Cordaid

Managing the double bottom-line of microfinance

Base-line study on Social Performance Management of Cordaid partner MFIs

Colophon

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Executive summary

Currently, more and more academics and practitioners in the field of microfinance are emphasising on the need of social performance measurement and management. Contrary, in the past the main focus has been on financial performance while social performance was more or less neglected.

This research focuses on the link between both kinds of performances. Multiple authors expect a positive link or mutually reinforcing effect between social and financial performance of MFIs. In order to test this assumption a total of 69 MFIs located all around the world have filled out a questionnaire focusing on four dimensions of social performance management (SPM) and indicators for financial performance. The relations between these four SPM dimensions and financial performance have been statistically tested in this research.

The main conclusion derived from this research is that there is no general link between the social and financial performances of MFIs. The research could not find any proof for the prior stated assumption. Initially positive relations were found between two of the four SPM dimensions and FSS. Both adaptation of services and product to client's needs and social responsible behaviour of MFIs correlated positively with the financial self-sustainability of MFIs. However, the relations had to be corrected for intervening effects of the legal status and geographic origin of MFIs. After controlling for these characteristics of MFIs the significant relations disappeared for most of the MFIs. It must therefore be concluded that in general a focus on SPM does not lead to improved financial performances of MFIs.

A possible explanation for not finding a positive relation between social and financial performance may be the time span. As some authors stated, it may take a while before a focus on SPM results in positive financial effects for MFIs.

Contents

1. Introduction

Since its existence microfinance has been about the double bottom-line. The concept of microfinance is a mixture of commercial and social thoughts. In relation to this, it is often mentioned that microfinance has two parents, a social and a financial one. The general idea behind this combination is that a strong financial performance will facilitate the fulfilment of a social mission (Imp-Act, 2005a: 1).

These two parents or thoughts are present in the daily operations of MFIs. The double bottom-line can be recognised in the vision, mission, objectives and activities of MFIs. However, in relation to performance management one of the two parents has been dominant. According to Woller (2006: 1) *'microfinance has evolved into a global industry dedicated to commercial principles of operations'*. Over the years the focus has been on financial sustainability and transparency. In this area the microfinance sector made significant progress and improvements. Industrial standards for financial performance management and measurements have been created and implemented by a lot of MFIs. In contrast, performance management and measurement of microfinance's second objective has been neglected. Because of the focus on financial performance management and measurement, social performance management and measurement has received less attention and little progress has been made in the development of methods to measure, manage and report the performance of social objectives (Woller, 2006:1).

In previous years there have been some efforts to measure social impacts of microfinance through impact assessments. However, some argued that (Pawlak and Matul; 2004:3, Imp-Act; 2004:1, Adams; 2001) impact assessments have failed to be a valuable tool for social performance management. In the opinion of Pawlak and Matul (2004:3) impact assessments are costly, simplistic, and useless for management and neither provide timely information nor bring groundbreaking changes in MFIs operations. In their policy notes, also Imp-Act (2004:1) emphasizes that impact assessments are too complex, time-consuming and costly. Furthermore, Adams (2001) questions the value of impact assessment by arguing that *'impact assessments are fraught with insurmountable methodological problems and the costs of doing them usually exceed any benefits they might provide'*.

Due to the current dominant focus on financial performance and the limitations of impact assessments, practitioners and academics have acknowledged the need for better social performance management and measurement. Pawlak and Matul (2004:1) even argue that *'if there is no system in place to support improvement in social performance, the MFI's social mission may be lost in the sole pursuit of financial targets'*.

Thus, the current belief in the microfinance industry is that performance of both objectives of microfinance must be managed and measured. This belief is emphasised in the following quotes:

> *'Since the objective of these institutions is somewhat unique, the manner of their assessment must also differ from that used to assess the performance of traditional financial intermediaries. In particular, assessment of MFIs must recognize their dual (bank and development instrument) status'* (Koseos and Randhawa, 2004:1)

and:

> *'Just as there is a need to have financial performance indicators to guide the effort to achieve profitability, the same applies to the social aspects of microfinance'* . (Pawlak and Matul, 2004:2)

2. Research aim

The two objectives of microfinance (social and financial) appear to be very different from each other. However, in the past it has been proven that both objectives can be reached by providing the poor with financial services like credit, savings and insurance. Hence, social and financial performance of MFIs can and must be measured because both are essential to the fulfilment of the double bottom line of microfinance.
The aim of this research is to clarify the relation between social and financial performance. Do MFIs have to make considerable trade-offs between social and financial performance or can both performances have a reinforcing effect on each other?
This research analyses the relation between social performance management (SPM) and financial performance. In order to do this, SPM consists of four dimensions. The connection between each dimension and financial performance will be examined. This allows the research to provide insights on possible trade-offs or mutual reinforcement between social and financial performance.

3. Social and financial performance

After emphasizing the need for both financial and social performance management, this chapter will give a description of SPM and its benefits and will describe the connection between both performances.

According to Imp-Act (2005b: 1) *'social performance management helps an organisation set and achieve its social goals by tracking social performance and using this information for decision-making that puts learning into practice'*.
In this definition "tracking social performance" is the actual social performance measuring for example by conducting client and staff interviews and impact assessment. When managed in a proper way, this tracking results in useful information for decision making and organisational learning. In the following figure Imp-Act has visualised the process of social performance management (2005b:12).

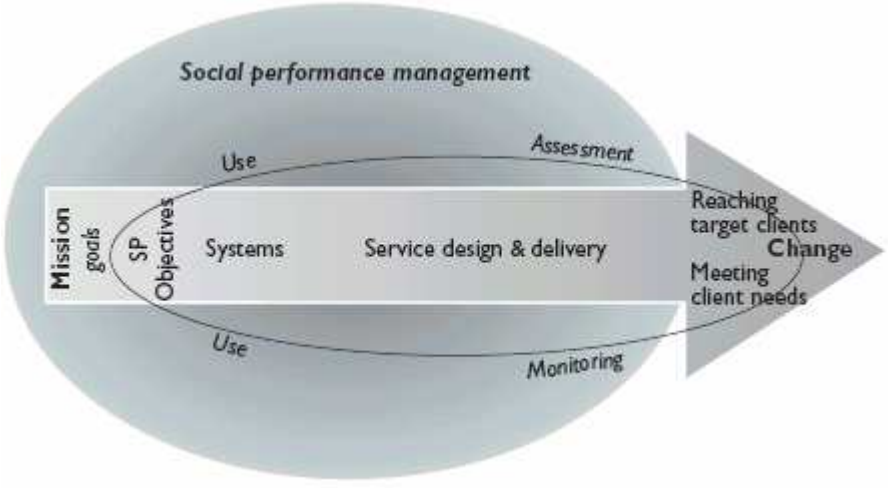

Figure 3.1: Social performance management (Imp-Act, 2005b:12)

Good social performance management will have lots of benefits to MFIs. The more often mentioned benefits of SPM are:

- it helps monitoring the effectiveness of the services by tracking intended and unintended impacts on clients lives and in the wider community
- it provides information needed to improve products and services of MFIs
- it facilitates decision making processes - SPM will make trade-offs in social objectives visible and reveals best solutions
- it identifies problems before they become damaging to an organisation (early warning system)
- it opens up new dimensions in client segmentation and target group identification - information about clients can be used for segmentation and identification
- it verifies outcomes of programmatic changes - SPM will provide information about performance before and after programmatic changes
- it indicates social performance to external stakeholders, like donors and social investors; by indicating the achievement of the social mission MFIs can justify their existence to external stakeholders

(Imp-Act, 2005a:2; Pawlak and Matul, 2004:15,16).

The notion that financial indicators are not enough to measure and manage the activities of an organisation is also present in commercial, for-profit organisations. Robert Kaplan and David Norton introduced the Balanced Scorecard as a strategic management system for organisations (Kaplan and Norton, 1996:20). This strategic management system includes four different measurement perspectives. Next to the financial perspective there is a customer, internal-business and learning and growth perspective.

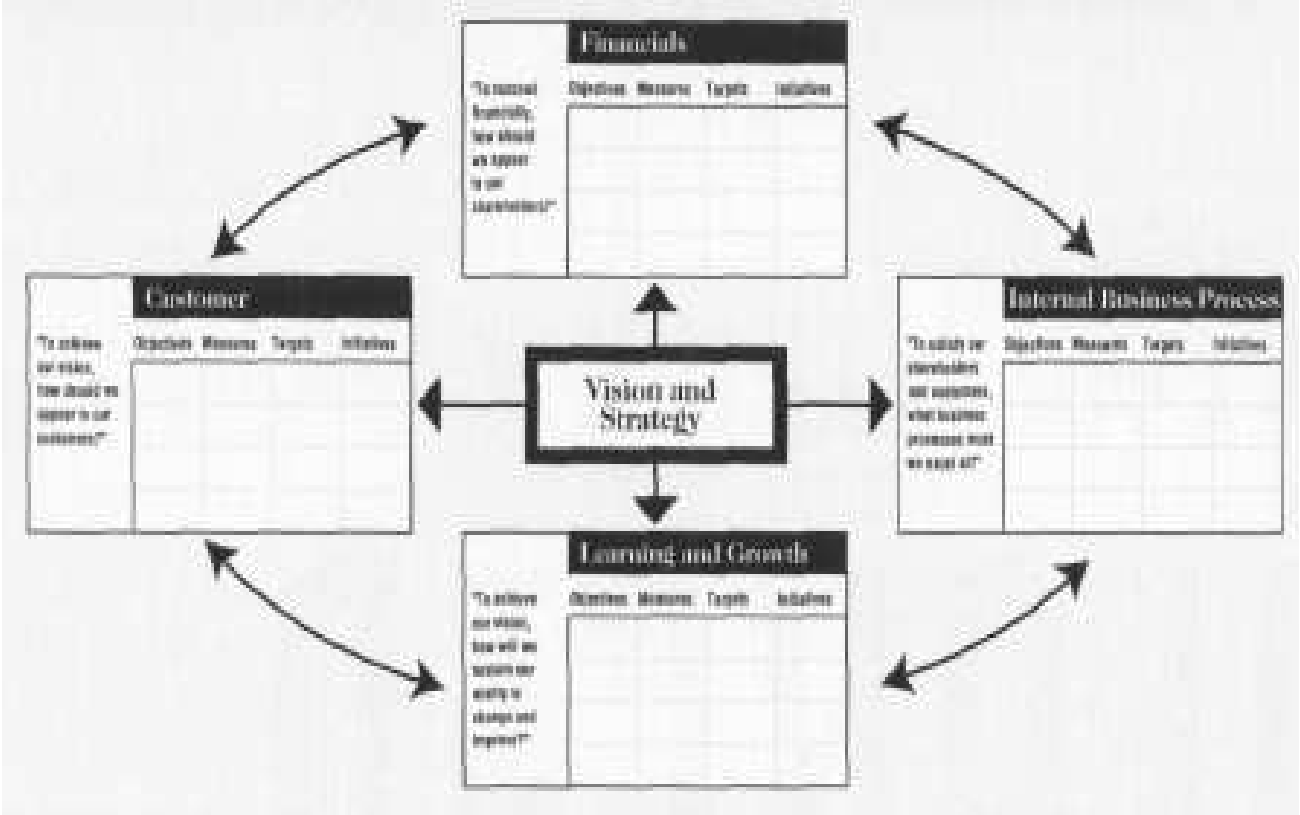

Figure 3.2: Balanced scorecard (Kaplan and Norton, 1996:20)

In figure 3.2 it can be seen that all these perspectives are linked to the organisation's vision and strategy and that linkages exist between the different perspectives as well. The link between strategy and performance is also found in theories about social performance management. An organisation's strategy is translated into the vision, mission and goals of the organisation. According to Pawlak and Matul (2004:1) an organisation's mission must be used as starting point in the design of SPM systems. This will ensure the cost-effectiveness and will facilitate the institutionalization of the SPM system in the organisation. According to Pawlak and Matul (2004:5) and Imp-Act (2005:11) then the specific objectives for social performance must be derived from the mission of a MFI.

As represented through the linkages in the Balanced Scorecard, in theory the different perspectives could have a weakening or reinforcing effect on each other. Applying this theory to microfinance, this research is interested in finding the linkage between social and financial performance. According to Imp-Act (2005b:1) social and financial performance are linked and even mutually reinforcing. Also Pawlak and Matul (2004:2) described a positive relation between social and financial performance. They argue that *'combining social and financial measurements can potentially increase financial returns in the long term through a better understanding of target clients and through allocation scarce resources in a more efficient way, thus avoiding the unnecessary costs of ineffective actions'*. In another publication of Imp-Act (2004:3) the results of a study on SPM in four MFIs show that in three of the four studied MFIs, SPM led to financial savings which then where used to offset the costs of the implementation of the SPM system.

