. The Anjouan Regional Union currently has 36 Sanduks (village banks), approximately 70 employees and 300 local officials, who represent the villagers and manage the banks. They represent more than 26,000 clients, of whom more than 16,000 are savers and approximately 3,800 are borrowers. Its savings outstanding and credit outstanding have grown very quickly, and now total more than 4 million euros and 2 million euros respectively. Social objectives and financial viability are its two core values, which are seen as equally important: "The

⁸ Betty Wampfler, Document de travail Habilitation à Diriger des Recherches (HDR), september 2004.

⁹ Some elements were not necessarily implemented exactly as described in the section of the article on methodology during the Sanduk survey (for example as regards sampling or including certain questions to members surveyed), but with hindsight, it can be seen that the survey could have been more effective. We will therefore describe what seems to us the most relevant approach, based on a current work implemented in Guinea.

Regional Union of Sanduks of Anjouan aims to set up a unique financial institution of a permanent nature, which is open to various categories of the population, with the most deprived as a priority".

The strategy was analysed using the SPI-CERISE tool and dealt with the question “Does the MFI have the means available to attain its social objectives?”. The findings of this analysis of the Sanduks are presented according to the four areas that were researched in terms of social impact and correspond to the SPI-CERISE tool’s four dimensions. For each area, we show in detail how the impact survey was designed based on the social strategy, and then we report the findings of the impact study.

The sample: at the basis of surveys

It is obvious that sampling should be carried out on the MFI’s clients, but it will be particularly interesting to identify certain categories, depending on the methods of intervention used by the MFI and its social objectives. What is the impact on borrowers, by region, social category, length of time as a client and so on? What is the role and position of savers? What is the position of women (are they users or do they just act as figureheads in acquiring loans)? What are the profile and role of elected members in a participative institution of a self-managed or co-operative nature? What is the profile of new clients (which will provide information about the outcomes of the outreach policy)? What is the profile and prospects vis-à-vis the MFI’s services for non-clients? Why do certain clients leave the institution? and so on.

From this series of questions, we see that sampling is an important step for recognising the key individuals who gravitate around the MFI as a result of its strategy. They need to be properly identified in order to evaluate the MFI’s unique nature.

Sampling in the study of the Sanduks

A total of 151 clients were surveyed. Three criteria were used when sampling: gender, area (urban/rural) and type of client:

- Borrowers selected at random ("clientele")
- Clients who have received numerous loans, between 6 and 10, depending on the age of the Sanduk (“long-standing clients”)
- Clients who have received little credit and who have not received any loans for more than a year (“inactive clients”).

As there were no reliable data on these clients’ activities, it was not possible to use these characteristics during sampling.

The only reliable information related to the percentage of women in the network as a whole (37%) and the percentage of urban Sanduks (four out of 35, or 11%). 11 Sanduks were selected, two urban and nine rural. As elected members were considered clients like any other, there was a risk that they would be over-represented in the sample (as they were more present and more open to questions than "basic" members). It is perhaps preferable to have had a sample of elected members and a sample of basic members, or in any case to be careful not to over-represent them.

Question 1: Who are the MFI’s clients?

The MFI’s strategy in relation to outreach to the poor and excluded

SPI-CERISE findings – Dimension 1: Outreach to the poor and excluded

The Sanduks aim to include all of the “non-bankable” population and all of the villages on the island of Anjouan. They do not have a clearly defined individual targeting strategy. The Sanduks are accessible to all villagers.

The village banks were set up at the request of village communities. After it had at first introduced a solidarity group system, the Regional Union quickly decided to replace this with a system of physical guarantees, even if the value of the guarantee is rarely checked by the saving bank's management. The Sanduks are present in remote areas with poor infrastructure (roads, electricity and so on). 90% of banks are located in rural areas where food-producing agriculture predominates. Only 37% of borrowers are women.

It is not a principal objective for the MFI to have an individual targeting strategy. Instead, it aims to cover all of the Anjouan population which is relatively poor compared to other islands. This objective of covering the whole island and the small surface area involved gives it a high level of performance as regards geographic outreach. Individual targeting is not necessary in this strategy, and lending methods that are adapted to the target clientele complement the MFI's markedly geographic outreach, as its entire intervention zone (the island of Anjouan) is particularly poor.

Design of the impact questionnaire in relation to the outreach strategy

Although they may not necessarily have a particularly developed individual targeting strategy, MFIs and their partners in general appreciate having information about their clientele profile. We first need to determine the **general characteristics** of the clients being surveyed (gender, age, education level, primary and secondary activities and marital status). This section allows clients to be identified according to the criteria defined during the sampling process, indicates their socio-professional category and provides information on the form of these activities (are they family activities, how is the family budget separated from activity budget and so on). In order to assess the wealth profile of the clients concerned, we then need to enquire about **clients' standard of living**. This section is based on the Poverty Assessment Tool: the family structure of households, quality of food, ownership of assets (land, cattle, vehicles, household electric appliances and so on), type of housing and access to basic services. The basic PAT questionnaire was adapted to the Anjouan context using literature on poverty in the Comoros and discussions with the management of the Sanduks and loan officers on local poverty criteria. Data such as UNDP statistics on the island's general population allowed the clients' profile to be compared with average wealth on the island.

Interpretation of the impact study results in view of the MFI's strategy

Findings of the impact study

The Sanduks' clientele is mainly male. The Sanduks do not deal with a particularly young population: the large majority are over 25 with a higher education level than the national average. The majority of clients are engaged in more than one activity and are mostly trader - farmers with a large proportion of civil servants. They use very few other sources of finance for their activities. The rare sources of finance apart from loans consist of migrant transfers, chiefly from the Islands of Mayotte and mainland France, or tontines, a system which is increasingly falling into disuse. As there is only marginal use of loans apart from through the Sanduks, these represent an essential source of finance for their clients' activities. They deal with a population which is relatively well-off, having a greater number of possessions, better sanitary facilities and better access to electricity than average. However, the proportion of households which do not own any of the goods mentioned in national surveys is greater amongst the Sanduks' clients than among Anjouan households in general. This reveals a significant wealth gap among the Sanduks' clients. There is a higher proportion of very poor people among clients than on average among the overall population. The Sanduks deal with a female population which is more excluded than male clients. However, their low education level restricts their access to credit.

When the evaluation of the outreach strategy and the findings on the type of client are brought together, we see that the institution is acting in accordance with the strategy defined, with broad geographic outreach (banks are present in 60% of villages, and are predominantly rural)

but there is no individual targeting, which results in broad representation of the population. Geographic targeting is crucial on an island where the general standard of living is low. However, the share of very poor households is greater than the average on the island. This is also in line with the strategy, which gives priority to the most deprived. At this stage, the institution can reflect if it wants to further develop its targeting, for example by offering more loans with no physical guarantees, or by adopting individual targeting for certain services by using specific social or economic exclusion criteria. It can also consider the indicators which it wishes to use on a regular basis in order to determine the profile of new clients and monitor changes in longstanding clients' standard of living.

Question 2: Are the products and services available of high quality and adapted to the needs of the MFI's clients?

The MFI's strategy in relation to the adaptation of services

SPI-CERISE findings – Dimension 2: Adaptation of services

Scope of services

The Sanduks only provide three loan products, but these offer wide scope for use and great flexibility regarding the amount lent and the loan period as well as the repayment method. There are no specifically social loans, but it is possible to grant an emergency loan, if the client has an investment opportunity for which s/he needs credit quickly. For the moment, there is no tailor-made savings product. The savings products, term and demand deposits, are voluntary. The technical team has begun to consider creating new products, in particular relating to saving for marriage, education and housing.

Quality of services

Every bank holds a meeting once a month to review requests for credit.

Each client receives an information sheet in Comorian when s/he is granted a loan, which sets out repayment dates, the interest and the principal. The MFI's technical team is very careful to provide transparent information to clients.

The MFI performs well in terms of decentralisation. Banks are present in more than 60% of the island's villages and so they are very accessible to the whole village community.

The MFI has an individual policy in each village, ensuring that services are adapted to the needs of clients. The bank's opening times and days are decided by the village. Urgent requests sometimes mean that the bank needs to be opened on a day when it is closed.