Summarizing these theories, it can be concluded that in the long term good SPM can lower financial cost and increase the efficiency of microfinance institutions while ensuring inclusion of the poor. This would imply a positive relation between SPM and financial performance.

In the next chapter this relation will be represented with a theoretical framework and research questions.

4. Research questions

As already mentioned the research focuses on the link between SPM and financial performance. Segers (1999: 119) distinguishes three broad research types, namely explorative, descriptive and explanative research. This research is explanative because it tries to explain the causal relation between SPM and financial performance. It is hypothesised that there is a positive relation between SPM and financial performance. The main research question is:

Does Social Performance Management positively influence the financial performance of MFIs?

In order to answer this question, the research used the four important SPM dimensions established by research institute CERISE (Zeller et al., 2003:5,6). In the following table global performances of an institution is divided into social and financial issues and performances and impact, resulting in a two by two matrix. The dimensions of SPM are presented in the marked column.

		Core social issues	Economic/financial issues
Global performances of the institution	Performance monitoring (intentions and actions of the MFI)	- Outreach to the poor and excluded: Who are the clients ? - Adaptation of the services and products to the target clients - Social and political capital of the clients / Empowerment : participation in MFI decision making; "voice" for those being served to avoid "mission drift" - Social responsibility of the MFI; relation with client and community	- Portfolio quality - Efficacy and productivity - Financial management - Profitability - Qualilty and diversity of the financial services offered
	Impact assessment (outcome)	- Employment creation for the excluded population - Empowerment : position of individuals in their family and communities; social capital building - Health improvement - Child education, etc.	- Change in income and expenditure - Change in assets and living standard - Food security - Employment creation at community level

Table 4.1: Social performance dimensions (Zeller et al., 2003:5)

The table was used during the construction of the theoretical framework of this research. In this research the dimensions are separate variables and substitute the individual missions of the MFIs. Even though it was mentioned by Pawlak and Matul as well as by Imp-Act that social performance objectives are derived from a mission and that SPM is thus linked to a MFIs mission, analyzing SPM activities based on each MFIs individual mission is out the scope of this research. Including the individual missions would require single in-depth case studies of each MFI. In this research the measurement of SPM is not based on organisations missions but on the dimensions of CERISE. Each dimension will form an individual variable. By using the dimensions to measure SPM it is made sure that the measurement corresponds strongly to the overall social purpose of MFIs. The achievement of the MFIs on all four variables will be analysed in relation to financial performance. Furthermore, two other variables are included to analyze interesting differences in SPM between the selected MFIs and continents. On the next page a theoretical framework can be found.

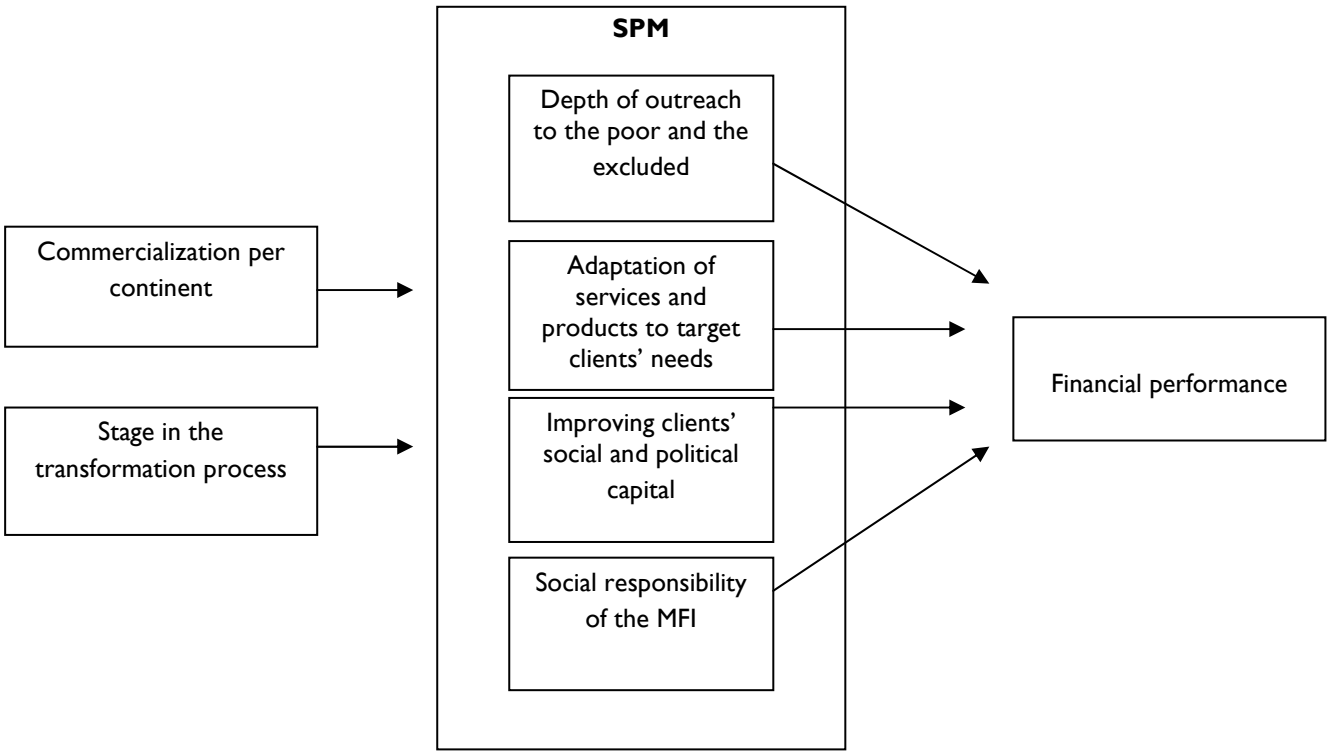

Figure 4.1: Theoretical framework

Depth of outreach to the poor and the excluded

This variable is linked to the general purpose of microfinance of reaching a population excluded from the classical financial system. This variable should measure the depth of outreach to evaluate a MFIs' focus on the excluded population.

Adaptation of services and products to target clients' needs

The second variable focuses on the fit between clients' needs and presented services and products. This dimension tests if the MFI knows what the clients need and adapts its offerings to it.

Improving clients' social and political capital

This variable emphasizes the relationship between the MFI and its clients. MFI activities related to giving the clients a voice and say in the organisation are measured by this dimension. Building social and political capital of clients can be beneficial to the clients as well as the MFI. Risks can be decreased as trust is created and social organisation (like collective action, information sharing and political lobbying) of clients enhanced.

Social responsibility of the MFI

Social Responsibility of the MFI includes adaptation of the MFI corporate culture to their context, adequate human resource policies and the relationship between the MFI staff and its clients.

Social Performance Management

The variable SPM will be constructed by summing up the scores of the four independent variables visualised in the SPM box in the theoretical framework, resulting in the general achievement on SPM of a MFI.

Financial performance

This variable will be constructed out of the financial information of the organisation, particularly, operational self-sustainability (OSS) and financial self-sustainability (FSS). The OSS of an organisation indicates to what extent the organisation's costs of operations are covered by revenues. The OSS can be calculated with the following formula (SEEP, 1995:28).

$$OSS = \frac{\text{Financial income}}{\text{Financial costs + Operating costs + Loan loss provision}}$$

Financial income:	income from interest and loan fees
Financial costs:	paid interest on debt or deposits
Operating costs:	expenses related to the management of the loan fund, for example salaries, administrative expenses, travel expenses, depreciation and other expenses
Loan loss provision:	the allowance made for expected defaults on the loan fund

The FSS of an organisation measures not only if the revenues can cover the financial, operating and loan loss expenses but also if these revenues are enough to maintain the value of the equity and quasi-equity of the organisation in relation to inflation. The formula to measure FSS is given below (SEEP, 1995:28).

$$FSS = \frac{\text{Financial income}}{\text{Financial costs + Operating costs + Loan loss provision + Imputed cost of capital}}$$

Imputed cost of capital:	the cost of maintaining the value of the net worth of the organisation, the imputed CC captures the costs of inflation

Stage in transformation process

This variable classifies the MFIs in the transformation process from NGO to a regulated or formal financial institution. The classification will be made on the basis of the legal status of the MFIs.

Commercialization per continent

The degree in which the microfinance industry is commercialised differs over different continents. This variable classifies the geographic areas included in this research on the degree of commercialization.

Based on the theoretical framework and the explanation of the variables, the following sub questions will be used to answer the main research question.

1. Does depth of outreach to the poor and the excluded enhance the financial performance of MFIs?
2. Does adaptation of services and products to target clients' needs enhance the financial performance of MFIs?
3. Does improving clients' social and political capital enhance the financial performance of MFIs?
4. Does social responsibility of the MFI enhance the financial performance of MFIs?
5. Does the stage of the transformation process influence SPM of MFIs?
6. Does the degree of commercialization influence SPM of MFIs?

In the following chapter all these subquestions will be related to theory, and hypotheses will be constructed.

5. Theoretical background

5.1 Outreach to the poor and the excluded > financial performance

The discussion around outreach and financial performance is linked to two different viewpoints about the best way to reach the basic goal of microfinance. In multiple articles these two extreme viewpoints are indicated as two opposite camps; the poverty camp (also called the welfarist approach) and the sustainability[1] camp (also called the institutionist approach) (Rhyne, 1998:6; Schreiner, 2002:591; Woller et al., 1999:2). However, these authors make clear that both camps share the basic goal of microfinance, namely providing credit and savings services to the poor to reduce poverty.

In order to reduce poverty, the institutionists belief massive scale is needed. They argue that because of widespread prevalence of poverty and the large demand for microfinance services, massive financial resources are required. In their opinion, these resources cannot be provided by donors and therefore private capital is needed. When MFIs want to use private capital, their operations must be running well, efficient and financially self-sufficient (Woller et al., 1999:4,5). In the eyes of the favours of the sustainability camp, the future of microfinance lies in the private sector. The focus is on breadth of outreach, making financial services accessible to a full spectrum of the poor but not necessary the poorest (Rhyne, 1998:7). Furthermore, institutionists assume that positive client impacts are achieved and that the success of microfinance can be measured with financial self-sufficiency (Woller et al., 1999:19).

In contrast, the welfarists target the poorest and focus on depth of outreach. The poverty camp believes that the transition to the private sector with outside investors will imply a narrow focus on financial self-sustainability and will result in a profit motive which will displace the social mission (Woller et al, 1999:6). This social mission is linked to their value-based commitment to serve the very poor. According to Schreiner (2002:1) *'very poor clients are very costly to serve'*. Also Morduch (2005:65) states that controlling costs is a greater challenge when organisations reach for poorer clients. Depth of outreach thus implies higher operational costs because poorer clients often live in remote rural areas and are therefore harder and more costly to reach. Consequently, welfarists argue that donors are sometimes needed and capital should not have to be solely private (Woller et al, 1999:11). When costs are higher and subsidies are needed, microfinance is not financially sustainable in the eyes of the institutionists. In the opinion of welfarists, however, financial sustainability is not the appropriate measure of success of microfinance. According to them the appropriate measure is social impact.

It can be concluded that because of the more socially oriented focus on depth of outreach and the corresponding higher operational costs, financial sustainability will be harder to achieve. Apart from the discussion about depth versus breadth of outreach in relation to financial performance, this research also focuses on other aspects of outreach. The social performance management of MFIs in relation to outreach is also assessed on geographic targeting and the use of target criteria like Housing Index[2] or a poverty assessment tool. When targeting tools are used to reach the very poor or geographically excluded areas, MFIs assure themselves

[1] When references are made to sustainability within microfinance literature, financial sustainability is meant. This is contrary to the concept of sustainability in management literature, there the triple-P (planet, people, profit) concept is meant.
[2] Housing Indexes make a classification of houses based on for example home size and conditions, electricity, sanitation and water services (CERISE).

of reaching the poorest which in turn results in higher costs. Combining these aspects the following hypothesis can be constructed:

> *H1. When outreach of MFIs is more socially-oriented in terms of depth and (geographic) targeting, financial sustainability will be harder to achieve and therefore FSS is lower.*

5.2 Adaptation of services and products to client's needs > financial performance

One of the benefits of social performance management is that it will assist a MFI in improving its products and services. Information about clients needs must be gathered which then can be used by the management to better adapt services and products to the needs of the clients. Better services and products will bring the maximum benefits to clients and their families (Imp-Act, 2005a:2). However, improving products and services may not only be beneficial for the clients. In relation to financial performance, MFIs can gain additional benefits too. When services and products become more preferable and suitable for the clients, they will be more willing and able to repay their loans and apply for new loans. The same logic is apparent and widely accepted in the business world. If services and products do not meet the needs of consumers, these will not fair in the market.