The MFI has not yet conducted a formal market study in order to improve the quality of its services. The use of the loan is discussed with the management committee, which briefly examines the profitability of the activity being financed. Numerous informal discussions between the client and the cashier as well as with the management committee allows the MFI to check if the services are adapted to the needs of clients.

Most client exits (or more exactly, client inactivity) are due to large-scale emigration from Anjouan, chiefly to the Islands of Mayotte. The MFI is not considering making employees redundant.

Non financial services: The MFI no longer provides non-financial services. In 2004, it set up a functional literacy service in collaboration with a local literacy association, financed from its own funds and chiefly aimed at women. However, this project ended due to insufficient funding.

In terms of products and services, the MFI provides its clients with a variety of loans, as a result of highly flexible repayment methods. However, the lack of tailor-made savings or loan products (for housing, education etc) combined with the lack of an individual targeting strategy towards the poorest does not put it in a good position to adapt products and services to target populations.

Design of the impact questionnaire relative to the strategy for the adaptation of services

In terms of the adaptation of services, the study concentrates firstly on loan usage (sectors of activity, products or services acquired by using the last two loans, users, share of total

investment represented by the loan, and sources of finance for loan repayment). This part is based on AIMS tool 3.

It is then possible to study client satisfaction with the products and services provided as well as their level of information about the banks' operations; this is based on AIMS tool 5 or Microsave. However, the features which are particular to a participative model should also be covered by including questions on the procedures for self-selection, the operation of loan committees, the role of elected members and so on.

Lastly, with regard to client exits or "inactive" clients who have not received a loan for more than a year, the questionnaire seeks to identify the reasons for their inactivity and in particular to determine if these reasons are internal or external to the MFI. The questionnaire also seeks to find out how the client's activities have evolved since his/her exit and his/her intentions with regard to the Sanduk. This module, based on AIMS tool 2, is only to be used for the sample of clients who have left or are inactive.

Interpretation of the impact study findings in view of the MFI's strategy

Impact study findings

Loan usage

Loans from the Sanduks are better adapted to commercial activities than agricultural activities. Farmers who carry out a commercial activity prefer to invest their loan in their business rather than in their farm. Loans are also used to take advantage of one-off economic opportunities.

In agriculture, the majority of loans are used to acquire new plots of land. They also play a role in modernising agricultural methods through the purchase of fertilizer and more modern equipment.

Traders chiefly use their loans for buying stock. Craftspeople make greater use of their loans for investing in equipment (such as sewing machines and stills), even if the majority of loans are used, as in commerce, to buy inputs (ylang-ylang flowers and material for instance).

A minority of loans are used for consumption. They are used to buy houses, a sign of prosperity in Anjouan, and also to deal with difficult situations (such as health problems) or to cover large one-off expenses (e.g. ceremonies and school fees).

Loan usage diverges depending on the degree of client poverty. Poor people have a greater tendency to use their loans in agriculture and consumption than the rich.

The development of family credit strategies can also be seen. The majority of clients have a family member who is also a member of a Sanduk and who obtains loans to finance the same activities, which allows larger sums to be obtained.

Client satisfaction

The degree of satisfaction with the products and services provided is very high. The Sanduks' loans are particularly well-adapted to the needs of their clientele, who in particular appreciate the flexibility and the options proposed. It is the poorest category which most appreciates borrowing conditions, with regard to the amounts lent as much as the rate of interest charged. One third of clients (32%) find the interest rate too high, but this is only the case for 24% of poor clients.

Despite efforts by the Regional Union and local management to facilitate communication and provide information, some clients are still unaware of how the institution operates and of services such as insurance. Communication and training on the institution's operating procedures and the aim of certain products need to be stepped up in order to improve understanding of the system, build a feeling of ownership among clients and ensure its sustainability.

Inactive clients

The majority of inactive clients do not arrange loans for reasons that are external to borrowing conditions and which are more closely connected to inherent features of the Anjouan economic system. The best illustration of this phenomenon is the very high proportion of clients (nearly 90%) who think they will arrange a loan in future.

The MFI provides a range of fairly flexible services but which are chiefly tailored to commercial activities. In the absence of clearly defined social loans, it grants loans for urgent family needs, such as health, ceremonies and school fees, as a peripheral activity. The level of client satisfaction is high, with clients rarely inactive because they have rejected the institution's services. However, the institution clearly has to make a greater effort in terms of information provision.

In relation to the features particular to the MFI as a participative organisation, the study showed that clients were satisfied with participation and management, the work of members and its integration into the community.

Question 3: How does the socio-economic situation of clients and their families evolve?

The MFI's strategy in relation to building its clients' capacity

SPI-CERISE findings – Dimension 3: Building clients' social capital

As a result of its democratic manner of operating and high level of community participation, the MFI is helping to improve its clients' social and political capital. The officials elected by the village population receive training, and their role increases the influence of Sanduk members in the community. Moreover, other projects are attracted to a village where a Sanduk has been created and its efficient operation is a determining factor when it comes to new development projects being set up in the village. Clients have access to all the institution's financial information, and in particular to the accounts of their village Sanduk and of the Regional Union during annual general meetings.

One of the management committee's roles is to resolve conflicts, but the loan advisor, the cashier and management are also available and can be called upon if conflict arises.

Only 37% of clients are women and they are under-represented at decision-making level (20% of elected bank officials and only 6% of representatives at Regional Union level are female).

The village bank is involved in financing projects for the benefit of the village community, such as water conveyance projects and renovating schools, mosques and community clinics. This involvement is essential in fostering a feeling of ownership of the Sanduk project among clients.

Due to their role in the Sanduks, bank officials have had the opportunity to meet public authorities and can therefore influence decision-making in their region.

Traditionally, an MFI's activities in relation to its clients has focused on economic impact, such as increasing income and assets, and reducing their vulnerability to crises etc. The Sanduks aim to support economic activities by Anjouan households by granting loans (basic and uncapped loans) and by instituting saving.

The SPI-CERISE tool focuses more particularly on strengthening social links and clients' social and political capital. As regards this dimension, the MFI's major strength resides in its system for representing clients in the institution's decision-making bodies.

Design of the impact questionnaire in relation to the strategy for building client capacity

The section of the questionnaire on the MFI's social and economic impact can be based on classic tools such as AIMS tool 1 (with a sample of new clients as a control group). In this case, the number of surveys should be increased to allow statistically significant comparisons between longstanding and new clients.

The study focuses on how clients perceive the MFI's impact. This section began with a question measuring the client's general appreciation: "Has the loan helped you?". This aims to determine at what level the impact of the loan has been positive or negative for the client (income, well-being of the household, living conditions and activities).

As regards strengthening social links and creating social capital, inspiration can be drawn from AIMS/SEEP tool 5 on female empowerment. However, its approach is very qualitative. For an institution based on a participative model, one part of the sample can concentrate on the institution's elected clients and both elected and "basic" clients can be asked about the management of the bank, relations between elected members and other members, between elected members and employees, between elected members and technicians, and links with the community and so on.

Interpretation of the impact study results in view of the MFI's strategy

Client perception of impact

Loans have a largely positive impact on the households of Sanduk clients. Nine out of ten feel that the loan has helped them. 90% of them have seen their income rise due to the loan, chiefly by developing their initial activity or activities. The loan has also allowed a quarter of clients to engage in a new activity which has brought them additional income. The new activities are mostly small businesses selling imported products. Whilst these new activities provide clients with new sources of income, they do not help to diversify Anjouan's economy, which is already saturated on this type of market.

A large majority of clients (75%) feel that the loan has allowed them to increase social expenditure on their family. The loan has helped more than half with food, education and health-related expenses. It emerges that the greater the number of loans obtained by clients, the greater amount they can spend on their family.

The positive impact on family expenses has been more significant in the households of poor clients. 92% of them feel that the loan has helped them to improve their family's situation through expenditure on food, health and education.

Loans have not only contributed to improving households' living conditions through everyday expenditure, but also through expenditure on improving housing. One third of clients have used their loan on housing, either directly or indirectly as a result the benefits arising from it.

According to a majority of clients, it would be impossible to find a similar source of finance for their households in Anjouan if it were not for loans by the Sanduks.