In order to keep its clients satisfied, MFIs should adapt their services and product to the needs of the clients. Women's World Banking (WWB) conducted a study on what poor women and men value as customers of microfinance services (WWB, 2003:1). The results of the study show that a lot of clients showed dissatisfaction with group guarantees like joint liability. Members want to be responsible for their own debt instead of having to pay for others or others having to pay for them. (WWB, 2003:3). This implies preference on individual over group lending. The study also indicates dissatisfaction in relation to compulsory savings. This dissatisfaction results from the sometimes high opportunity cost of compulsory savings. Instead of depositing their savings, clients could have invested the money in their business (WWB, 2003:4). Offering individual loans and making saving voluntary thus will be in line with the needs of clients. However in doing so, risks increase for MFIs because group pressure as social collateral is lost as well as the financial discipline and the collateral function of compulsory savings. For MFIs it is important to balance the need of clients with sustainable conduct of their organisation. Another aspect studied in the research of WWB is customer service. As argued by WWB (2003:7), customer service can be an important differentiator in competitive markets. In the WWB's study, customer service was relates to the knowledge, advice and service of the loan officer. The WWB also states that by creating new and more flexible products and services, managers may meet the demand of clients (2003:8,9). In this respect, the study points to different kinds of services and products like voluntary savings, housing finance, education loans and consumer finance.

The possibility of also offering non-financial services is pointed out by Reinke. In his article on important variables of microfinance, Reinke states that technical and business skills training will help borrowers to run their business well. In turn, this also has a positive effect on the lender. Reinke argues that *'from the lenders perspective, this has the benefit that more borrowers will succeed in their business plans, and more will be able and willing to repay their loans'*. Thus offering the non-financial service training will have a positive impact on financial performance of MFIs as well.

In this research the social performance management of MFIs in relation to adaptation of services and products will focus on the execution of client satisfaction surveys and drop-outs surveys and on the range of financial and non-financial services and products. Combining these aspects the following hypothesis can be constructed:

H2. When services and products of MFIs are adapted to client needs and are therefore more socially-oriented, financial sustainability will be easier to achieve and therefore FSS is higher.

5.3 Improving clients' social and political capital > financial performance

Presence of social capital indicates the existence of a social and political environment which enables norms to develop and which shapes the social structure (Ronchi 2004:36). In this environment both informal (mainly local and horizontal) and more formalised (mainly institutional and vertical) relationships are included. Next, Ronchi (2004:39) argues that there is a tight link between microfinance and the endowment in social capital. Microfinance uses social capital in communities to provide physical capital in order to foster economic growth. The need for social capital to make microfinance effective is related to trust, reputation and microfinance being viewed as a repeated game. Ronchi (2004:38) explains that repeated games are characterised by reciprocity which means that individuals expect others to react to their actions in the same way. Trust between individuals and good reputations of individuals are important and needed if individuals want to engage in repeated games of mutual beneficial exchange. Trust and a good reputation can solve problems like free-riding.

From this explanation it becomes clear that trust and good reputations are useful for preventing free-rider behaviour in microfinance. Trust and good reputations can be guaranteed by building social and political capital of microfinance clients. The social capital of clients can be increased by improving clients' involvement. For example, clients can have a say in the election of representatives or even become representatives themselves. More transparency about financial transactions can also reinforce the feeling of involvement and likewise increase the social capital of clients. Furthermore, also the political capital of clients can be increased. According to Ronchi (2004:44) microfinance can have a political influence on the local and the central level in society. On the local level, the local political structure of the poor is influenced. The case study of Kah et al. (2005:146) in Senegal is where in order to get a voice in politics, women were using microcredit organisations to organize themselves in *groupements.* On the central level, institutions like the government are influenced. The success of microfinance can persuade governments to give more attention to conditions of poverty in their country. This is done by MFIs' lobbying for the poor to governments, NGOs, political parties or other organisations thereby recognizing MFIs involvement in political capital building of the poor.

All these aspects of social and political capital building will increase feelings of trust between a MFI and its clients and will increase the reputation of the MFI. According to Zeller et al. (2003:6), *'trust between the MFI and clients can reduce the transaction costs and improve repayment rates. It thus can foster collective action and reduce free-riding, opportunistic behaviour and reduce risks'*.

It can be concluded that building social and political capital of clients can create trust and reputation which in turn can increase financial performance. This can manifest in improved repayment rates and reduced risks. This results in the following hypothesis;

H3. When MFIs improve the social and political capital of clients, and therefore are more socially-oriented, financial sustainability will be easier to achieve and therefore FSS is higher.

5.4 Social responsibility of MFI > financial performance

Social responsibility has received a lot of attention in the past years. Especially in the business world, corporate social responsibility (CSR) has become an important issue in management. Business is not a stand alone activity anymore. Currently society expects organisations to conduct business with regard to people, plant and profit. When organisations do not consider these three P's, they may receive bad publicity which may damage the reputation of the organisation. A bad reputation may in turn have negative consequences in relation to sales, recruitment of employees and access to capital (van Tulder and van der Zwart, 2003).

Many authors have researched on the exact relationship between corporate social performance and corporate financial performance amongst for-profit organisations. In these articles, the so called social performance of profit seeking organisation refers to activities related to corporate social responsibility (CSR). For profit seeking organisations, CSR is their social performance, while for MFIs social responsibility is just one aspect of their social performance, in addition to the already discussed depth of outreach, adaptation of services and social and political capital building. In their article, Waddock and Graves (1997:304) mention that for profit seeking organisations CSR is a multi-dimensional construct including behaviours related to variety of inputs (e.g. environmental strategies), internal behaviours (e.g. treatment of minorities and women) and outputs (e.g. community relations). In 1997 Griffin and Mahon made a categorization of all existing literature on the link between corporate social and financial performance. They came up with a list of 62 research results ordered on the kind of link they found (positive, negative or no relation or inconclusive). A few years later the list was revised by Roman et al. According to these authors, the list was not accurate because Griffin and Mahon did not assess the validity and relevance of each research by the standards available at that time. Instead, for each article examined, they used standards applied at the time of publication regardless of methodological or other inadequacies (1999:120). Furthermore, Roman et al. found that the number of studies indicating a negative relationship was surprisingly high (1999:110). The 62 research results were reclassified by Roman et al. (15 were moved, 11 removed from the list and 4 new studies were added). The results of the reclassification show that of the 55 studies, 33 found a positive relationship between corporate social and financial performance, 14 found no effect or were inconclusive and only 5 studies showed a negative relation (1999:121). Based on their classification, Roman et al. conclude that in general the relation between social and financial performance for profit seeking organisations is positive. Waddock and Graves (1997:313) even conclude that financial performance depends on good social performance. This positive relation was explained by 'good management theory'. These theorists argue that good management improves the relation with key stakeholder groups like employees, customers, government and local community. These good relationships result in better overall performance (1999:306,307).

When the relation between CSR and financial performance for for-profit organisations is positive, there also might be a relation between social responsible activities of non-profit organisation and their financial performance. If non-profit organisations do not consider all three P's or conduct their 'business' in an unsustainable way, bad publicity might be the result. As already mentioned, Tulder and van der Zwart (2003) argue that bad publicity may damage the reputation of the organisation. A bad reputation may in turn have negative consequences in relation to sales, recruitment of employees and access to capital. In their book Tulder and van der Zwart even give an example of this process for a non-profit organisation (2003:240:248). Starting in

1997, Foster Parents Plan, a NGO, received bad publicity concerning their spending of donations received from donors. The organisations claimed that each donor 'adopts' a child and that the donation send would be used to improve the life of the 'adopted' child. However, it turned out that donations did not go directly to the children but were used for projects in the neighbourhoods of the children. Donors were disappointed and concerned that only a small fraction of their money would have actually reached the children. For Foster Parents Plan the situation escalated and had negative consequences. In 1999, 2000 and 2001 the amount of donations drops by 10%, from 102 million in 1998 to 82 million in 2001. Furthermore, in a research of McKinsey, Foster Parents Plan ended up high on the list of organisations where nobody would like to work for. Also Berman (2006:6) warns for negative consequences if non-profit organisations do not conduct responsible behaviour. He states that *'society expects these institutions to neither betray nor abuse the public's trust through actions that put the interest of a few ahead of those of the majority. When corporate leaders fail to be good stewards of the resources and privileges placed in their keeping, then the underpinnings of society are threatened'.* If highly social responsible behaviour of non-profit organisations may have positive instead of negative consequences is not known. However, based on the notion of public trust it can be argued that non-profit organisations which are performing well will receive more (financial) support from the public and therefore will obtain positive results.

Related to this research, three of the five attributes of key stakeholder relations mentioned by Roman et al. (1999:307) may be particularly useful for MFIs namely community relations, employee relations and treatment of women and minorities. Also Zeller et al (2003:6) noted that social responsibility of MFIs is about an adequate human resource policy (employee relations) and relationship between clients and staff (community relations). On the basis of the described literature the following hypothesis can be constructed.

> *H4. When the social responsibility of MFIs is high, and therefore they are more socially- oriented, financial sustainability will be easier to achieve and therefore FSS is higher.*

5.5 Stage in transformation process > SPM

In its beginning, microfinance, or initially microcredit, was mainly an operation of non-governmental organisations and state-sponsored programmes. Over time, NGOs have acquired a significant role in providing microfinance in many countries over the world (Fernando, 2004:1). Also Jansson (2001:1) mentioned that some NGOs became very good in providing microfinance and their growth was rapid and accelerating in the 1990s.

In due course the NGO modality emerged to have limitations and necessitated transformation. The first NGO to have done it was PRODEM in Bolivia. In 1992 this NGO converted itself into a regulated financial institution (RFI) called BancoSol. After this, cases of transformation among NGOs gradually increased. Between 1992 and 2003 a total of 39 MFIs were transformed into a RFI (Fernando, 2004:1).

The limitations of the NGO modality are related to legal/regulatory aspects and governance limitations which restrict access to capital. The transformation into a more formal financial institution is viewed as the solution to these limitations. In his article Fernando (2004) describes the expectations of NGO when they transform into a RFI. The first expectation is related to an ownership structure with shareholders. With shareholders overseeing the activities of the transformed NGO, it is expected that incentives for improving management, governance and accountability will originate (2004:3). The second expectation concerns access to funds from commercial sources. When NGOs grow, many encounter funding limitations because of inadequate and uncertain donor funds. More commercial sources of funds are needed. From the transformation process it is expected that

NGOs attain more capital because social investors become interested and saving deposits from clients can be mobilised as loan portfolio (which is not allowed for the NGO modality). In turn this capital can leverage to obtain commercial loans (2004:4). The possibility of mobilizing savings will motivate organisations to offer voluntary savings products. Furthermore, the new institutional capacity of the organisation allows the organisation to offer other services like money transfers, leasing and payment services. So, as third, it is expected that the transformation into a RFI will allow the organisation to provide a broader range of services (2004:5). The fourth expectation anticipates an increased breadth and depth of outreach. The new ownership structure with shareholders, the potential for greater access to commercial funds and the broader range of products will enable an increase in both breadth and depth of outreach (2004:6).

Although transformation can have many positive implications, the process is not easy. This is demonstrated in a publication of Cordaid (2005) on the roadmap of the transformation process. In 2005, the year of microfinance, Cordaid held a seminar that reflected on the dilemmas and choices related to the transition of NGOs into the formal financial sector. The transformation process is divided into four phases, visualised in the following figure.

Figure 5.1: Transformation process (Cordaid, 2005:11)

The first phase represents development NGOs providing financial products to the poor. In this phase the NGO provides a combination of multiple activities under the same roof. Difficulties faced by NGOs in this phase include high start-up costs and high travel costs when reaching for people in remote areas (2005:14). The creation of a separate legal unit or the transformation to a specialised microfinance institution (MFI) marks the transition to the second phase. Then the emphasis lies on organisational capacity building. The organisations structure, governance, management and human resources receive a lot of attention (2005:16). The third phase focuses on effectiveness, efficiency and operational and financial self-sustainability. The organisation begins to earn some surplus and in this stage expansion and growth become important. With more commercial-oriented

sources of capital the portfolio can be expanded and products can be diversified. MFIs must look for social investors willing to invest in their organisations so their equity base can be strengthened (2005:18). The last phase represents the transition to the formal financial sector. This is a difficult matter because the rules and regulations of the formal financial sector do not recognize social collateral. According to Cordaid (2005:20), in general it is not feasible to transform a MFI into the formal sector because of the lack of reserves, assets and equity on the balance sheet which is required as collateral.