Only a small minority report a negative impact from the loan, fewer than one client in 10. These clients have observed a deterioration in their household's standard of living, chiefly as regards their food. The majority of them have been forced to sell personal items to repay the loan. Loans have exacerbated economic difficulties such as competition and the small size of the internal market which limited profits. Most of them have been forced to scale down their activities but can only count on these resources alone.

Empowerment and social capital

Sanduks are an expression of democracy within the villages. The village community as a whole elects its own representatives who manage their village Sanduk and represent them at regional level.

The analysis of loan users minimises women's place among the Sanduks' clientele. Even though they account for 37% of the clientele, some of them do not make direct use of their loans, but instead pass on the responsibility for managing them to a man in their family.

Role of elected members

Elected members are highly present and understand perfectly how the institution operates. They are proud of their role and have a strong feeling of ownership and protection towards their community's interests.

Although it cannot not "prove" the impact of services, the client satisfaction survey provides the MFI with information on how clients perceived its results, not only in terms of economic benefits (income and assets) and social benefits (basic goods and education) but also as regards the particular manner in which the institution operates and its contribution to building its members and elected members' social capital. The survey highlights the weak position of women, all the more so as 15% are figureheads in how the loans are used. The MFI can reflect on the position that it wishes to see given to women and strategies to be implemented to facilitate their participation (such as adaptation of services, promoting their role as elected members and so on).

Question 4: How do the MFI's financial services fit into the local context?

The MFI's integration and social responsibility strategy

SPI-CERISE findings – Dimension 4: the MFI's social responsibility

The Regional Union's human resources policy is not based on an explicit and formal action plan. Given the general lack of education on the island, it has difficulties in finding competent personnel who are strongly committed to its activities.

10% of employees (eight) have left the Sanduk team in two years, of whom seven were dismissed for embezzlement.

The Sanduks operate according to a participative system at both client and employee level. Loan officers have an advisory role in decisions by banks' elected officials about adapting services to the needs of the population. The activities of the banks are the topic of regular discussions and meetings with villagers and their representatives, which means that the MFI develops in harmony with the local culture.

The MFI contributes to community development projects, which facilitates its integration into village life.

Competition and complementarities of financial services

Sanduk loans are one of the main sources of finance for economic activities. Other financial institutions do not meet the financial needs of the population targeted by the Sanduks so well (they require prior savings and greater guarantees).

Private individuals rarely give loans and tontine systems are becoming less popular as a result of decreasing levels of trust among individuals.

In 2000, Sanduks accounted for around "9% of the credit and savings market" in Anjouan. This is a high market share in relation to the poor standard of living among the Sanduks' clients. The Sanduks' competition strategy has not been formalised as competition is considered weak.

The last dimension is the institution's weak point (largely informal human resources policy, little monitoring of members' situation) but nonetheless demonstrates a certain level of performance as regards the MFI's social responsibility towards the community through its involvement, albeit irregular, in local development initiatives.

Design of the impact questionnaire relative to the MFI's integration and social responsibility strategy

In terms of responsibility towards clients, the questionnaire covers difficulties in repaying loans (difficulties in repayment and their causes, sources of finance for loan repayment, people having been forced to sell assets in order to repay their loan).

In relation to the community, the questionnaire raises the question of how clients perceive the MFI's place in the community, its impact on the community and harmony with local culture.

Interpretation of the impact study findings in view of the MFI's strategy

Repayment difficulties

Only a third of clients feel they have had problems repaying loans. These are mainly connected to particular characteristics of the Anjouan economy, with its population's poor purchasing power, weak diversification and low levels of demand due to the small size of the domestic market. In addition to these economic constraints, the general practice of selling on credit in all types of businesses exacerbates repayment difficulties experienced by traders borrowing from the Sanduks.

Repayment difficulties particularly affect clients who use their loan in the agricultural sector (more than one client out of two). This is explained to a large extent by the fact that the products provided are not well-adapted to agriculture and by the difficult conditions for agriculture (strong pressure on land, under-employment of agricultural workers). The number of people forced to sell assets, 10% from among all clients surveyed, is very low for a programme which has existed for more than 10 years. This means that 90% of clients have never needed to sell their personal assets to repay their loans.

Perception of impact on the community

The Sanduks have not only had a positive impact on an individual level for clients and their families but also on the village community as a whole. Loans have allowed new economic activities to be introduced into villages, creating additional wealth. Their one-off contributions to financing projects for the benefit of the village community, such as water conveyance projects and renovating schools, mosques and community clinics, contributes to an improved standard of living for the community. Finally, setting up a Sanduk in a village attracts other development projects. This is a decisive and crucial factor in new projects being set up in Anjouan villages.

The Sanduks' services and access to other financing

There is only marginal use of loans outside the Sanduks, which hence represent an essential source of finance for their clients' activities.

Integration into the community: the example of a general meeting

The Sanduks' GM's demonstrate the population's involvement, its ownership of the banks and constant dialogue with employees.

In terms of social responsibility towards its clients and the community, the institution has not conducted studies specifically dealing with over-indebtedness and repayment problems; the impact study shows however that this does not constitute a major problem for clients at the time of the survey; in particular, there were few incidences where people had to sell their assets or use other loans. However, risks exist in relation to the poor profitability of activities and unsuitability of lending conditions (for use in agriculture for example). The institution could therefore reflect on the risk of market saturation and lending conditions. It could also seek to better understand the directions in which clients are moving. For example, is land being consolidated when loans are used to purchase land? Are commercial networks being reorganised if many clients are launching new commercial activities? and so on.

Strong integration into the community is the result of an effort to adapt and of mutual trust between the institution and the local population.

In conclusion, an impact study which answers the questions raised by the MFI's social strategy

This study was based on a unique point of entry into an MFI's social action: it traces the connection between social strategy to impact, examined from the four dimensions of outreach to the poor and excluded, adaptation of services, economic and social benefits for the clients (and in particular building social and political capital) and finally, the MFI's integration into its environment and its social responsibility.

Using this unique framework, it is possible to design a coherent and simple analysis which together with tools for assessing social performance of the SPI-CERISE type and impact study tools adapted on the basis of existing tools, provides an overall picture of how a microfinance institution is carrying out its social mission.

However, few tools and approaches have yet been described in sufficient detail to allow them to be used in designing studies more specifically focusing on strengthening social links, building social capital and empowerment as well as analysing an MFI's social responsibility. These tools have to be designed. However, methodological summaries of studies which have already been carried out in these areas would allow these topics to be explored more deeply and effectiveness to be increased.

The approach outlined here is based on rapid surveys of a quantitative nature which can be carried out on an MFI in approximately three to four months by using for example student

placements, where the students have been trained by resource people who can use these tools, and have a good knowledge of microfinance. This could then be complemented by qualitative studies on how clients' lives evolve and their investment strategies in order to explore in more detail conclusions based on a client typology (see literature by CERISE members). These qualitative approaches based on typologies and complementing quantitative studies will be described and examined subsequently within the CERISE network.

Finally, we see that the link between the MFI's social strategy and impact studies allows the survey to be focused on the institution's individual characteristics and to evaluate its approaches, strengths and efforts towards clients. It hence provides a tailor-made analysis which goes beyond the commonplaces of impact studies.

Bibliography

CERISE, 2005: *Social performance indicators Initiative*, Phase 2: Audit of the Social Performance of Microfinance Institutions: the Definition of a Tool, Final Report and Main Finding of Phase 2, SDC-FPH, 31p, <http://www.cerise-microfinance.org/publication/impact.htm>

CERISE, 2003 (Mars): *L'évolution des enjeux et outils de l'analyse d'impact en microfinance*. In *Techniques Financières et Développement*, Epargne Sans Frontière, n°70.

Imp-Act, 2005. Imp-Act Guidelines to social performance management, Institute of Development Studies, UK, 56 p.

International Fund for Agricultural Development, 2006. Assessing and managing social performance in microfinance, IFAD, Roma, Italy, 97p.

Reboul, C., 2006. Union Régionale des Sanduk d'Anjouan – Performances sociales, impact et analyse des clients, CERISE, IRAM, Rapport de recherche, Paris.

Servet, 2004. Microfinance : Les leçons du Sud, in Guérin, Servet, Exclusion et liens financiers, Rapport du centre Walras 2003, pp3-20.

Wampfler, B., 2004. La microfinance : un outil de développement durable ? BIM septembre 2004.