The microfinance institutional models described in the roadmap of Cordaid are very broad with only three models (NGO, MFI and formal financial institution). Other authors describe more specific institutional models. Based on the multiple and different classifications it can be stated that different authors have their own approach in relation to the transformation process. In the research of Kostov (2004:7) the microfinance institutional models are ranked by scope of impact (meaning breadth of outreach) and sustainability of operations. In order of increasing level of regulatory supervision and capital requirement Kostov indicates the following models; NGO, membership society/union/cooperative, regulated non-bank financial institution, restricted service bank and full service commercial bank. In their study, Forster et al (2003:2) identified four main microfinance models in Central and Eastern Europe and the New Independent States. The main models were credit unions, NGOs, Commercial banks downscaling programmes and "Greenfield" microfinance banks. Another example is the classification of Lucano and Taborga (1998) used in the research of Jansson (2001:2). This classification is based on the legal form, strategy, clients, services and sources of funding of the institutions. The following table represents the classification ranked from financial institution to NGO.

	MULTIPURPOSE FINANCIAL INSTITUTIONS	SPECIALIZED FINANCIAL INSTITUTIONS	SPECIALIZED NON-GOVERNMENTAL ORGANIZATIONS	GENERAL NON-GOVERNMENTAL ORGANIZATIONS
PURPOSE OF MICROFINANCE ACTIVITIES	New market Image Philanthropy	Social impact Profitability	Social impact Sustainability and growth	Social impact Sustainability
LEGAL FORM	Banks, finance companies and cooperatives	Banks and finance companies	Foundations Associations	Foundations Associations
CLIENTS	Various; micro-enterprises are small share of portfolio	Small and microenterprises	Microenterprises	Microenterprises
SERVICES	Various and targeted to the specific market segment. Individual credit. Savings.	Individual credit, group loans. Limited offerings of leasing, factoring etc. Savings.	Individual credit Solidarity loans Village banking	Individual credit Solidarity loans Village banking
SOURCES OF FUNDING	Savings Shares Bonds Commercial loans	Commercial loans Shares Savings	Commercial and soft loans Guarantees Donations	Donations Soft loans Guarantees
EXAMPLES	Banco del Comercio (Costa Rica) Banco Solidario (Ecuador) MultiCredit Bank (Panama)	Fin. Calpia (El Salv.) Caja los Andes (Bol.) CMAC Arequipa (Peru) FinSol (Honduras) Fin. Vision (Paraguay) Ademi (Dom. Rep)	WWB Cali, Bogota, Popayan, Medellin, Bucaramanga (Colombia) F.E.D (Ecuador) Adopem (Dom. Rep)	Fundasol (Uruguay) Fundacion Carvajal (Colombia)

Table 5.1: Typology of institutions serving the microenterprise sector (Lucano & Taborga 1998, in Jansson 2001:2)

The classified types of the transformation process present lots of possibilities. Classification can be based on multiple factors with multiple names. Furthermore, the exact transformation process of a NGO into a regulated or formal financial institution is heavily influenced by the legislation of the country in which the NGO is active. This results in specific legal structures only existing in and applicable to one country. Examples are the Section 25 Company in India and the Decree 28 in Vietnam. These are specific legal structures developed by the governments of these countries. With 35 different countries involved it is out of the scope of the research to assess all possible legal structures of MFIs in these countries. Therefore an extensive list of seven possible legal structures is included in the questionnaire of this study. The seven options are; NGO, NGO with a legally separate microfinance unit/programme, membership society/union/cooperative, Limited Company, Regulated Non-Banking Financial Company (NBFC), rural bank and commercial bank. Despite of the (inter)national differences, this extensive list of seven general legal structures makes it possible to compare MFIs on their legal status. Therefore, in this research the measurement of the variable 'Stage in transformation process' will focus on the legal status of the MFIs.

When analyzing the relationship between the stage in the transformation process and SPM of MFIs, two relations can be expected. At first it can be expected that during the transformation process the main focus is on financial performance being a requisite in the process. According to Kostov (2004:24) *'the basic precondition for conversion includes the need to ensure that the organisation is sustainable'*. Besides this there are also some minimum standards which the MFIs must meet before the process of conversion can be started. Ledgerwood (1999:23) states that *'five issues need to be considered: minimum capital requirement, capital adequacy, liquidity requirements, asset quality and portfolio diversification'*. The importance of sustainability and the minimum requirements would expect that especially in the beginning of the transformation process the main focus lies on financial performance. Kostov (2004:29) emphasizes this by arguing *'the bottom line is that the NGO must be running in a tight and sustainable manner before it should begin any process of conversion'*. When the main focus is on financial performance, SPM of a MFI might well be neglected in the beginning of the transformation process. When organisations reached sustainability and access to capital is larger, sources and organisation capacity will become available for SPM. Based on these thoughts the following hypothesis can be constructed.

H5a. The further the MFI is in the transformation process, the higher the focus on SPM

In contrast, it can be argued that the transformation process lowers the focus on SPM because of mission drift. This literally means that MFIs drift away from their initial social mission. The new ownership structure of a transformed NGO, with private capital and shareholders, might lead to a dominant focus on profitability. According to Rosengard (2000:8) the chance of drifting away from the mission is a strategic issue in the transformation process. He argues that *'although it is essential to attain financial sustainability, it can lead to a divergence from the institution's mission and market'*. Kostov (2004:33) added that it is possible that the mission erodes because of commercial pressures. This may imply that focus on social mission or SPM is strong before the transformation process. In the latter stage this focus will shift more and more to financial performance because of commercial pressures. When this line of reasoning is followed the hypothesis will be contrary.

H5b. The further the MFI is in the transformation process, the lower the focus on SPM

5.6 Commercialization per continent > SPM

Alongside the transformation process of MFIs, commercialization of microfinance is often mentioned. Poyo and Young (1999) defined commercialization of microfinance as *'the application of market-based principles to microfinance'*. Christen (2001:2) states that there are three principles which constitute the commercial approach to microfinance. These principles are profitability, competition and regulation. The following figure shows that commercialization and the transformation process are very closely linked.

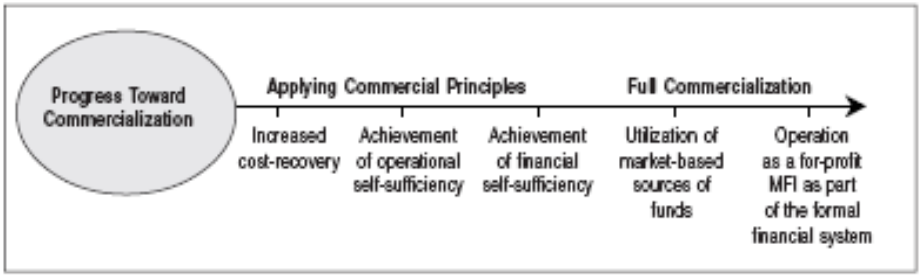

Figure 5.2: Illustrative Attributes of MFI Commercialization (Charitonenko et al., 2004:5)

Charitonenko et al (2004:5) developed this figure to illustrate that commercialization progresses along a continuum. In the beginning, MFIs should focus on the adaptation of business like approaches related to administration, operation and cost-recovery. This should lead to progression in operational and financial self-sustainability. Consequently, financial self-sustainability will facilitate the access to commercial funds. Ultimately, the organisation can regulate itself as a for-profit organisation. A similar process is already mentioned in the last paragraph when the Cordaid publication (2005) about the transformation process of MFIs was discussed. The resemblance between the two descriptions indicates that commercialization and transformation are closely linked and sometimes even overlap each other.

The commercialization of the microfinance industry varies across countries and continents. According to Charitonenko et al. (2004:7,8) the extent to which the microfinance sector becomes commercial, depends on the policy environment, legal framework, regulation and supervision, money markets and capital markets and support institutions of a specific country. Governments are responsible for designing policies and legal structures which support more commercial behaviour of MFIs. Next to this, the financial market must look after the regulation and supervision of more commercial oriented MFIs. Also the money and capital markets should be supporting in the way that they provide access to commercial funds for MFIs. At last, support institutions like credit information bureaus and credit rating agencies should be in place to capture useful information about the MFIs and the microfinance industry in a country.

The multiple factors, on which the commercialization process depends, already indicate that the exact process will be different for each country. However, there are researchers that studied the commercialization process and draw some conclusions based on differences between continents. More authors argued that the microfinance industry in Latin America is the most commercialised worldwide (Christen, Lanuza and Fernando). Christen (2004:1) starts his article by arguing that *'nowhere has the commercialization of microfinance proceeded more rapidly than in Latin America'*. Lanuza (2004:5) added that *'In the area of commercialization, Latin America has taken the lead relative to other regions of the world'*. Fernando (2004:2,31:39) studied cases of NGOs which transformed themselves into profit-driven regulated financial institutions. In February 2003 a total of 39 NGOs

all around the world were transferred into a regulated financial institution. Of these 22 are located in Latin America (Bolivia, Colombia, Dominican Republic, El Salvador, Honduras, Nicaragua and Peru), 15 in Asia (Cambodia, India, Mongolia, Nepal, Pakistan and the Philippines), only one in Africa (Kenya) and another one in Central America, namely Mexico. This list also indicates that commercialization is most present in Latin America and secondly in Asia. In relation to Asia, Charitonenko et al. (2004:51) indicates that there are commercially-oriented MFIs which are increasingly tapping commercial sources of funding. However, in Latin America this orientation towards commercial funds sourcing is stronger. About the other geographic areas included in this research (Africa, Middle East and Central & East Europe) very little research about commercialization can be found.

As already mentioned, commercialization is based on market-based principles and profitability. A dominant market-based and profit driven way of thinking in a continent could imply a focus on financial performance. When profit and financial performance are dominant in a continent it could imply that social performance management may well be neglected. In Latin America commercialization is most present, followed by Asia. In the other geographic areas of the research commercialization has not been studied and therefore it is expected that commercialization is less present in these areas. Based on this, the following hypothesis is constructed.

H6. *The focus on SPM will be least in Latin America, followed by Asia and thirdly by Africa, the Middle East and Central & East Europe.*

6. Methodology

In their book, Verschuren and Doorewaard (1999:145) describe five main strategies for conducting research. These strategies are a survey, experiment, case study, grounded theory approach and desk research. This research is quantitative and uses large amount of data from MFIs in different continents, hence, survey is deemed most fitting. Verschuren and Doorewaard (1999:150) discuss three different forms of survey, based on differences in measurement moments and groups. This research will include only one moment of measurement and only one sample, resulting in a cross-sectional survey.

The research units of this research are all partner MFIs of Cordaid. In total, Cordaid has 97 partner MFIs divided over Africa (30), Latin America (24), Asia (34), Central and East Europe (8) and 1 partner in the Middle East (Palastine Area). These 97 MFIs are located in 33 different countries. Because of this large number of research units the research is associated with breadth instead of depth. Questionnaires have been sent to all the partners. To assure that all partners could understand the questions, the English questionnaire was translated in Portuguese, Spanish and French. In total, 72 out of 96 were retrieved after three follow-up e-mails. However, only 69 of these 72 were useful. The other three questionnaires were filled in by NGOs active only in Bank Linkage and not direct lending, hence many questions were not suitable for their organisations. This resulted in missing data which made it impossible to construct specific variables. In annex 1 a list of the 69 MFIs can be found.

The research sample is not a random sample from all MFIs over the whole world as all MFIs are partners of Cordaid. The sample of MFIs depends on the country policy of Cordaid. The country policy indicates on which countries employees should concentrate. For example within the sector Economy employees from all regional departments are obliged to follow the country policy for their region. However, the sample is representative in relation to the characteristics of MFIs. Because Cordaid provides many different sources of finance (grants, loans, guarantees, equity investments and participations), the partners receiving these sources of finance are very diverse. The sample includes emerging MFIs receiving grants, more established MFIs receiving both grants and loans or only loans and mature MFIs with access to commercial banks, backed up with guarantees of Cordaid. So, the diversity of finance sources guarantees a more representative research sample.

Due to the large amount of research units the data gathered will be analysed in a quantitative way using the statistical SPSS programme. All indicated relations in the theoretical framework and corresponding hypotheses will be statistically test.

The survey was conducted by the distribution of a questionnaire. The questionnaire was mainly based on earlier conducted research on social performance management by CERISE. CERISE is a French platform for microfinance initiated in 1998. In the past, CERISE has done research on dimensions of SPM and the best indicators to measure these dimensions. In 2003 CERISE conducted a questionnaire with 18 MFIs to construct indicators of SPM. In June 2005 a second questionnaire was constructed to test the indicators and research questions, based on the earlier conducted questionnaire. This second questionnaire was distributed to 25 MFIs. The questionnaire included 62 questions with a maximum score of 100 points (25 points for each SPM dimension). For the construction of the questionnaire of this research, the questionnaires and reports of CERISE were extensively used.

In order to analyze the data, it was also decided to proceed with the rating system used by CERISE. When deciding on the best way of rating the four dimensions of SPM, CERISE considered multiple options (Lapenu and Zeller, 2003:9). First it was considered to ask the MFIs about the relative importance of each dimension. From these results, weights could be calculated. However, this could result in strategic responses of the MFIs. A higher importance could be given to the dimension on which the MFI scores high, in comparison less importance could be given to dimensions on which the MFI does not perform well. Another possibility was a flexible rating system. Taking into account the context-specific aspects of the MFIs it is desirable to have a flexible rating system. However, this would require an investigation of all context-specific aspects which could have an influence on SPM of MFIs. The researchers at CERISE decided it was not possible to investigate all these aspects. Therefore, equal weights were applied to the four dimensions, resulting in maximum 25 points for each dimension. The advantage of this rating system is that it is simple, transparent and clear. Considering the scope of the research and the advantages of equal weights it was decided to also use an equal rating system in this research.

The questionnaire was created as a Word document of which the layout is locked. This prevented the respondents from changing the structure of the questionnaire resulting in different and harder to analyze answers. In the beginning it was considered to use an internet questionnaire. However, after consideration with some colleagues at Cordaid, it was decided that this was not feasible because of limitations to internet access in some of the countries. The questions are mainly not open ended. Some open questions were included to acquire information about average loan or saving deposits and operational and financial sustainability. The questionnaire is attached in annex 2.

The next four chapters focus on data analysis. Firstly, descriptive statistics of individual variables will be discussed. Secondly, interesting relations between specific variables will be analysed. Finally, the hypotheses and possible intervening effects on these hypotheses will be tested.

7. Data analysis; single variables

This first chapter of the data analysis focuses on the analysis of single variables. In total 10 variables will be analysed. This chapter will give a general overview of some of the characteristics of the data set. The variables will be analysed with the use of figures, like histograms and pie charts and tables, giving a summary of some statistical measurements and frequencies of the variables.

7.1 Continent

In total 69 of the 97 Cordaid partners filled out the questionnaire. These 69 partners are located in 29 different countries all over the world. A list of all participating partners can be found in annex 1. Furthermore, the 29 different countries are grouped in 5 different regions of the world. The following pie chart shows the division of the 69 partners over the 5 regions or continents.

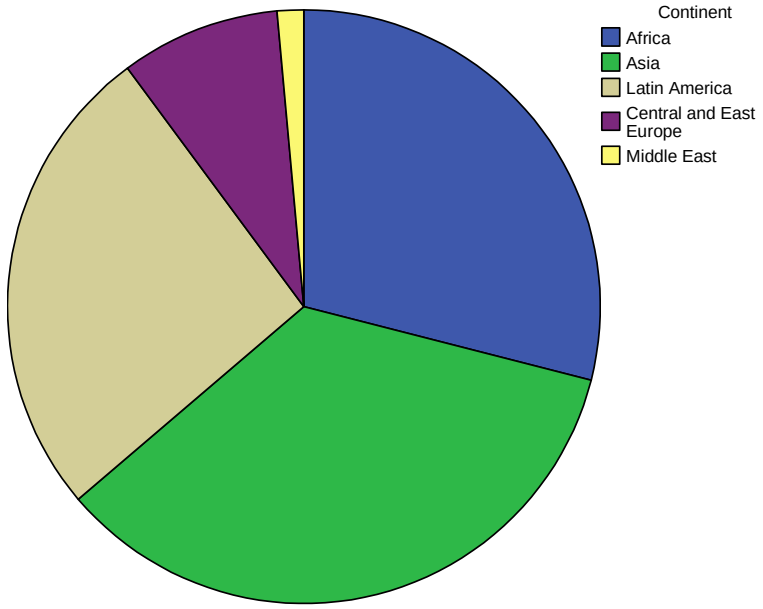

Figure 7.1: Pie chart of Continent

Continent

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Africa	20	29.0	29.0	29.0
	Asia	24	34.8	34.8	63.8
	Latin America	18	26.1	26.1	89.9
	Central and East Europe	6	8.7	8.7	98.6
	Middle East	1	1.4	1.4	100.0
	Total	69	100.0	100.0	

Table 7.1: Frequency table Continent

From the pie chart and table it becomes clear the most of the MFIs who participated in this study are located in Asia. The table shows that a total of 24 MFIs are located in Asia, accounting for 34.8% of the respondents. In Africa 20 of the MFIs are located, comprising 29%. About 26.1% or 18 MFIs are located in Latin America.

Together these three largest continents represent almost 90% of the MFIs. In the other two regions, Central and East Europe and the Middle East, 6 and 1 MFIs are situated, respectively.

7.2 Legal status

In the questionnaire the MFIs were asked to fill out their legal status. The questionnaire offered 7 possible answers, ranging from NGO to commercial bank. The answers are visualised in the following pie chart and frequency table.

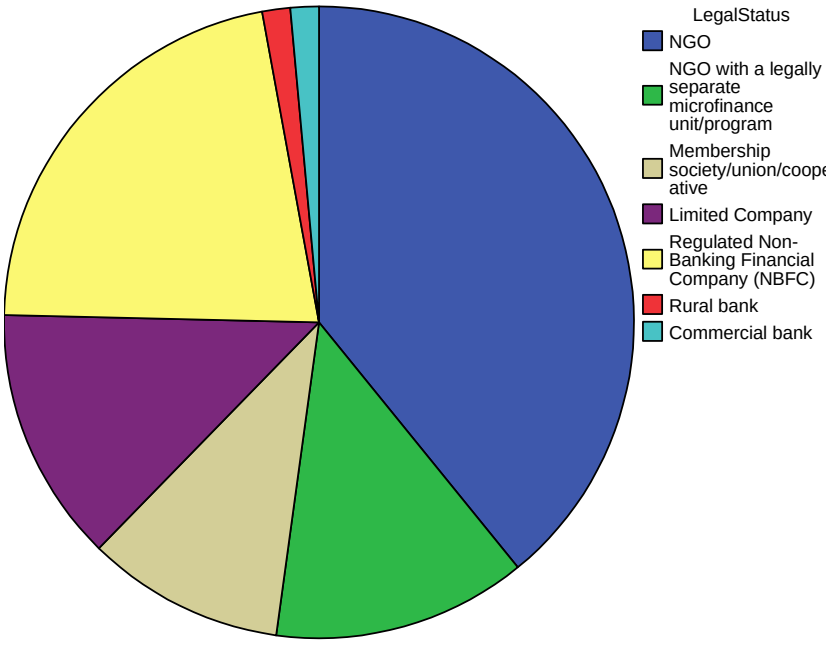

Figure 7.2: Pie chart of Legal status

LegalStatus

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	NGO	27	39.1	39.1	39.1
	NGO with a legally separate microfinance unit/program	9	13.0	13.0	52.2
	Membership society/union/cooperative	7	10.1	10.1	62.3
	Limited Company	9	13.0	13.0	75.4
	Regulated Non-Banking Financial Company (NBFC)	15	21.7	21.7	97.1
	Rural bank	1	1.4	1.4	98.6
	Commercial bank	1	1.4	1.4	100.0
	Total	69	100.0	100.0	

Table 7.2: Frequency table of Legal Status

The pie chart and frequency table show that the majority of the MFIs participating in this study are NGOs. In total 27 MFIs are classified as NGOs or 39.1%. When adding the NGOs which have a legally separate microfinance unit/programme the percentage becomes 52.2%. The second largest group is the so-called Regulated Non-Banking Financial Company (NBFC), 21.7% of the MFIs. When analyzing the seven possible options, it can be stated that the options can be split in two groups. From the first three legal statutes it can be

expected that the organisations are less commercial oriented in comparison to the last four options. The first three kinds of organisations are at the beginning phases of the transformation process while the other four are already further in the process. The words company and bank in the last four options indicate that these organisations are more profit-focused and that poverty alleviation is not their only objective (anymore). When making this distinction between the two groups, a total of 43 MFIs belong to the first group, equalling 62.3%. The more commercial oriented MFIs represent 26 MFIs or 37.7%, see table 7.3.

Legal Status

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	NGO, NGO with a legally seperate microfinance unit/program or Membership society/union/cooperative	43	62,3	62,3	62,3
	Limited Company, Regulated Non-Banking Financial Company (NBFC), Rural bank or Commercial bank	26	37,7	37,7	100,0
	Total	69	100,0	100,0	

Table 7.3: Frequency table of Legal Status divided in two subgroups

7.3 Size of MFIs

In order to analyze the size of the MFIs, this research uses the total number of active borrowers. Next to this other indicators are possible as well. One could for example use the total number of clients, not making a distinction between active and non-active borrowers. However, for this research it is important to measure the current size of the microfinance activities of the MFI. Later on in this study, the size of the MFI will be related to other variables like their social performance management, OSS, and FSS. These variables are based on the MFI activities for its active borrowers, not for the non-active borrowers. Another possible indicator could be the average size of a loan, calculated by dividing the outstanding portfolio by the number of active borrowers. However, when these amounts are calculated and transferred to US Dollars, large differences between countries still exists due to the difference in money value and GDP per capita among the countries. The limitations posed by these two indicators, makes it most suitable to use the total number of active borrowers to measure the size of a MFI.

When converting the data on size of MFI into a histogram, it becomes clear that there is an extreme outlier present in the dataset. One of the partners has more than 4.500.000 active borrowers and is positioned at the right end of the scale. The histogram can be found on the next page.

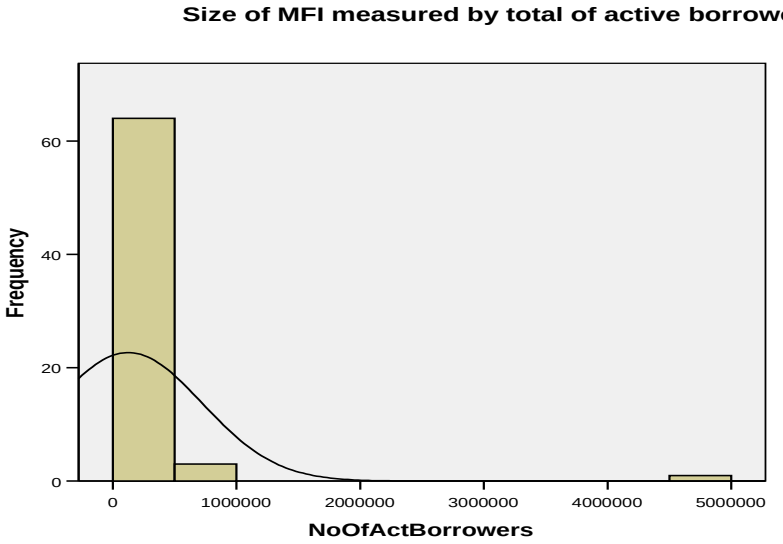

Figure 7.3: Histogram of Size of MFIs

This outlier gives a distorted image. To get a better image of the distribution of the data the extreme outlier is temporarily deleted from the dataset and a new histogram is made.

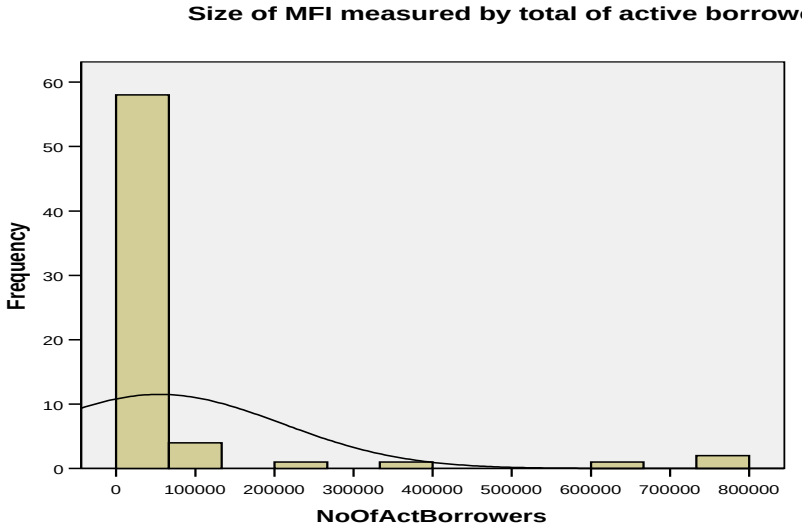

Figure 7.4: Histogram of Size of MFIs (extreme case excluded)

Instead of 5.000.000 the end of the scale is now 800.000. This histogram gives a better overview of the division of the data. The majority of the cases are located between the 0 and 150.000 active borrowers. There are five cases which have more than 200.000 active borrowers. It is important to note that these five cases, as well as the extreme outlier which was already eliminated, are all located in Asia.

As the number of active borrowers is a quantitative variable, it can also be analysed with statistical measurements like minimum, maximum, mean and standard deviation. The following two tables on the next page show these measurements. In the first table the extreme outlier is included, in the second table this case has been left out.

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
NoOfActBorrowers	68	27	4822928	124856.19	598308.530
Valid N (listwise)	68				

Table 7.4: Descriptive statistics of Size of MFIs

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
NoOfActBorrowers	67	27	770367	54735.72	154864.936
Valid N (listwise)	67				

Table 7.5: Descriptive statistics of Size of MFIs (extreme outlier excluded)

The tables show large differences in mean and standard deviation before and after the elimination of the extreme outlier. Before elimination the mean (μ = 124856.19) was more than two times as much as after elimination (μ = 54735.72). Also the two standard deviations show a large difference. However, the mean of μ = 54735.72 still does not indicate the average of active borrowers for the MFIs which were located between the 0 and 150.000 active borrowers. In order to calculate this mean, also the other five cases from Asia are temporarily deleted from the dataset.

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
NoOfActBorrowers	62	27	114818	14843.77	22596.418
Valid N (listwise)	62				

Table 7.6: Descriptive Statistics of Size of MFIs (6 cases excluded)

From the table above it becomes obvious that also these five cases have an influence on the mean. The mean drops to μ = 14843.77 which is only 11.9% of the first calculated mean. These findings indicate that the 6 excluded cases from Asia have a very large influence on the average number of active borrowers. As already mentioned, the extreme outlier and the other five cases are all MFIs located in Asia. In the microfinance industry it is widely known that MFIs in Asia serve the largest number of borrowers. The validity of the number of active borrowers of the extreme outlier can be questioned because this number is very different from the others. However, for the other five cases the data was checked and turned out to be valid. Therefore, it was chosen to permanently exclude the extreme outlier of 4822928 active borrowers.

In relation to the next chapters it is useful to test if the data on size is normally distributed. This is tested with the use of the Kolmogorov Smirov normality test. The normality assumption (H°. data is normally distributed, H¹. data is not normally distributed) is numerically tested. Furthermore, the Skewness of the data indicates in which direction the distribution of the data is asymmetric. Data on the normality of the distribution of all variables included in this chapter can be found in annex 4. For the size of the MFIs, measured with the number of active borrowers, the Skewness of 3.884 indicates that the distribution of the data is right asymmetric. The test of normality shows that the variable Size does not have a normal distribution. Because p = 0.000 is lower than the alpha of 5% (α = 0.05) H° is rejected.

7.4 Social Performance Management

As already explained, in the questionnaire social performance management of MFIs is measured on four different dimensions, namely depth of outreach to the poor and the excluded; adaptation of services and products to target clients' needs; improving clients' social and political capital; and social responsibility of MFIs. For each of the four dimensions a number of questions were included in the questionnaire. Also, for each of the four dimensions a maximum of 25 points could be earned. In this paragraph the four individual dimensions (SPM 1 until 4) as well as the total of the four dimensions (SPM Total) will be analysed.

7.4.1 Four dimensions of SPM

In this first subparagraph the histograms and the statistics tables of all four SPM dimensions are visualised. In the histograms the normal distribution curve is included.

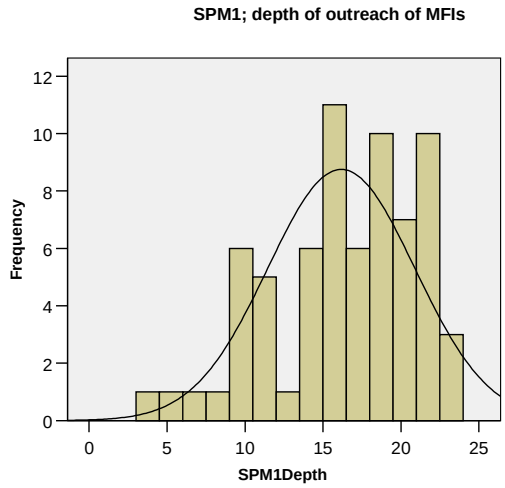

Figure 7.5: Histogram of SPM1

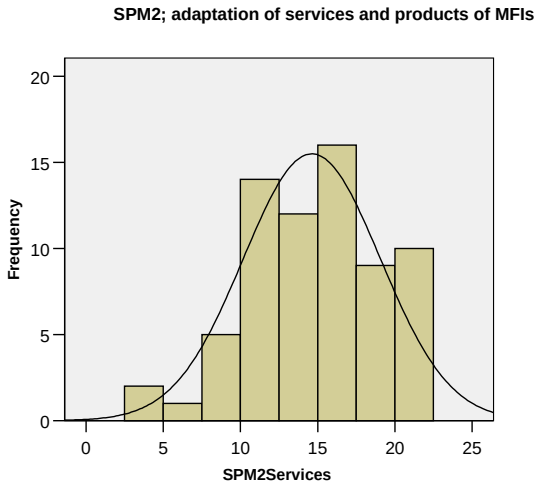

Figure 7.6: Histogram of SPM2

In comparison to the normal distribution curve, the histogram of SPM 1 (depth of outreach to the poor and the excluded) is overestimated at the right side of the top of the curve. Between the value 10 and 15 the histogram is undervalued. The histogram of SPM 2 (adaptation of services and products to target clients' needs) corresponds better to the normal curve. At the right tale of the curve the histogram is first overvalued but at the bottom a little undervalued. On the next page the histograms of both SPM 3 and SPM 4 are visualized.

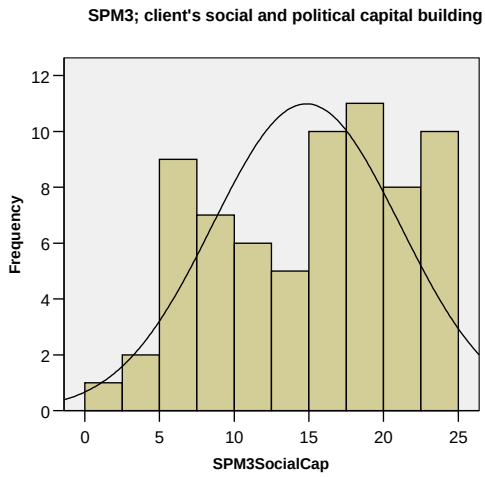

Figure 7.7: Histogram of SPM3

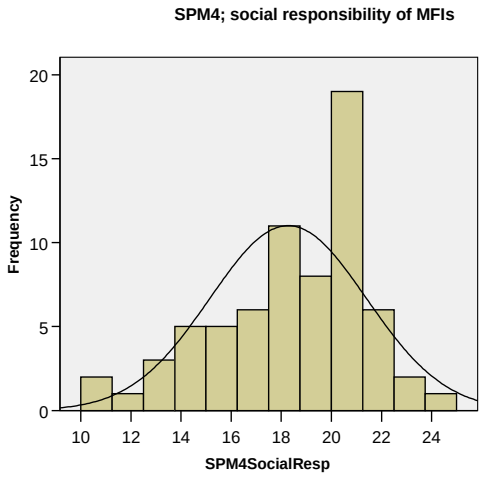

Figure 7.8: Histogram of SPM4

In the histogram of SPM 3 (client's social and political capital building of MFIs) the normal curve is not followed. It seems like there are two curves close after each other. This might indicate that there is another factor influencing the data. The last histogram (SPM 4; social responsibility of MFIs) partly corresponds to the normal curve. However, between the values 15 to 18 and 20 to 22 the data do not correspond. Between 15 and 18 the histogram is undervalued. On the contrary, between 20 and 22 the histogram is overvalued. Here the frequency is twice as much as the frequency of the normal curve.

The normality tests and Skewness in annex 4 indicate that SPM 1, SPM 3 and SPM 4 (p = 0.021, p = 0.026 and p = 0.001) are not normally distributed. The negative Skewness for all three variables indicates that the variables are left asymmetric. SPM 2 is normally distributed (p = 0.200).

The following four tables present the minimum, maximum, mean, and standard deviation of the four SPM dimensions.

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
SPM1Depth	69	4	23	16.17	4.718
Valid N (listwise)	69				

Table 7.7: Descriptive Statistics of SPM1

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
SPM2Services	69	3	22	14.62	4.443
Valid N (listwise)	69				

Table 7.8: Descriptive Statistics of SPM2

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
SPM3SocialCap	69	2	25	14.83	6.264
Valid N (listwise)	69				

Table 7.9: Descriptive Statistics of SPM3

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
SPM4SocialResp	69	10	25	18.28	3.124
Valid N (listwise)	69				

Table 7.10: Descriptive Statistics of SPM4

The N of 69 in the tables shows that it was possible to calculate the SPM dimensions for all participating MFIs. From the minima it becomes clear that for three of the four dimensions the minimum lies under five. Only SPM 4 begins at a value of 10. Both the variables SPM 3 and 4 reach the maximum possible points of 25. For the variable SPM 1 and 2 the maximum numbers of points earned by MFIs are 23 and 22 respectively. The means of the four SPM dimensions lie between 14 and 19. SPM 2 has the lowest mean of $\mu = 14.62$ and SPM 4 the highest of $\mu = 18.28$. The difference in standard deviations is higher. While the standard deviations of SPM 1 and 2 lie close together ($\sigma = 4.718$ and $\sigma = 4.443$), the standard deviation of SPM 4 ($\sigma = 6.264$) is twice as much as the one of SPM 3 ($\sigma = 3.124$) and also noteworthy higher than the standard deviations of SPM 1 and 2.

7.4.2 SPM Total

When summing up the four different dimensions, the total score on social performance management is achieved. The following histogram and table show the results of the sum.

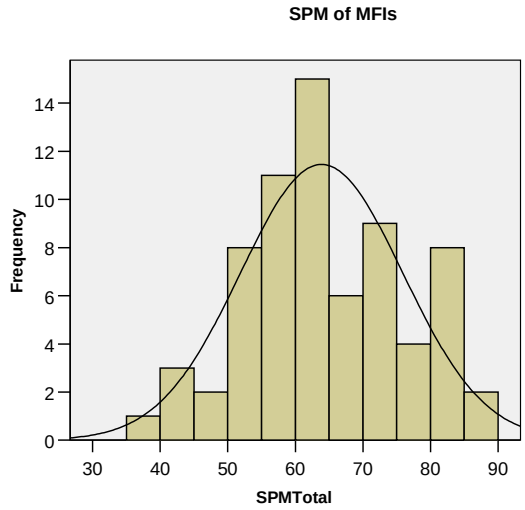

Figure 7.9: Histogram of SPM Total

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
SPMTotal	69	38	89	63.90	12.016
Valid N (listwise)	69				

Table 7.11: Descriptive Statistics of SPM Total

The distribution of the data visualised in the histogram corresponds with the normal distribution curve. However, between some values the data is undervalued or overvalued. It is important to note that there is a central high tendency between the values 60 and 65. The normality test indicates that the data is normally distributed ($p = 0.200$). With p higher than 0.05 ($\alpha = 0.05$) H° is accepted. The descriptive statistics table

indicates that the mean lies within this central tendency. The minimum and maximum score attained by the MFIs are 38 and 89 respectively.

7.4.3 Regional influences on SPM

To get an overview of regional differences within the SPM dimensions and SPM Total the means of all continents/regions are calculated and visualised in the table on the next page. The Middle East is left out of the table because the means are calculated by just one case.

Report

Mean

Continent	SPM1Depth	SPM2Services	SPM3SocialCap	SPM4Social Resp	SPMTotal
Africa	14.65	12.95	15.25	17.30	60.15
Asia	19.75	15.67	17.79	19.04	72.25
Latin America	13.89	15.56	11.11	17.89	58.44
Central and East Europe	14.00	13.17	12.17	19.00	58.33
Total	16.19	14.62	14.78	18.22	63.81

Table 7.12: Descriptive Statistics SPM by continent

The regional means for SPM 1 and SPM 3 are widely spread. For both dimensions the mean of Asia is the highest while Latin America has the lowest mean. This implies that on average the focus on depth of outreach and building of social capital is the highest in Asia and the least in Latin America. For both SPM dimensions Africa has the second highest score.

For SPM 2 and SPM 4 the means are less spread. Again, for both these dimensions Asia has the highest score. The means of Asia and Latin America of the second SPM dimension do not differ much. Both these continents show high scores on the adaptation of services and products, while Africa scores the least on this dimension. The means of social responsibility of MFIs (SPM 4) are the highest for Asia and Central and East Europe, and these means do not differ a lot.

The average scores on SPM Total can be roughly divided into two groups. Three continents/regions have a score around the 60 points and one continent has a score around the 70 points. With a difference of about 12 points or more Asia has the highest score. The other three continents/regions are positioned around the 60 points.

7.4.4 Influences of legal status on SPM

To get an overview of the impact of legal status also the means on social performance management of MFIs with different legal statuses is calculated. For this the seven possible legal statuses are divided in the already discussed two subgroups. As well it was explained that the MFIs in the first group are less commercial-oriented than the MFIs in the second group. The table on the following page compares the scores on SPM for both subgroups.

Report

Mean

Legal Status2	SPM1Depth	SPM2Services	SPM3SocialCap	SPM4Social Resp	SPMTotal
NGO, NGO with a legally seperate microfinance unit/program or Membership society/union/cooperative	17.37	14.02	16.12	17.81	65.33
Limited Company, Regulated Non-Banking Financial Company (NBFC), Rural bank or Commercial bank	14.19	15.62	12.69	19.04	61.54
Total	16.17	14.62	14.83	18.28	63.90

Table 7.13: Descriptive Statistics SPM by legal status

It is interesting to see that on two of the SPM dimensions, the NGOs and membership organisations scores highest and on the other two, the more commercial oriented MFIs score higher. Both on depth of outreach and social and political capital building the first legal status group scores highest. On adaptation of services and social responsible behaviour the limited companies, NBFCs and banks score higher. This finding is very plausible as the last two dimensions are more business oriented and also executed by profit-seeking organisation. For SPM Total the NGOs and membership organisations represent the highest score.

7.5 Financial performance

The financial performance of the MFIs is measured with two often used indicators, namely operational self-sustainability (OSS) and financial self-sustainability (FSS). The data retrieved about both of these indicators will be analysed in this paragraph.

7.5.1 OSS

The data on OSS is visualised in two histograms on the next page. From the histogram in figure 7.10 it becomes clear that the data includes one outlier of an OSS higher than 500%. An OSS of more than 500% is rather strange and it is likely that the MFI made a mistake when calculating the OSS. Therefore, this outlier is deleted from the data set and the new histogram in figure 7.11 is constructed.

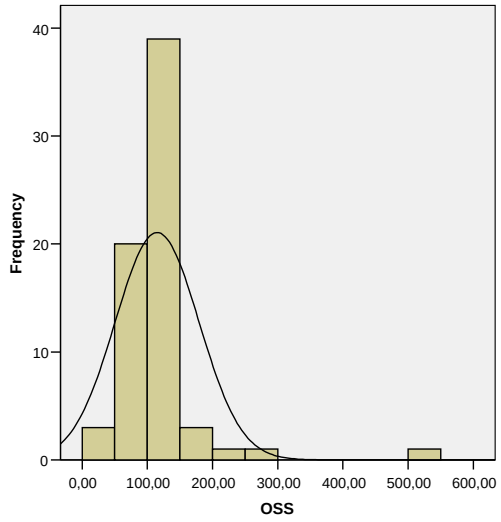

Figure 7.10: Histogram of OSS of MFIs

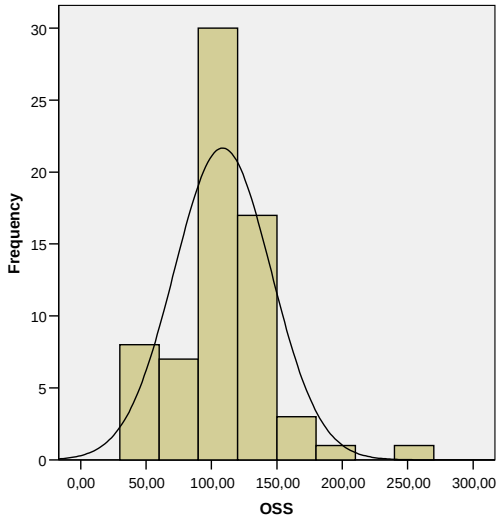

Figure 7.11: Histogram of OSS of MFIs (extreme case excluded)

In comparison to the first histogram, the second histogram corresponds more closely to the normal distribution curve. Nevertheless, the high tendency between 100% and 125% remains present. The normality test of OSS indicates that after deleting the outlier the distribution is normally distributed (p = 0.100). With a Skewness of 0.795 the histogram is left asymmetric. Tables 7.14 and 7.15 indicate the shifts in maximum, mean and standard deviation when the outlier is excluded.

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
OSS	68	30,00	544,67	115,0066	64,38324
Valid N (listwise)	68				

Table 7.14: Descriptive statistics of OSS of MFIs

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
OSS	67	30,00	256,91	108,5937	37,00173
Valid N (listwise)	67				

Table 7.15: Descriptive statistics of OSS of MFIs (extreme case excluded)

The N of 68 in table 7.14 indicates that for all of the MFIs, except for one, data on financial performance are available. After eliminating the extreme case, the mean drops with almost 7 points from an average OSS of 115.01% to an average OSS of 108.60%. The difference in standard deviations is larger. In comparison to table 7.14, the standard deviation of table 7.15 is just 57.5% of the former one. This means that through eliminating the extreme case the standard deviation drops by 42.5%.

7.5.2 FSS

The data on the second indicator of financial performance, FSS, is also visualised and described in a histogram and table. In total the FSS of 68 out of 69 MFIs is available. The sample did not include any outliers.

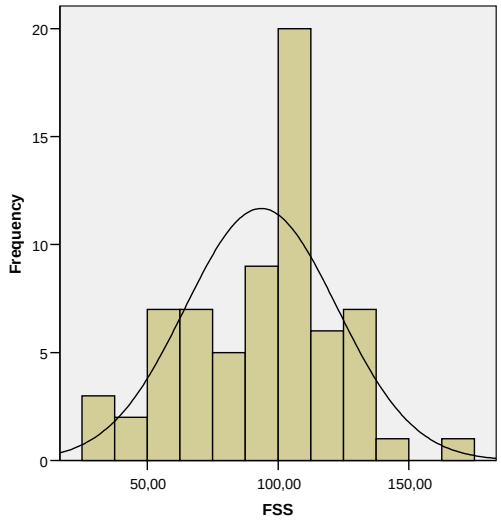

Figure 7.12: Histogram of FSS of MFIs

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
FSS	68	28,00	162,63	93,5503	29,04856
Valid N (listwise)	68				

Table 7.16: Descriptive statistics of FSS of MFIs

In comparison to the normal distribution curve, the histogram of FSS is undervalued between some values. Between the values 62.5 and 100 the histogram is undervalued the most. A little right from the top the histogram shows a large overvaluation. The tendency between the values 100 and 112.5 is twice as high as the normal curve. Despite this, the mean lies below the 100 (μ = 93.55%). The normality test indicates that the data is not normally distributed (p =0.003) and right asymmetric (Skewness = -0.391).

In the next chapters, only the FSS will be used when analyzing relations between the financial performance and other characteristics of the MFIs. The FSS, instead of the OSS, is chosen because it includes more information. Next to the operational costs, also the imputed costs of capital are included in the formula.

8. Data analysis; relations between variables

This second data analysis chapter focuses on relations between variables. All sort of interesting relations are described and tested. The first paragraph will focus on regional impacts. The relation between the variable Continents and three other variables will be analysed. The second paragraph tests the relations between sorts of funding sources available to the MFI and three other variables. The last paragraphs analyse another interesting relation.

8.1 Regional impacts

As already mentioned, the first paragraph focuses on regional impacts. In the following three subparagraphs it will be tested if there are significant differences in Legal status, Size and FSS between the different continents/regions.

8.1.1 Continent & Legal status

As both the variables Continents and Legal status are nominal variables, it is possible to make a crosstable and a bar chart of the two variables.

Legal Status * Continent Crosstabulation

Count

		Continent					
		Africa	Asia	Latin America	Central and East Europe	Middle East	Total
Legal Status	NGO	6	11	8	1	1	27
	NGO with a legally separate microfinance unit/program	2	6	1	0	0	9
	Membership society/union/cooperative	3	2	2	0	0	7
	Limited Company	6	1	1	1	0	9
	Regulated Non-Banking Financial Company (NBFC)	2	4	6	3	0	15
	Rural bank	1	0	0	0	0	1
	Commercial bank	0	0	0	1	0	1
Total		20	24	18	6	1	69

Table 8.1: Crosstable of Continent and Legal status

The crosstable shows the frequencies in which specific combinations occur. From the table it can be concluded that a lot of NGOs and NGOs with a legally separate microfinance unit/programme are relatively located in Asia, namely 17 out of 36. However, also in Africa and Latin America, the NGO is the most present legal status. The majority of the limited companies are situated in Africa, while most of the NBFCs can be found in Latin America. The only rural bank is located in Africa and the only commercial bank in Central and East Europe.

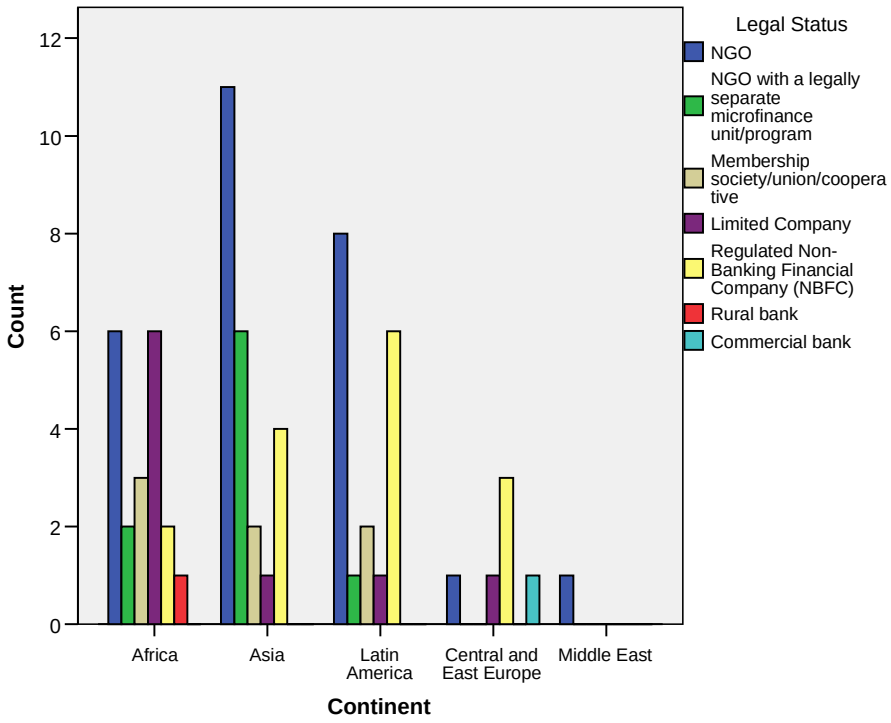

Figure 8.1: Bar chart of Continent and Legal status

It is interesting to know if Continent and Legal status are related to each other. In order to find this out the Pearson χ^2 test is used. However, a basic precondition of this test is that all the combinations in the crosstable have a frequency of at least five. From table 8.1 it can be concluded that for 29 of the 35 combinations this precondition is not reached. To be able to test the dependency between the variables the data must be converted. It is possible to leave out or sum up some cases so that all the frequencies will be at least five. First of all, the seven possible legal status options are merged into two options. With the earlier explained division the new variable Legal status2 is created. The fist option of Legal status2 is attained by summing up NGO, NGO with a legally separate microfinance unit/programme, and Membership society/union/cooperative. The other four (Limited Company, NBFC, Rural bank, and Commercial bank) are combined in the second option. While this solves the low frequencies for Africa, Asia and Latin America, for the other two regions the frequencies will still be lower than five. The only possible solution is to eliminate the MFIs, located in either Central and East Europe or the Palestine Area from the dataset. The new crosstable and bar chart are shown in table 8.2 and figure 8.2.

Legal Status2 * Continent Crosstabulation

			Continent			
			Africa	Asia	Latin America	Total
Legal Status2	NGO, NGO with a legally seperate microfinance unit/program or Membership society/union/cooperative	Count	11	19	11	41
		Expected Count	13.2	15.9	11.9	41.0
	Limited Company, Regulated Non-Banking Financial Company (NBFC), Rural bank or Commercial bank	Count	9	5	7	21
		Expected Count	6.8	8.1	6.1	21.0
Total		Count	20	24	18	62
		Expected Count	20.0	24.0	18.0	62.0

Table 8.2: Crosstable of Continent and Legal status2

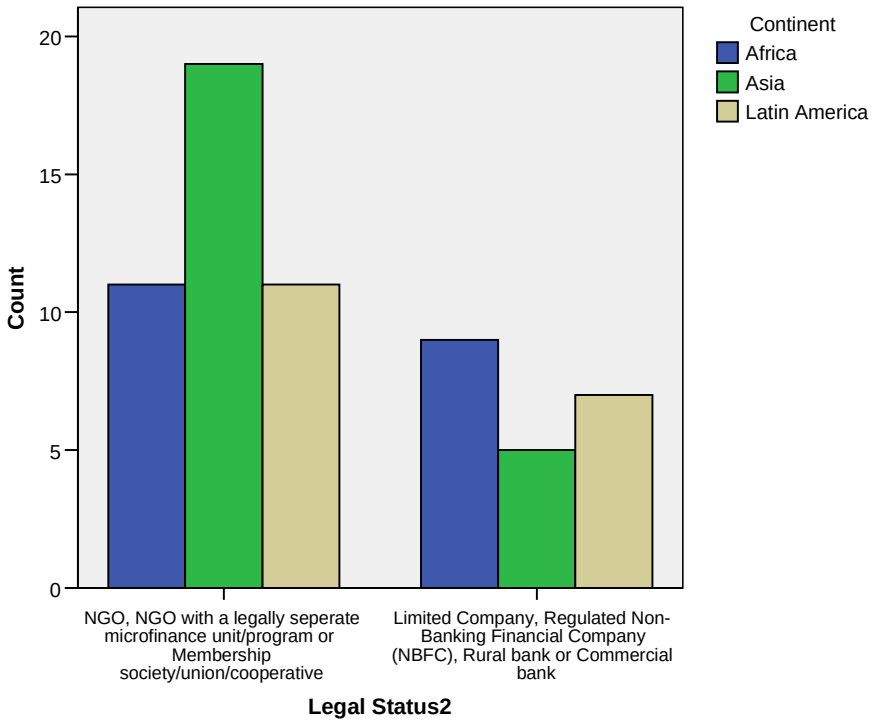

Figure 8.2: Bar chart of Continent and Legal status2

The expected counts in the crosstable are calculated by SPSS. Later on these will be used for testing the dependency between the variables. The new crosstable and bar chart show that from the NGOs or membership organisations, relatively, most are located in Asia, namely 19 out of 41. For the second legal status option the frequency is the highest in Africa (9 out of 21, or 42.86%). For the legal status option NGOs or membership organisations, the frequencies are the same for Africa and Latin America. With the Pearson χ^2 it is now possible to test if the variables Continent and Legal status2 are dependent on each other. The test results can be found in table 8.3.

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	3.130[a]	2	.209
N of Valid Cases	62		

a. 0 cells (.0%) have expected count less than 5. The minimum expected count is 6.10.

Table 8.3: Pearson χ^2 test results of dependency between Continent & Legal status2

From the results of the two-sided test with an alpha of 5% ($\alpha = 0.05$) it can be concluded that there is no significant relation between Continent and Legal status2 ($\chi^2 = 3.130$, $p = 0.209$).

8.1.2 Continent & Size of MFIs

In order to analyze the relation between size of MFIs and continent, the dataset is divided in five groups based on the variable Continent. The following table shows the mean and standard deviation of all five regional groups.

Report

NoOfActBorrowers

Continent	Mean	N	Std. Deviation
Africa	9052,05	20	16614,661
Asia	138363,70	23	245460,399
Latin America	13762,65	17	20333,285
Central and East Europe	11294,67	6	7607,256
Middle East	2154,00	1	.
Total	54735,72	67	154864,936

Table 8.4: Statistics table of Size of MFIs (measured by number of active borrowers) divided in five regions

The means vary between the regions. The mean of Asia is far out the highest of all. The means of Africa, Latin America, and Central and East Europe are positioned relatively close together. The Middle East has the lowest mean. However, it should be noticed that the region Middle East is represented by only one MFI. The figure on the next page shows the large difference in means between Asia and the other four regions. In Figure 8.3 the means of all the regions are visualised in a means plot.

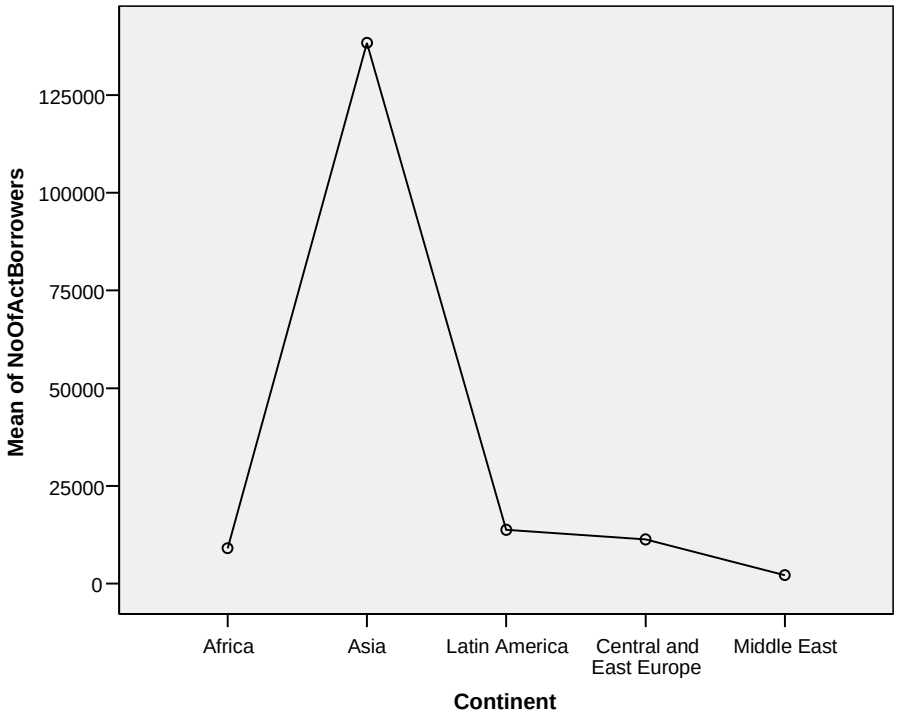

Figure 8.3: Means plot of Size of MFIs (measured by number of active borrowers) divided in five regions

Now it can be tested if size of MFIs is dependent on the region in which the MFIs are active. Normally, a One-way Anova test is used to test relations between quantitative (Size of MFIs) and qualitative (Continent) variables. However, one of the preconditions for conducting this test is that the quantitative data for all subgroups is normally distributed. Because one of the subgroups only has one observation and the numbers of observations for the other subgroups are relatively low, normal distribution of the subgroups may not be assumed. In cases like this Kruskal Wallis can be used as an alternative. The following table shows the results of this test.

Test Statistics[a,b]

	NoOfAct Borrowers
Chi-Square	12,744
df	4
Asymp. Sig.	,013

a. Kruskal Wallis Test

b. Grouping Variable: Continent

Table 8.5: Kruskal Wallis test results of dependency between Continent and Size of MFIs (measured by number of active borrowers)

The test results show that with an alpha of 5% ($\alpha = 0.05$) the relation between Continent and Size is significant ($\chi^2 = 12.744$, $p = 0.013$). This means that size of MFIs in influenced by their location. In Asia the amount of active borrowers is far out the highest.

8.1.3 Continent & FSS

Just as in the previous paragraph, the dataset is divided in five regional groups. For all these groups means and standard deviations of FSS are calculated. The results can be found in the following table.

Report

FSS

Continent	Mean	N	Std. Deviation
Africa	76,1260	20	24,62795
Asia	102,0304	24	28,75178
Latin America	103,2529	17	24,19941
Central and East Europe	101,1450	6	22,74753
Middle East	28,0000	1	.
Total	93,5503	68	29,04856

Table 8.6: Statistics table of FSS divided in five regions

The means of Asia, Latin America and Central and East Europe are all above 100% and the three highest of the five subgroups. The mean of Africa is $\mu = 76.1\%$. Far lower lies the mean the Middle East ($\mu = 28\%$). This last mean is constructed out of data from one MFI since the dataset contains only one MFI located in the Middle East. In the next figure the means are visualised in a means plot.

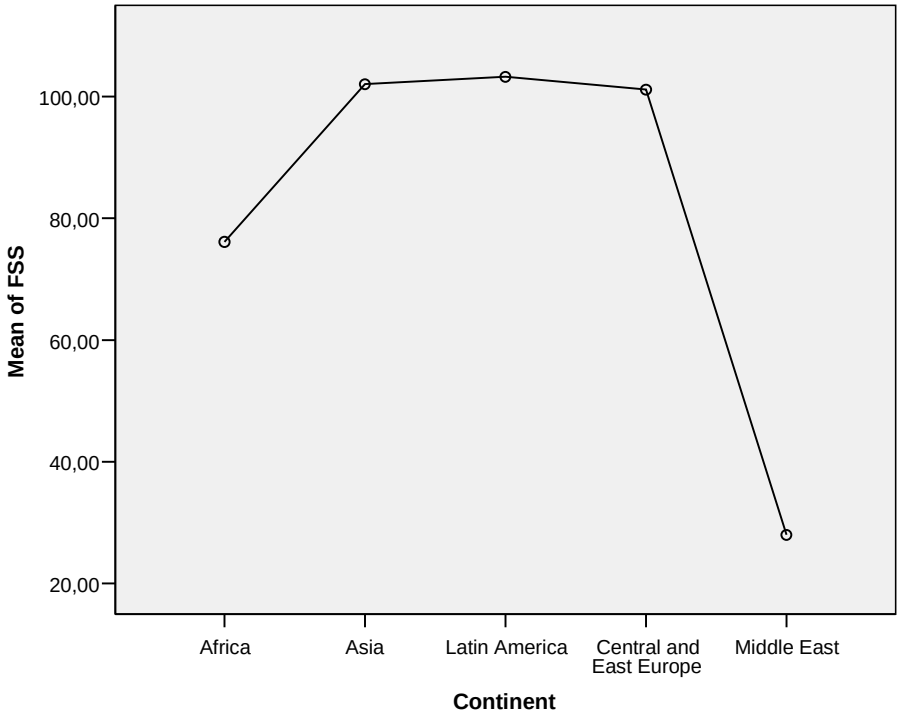

Figure 8.4: Means plot of FSS divided in five regions

In testing this relation One-way Anova cannot be used because the variable Continent split the data into subgroups. As well as in the previous paragraph normal distribution of the data of all subgroups cannot be assumed. Again the Kruskal Wallis test is used to test the relation between the variables FSS and Continent. The test results of the Kruskal Wallis test can be found in the table 8.7.

Test Statistics[a,b]

	FSS
Chi-Square	14,083
df	4
Asymp. Sig.	,007

a. Kruskal Wallis Test

b. Grouping Variable: Continent

Table 8.7: Kruskal Wallis test results of dependency between FSS and Continent

The test shows that with an alpha of 5% ($\alpha = 0.05$) the relation between FSS and Continent is significant ($\chi^2 = 14.083$, $p = 0.007$). This implies that the differences between the means of the subgroups are significant. In Africa the average FSS of MFIs is lower than the FSS of MFIs in Asia, Latin America and Central and East Europe. The average FSS of MFIs in Asia, Latin America and Central and East Europe are situated close together, all positioned above the 100%. In relation to the Middle East it is hard to make judgments as only one such MFI is included in this study.

8.2 Kinds of funding

In this second paragraph three relations will be tested. It is tested if the kind of funding the MFIs received from Cordaid is related to the continent/region in which the MFI is active, its numbers of years of existence and its FSS. The variable Kinds of funding has four classifications based on the policy of Cordaid. Within Cordaid it is possible to give partners a donation, a donation combined with a loan, solely a loan or a more sophisticated financial instrument like a guarantee or equity investment. The rank in which the kinds of funding are summed up indicates the normal steps which starting MFIs go through. In the beginning donations are the most suitable financial tool as the MFI is just in its start-up and still needs some support. When the MFI learns and grows, slowly also the kind of funding needed changes. MFIs need less support and are taught how to handle loans themselves. Later on, the MFIs might borrow from the formal financial market backed up with a guarantee from Cordaid or might become a limited company learning to manage shareholders.

8.2.1 Kinds of funding & Continent

In this subparagraph it is analysed if some specific funding types are present in a specific continent/region. The following table shows the division of the data.

KindsOfFunding * Continent Crosstabulation

Count

		Continent					
		Africa	Asia	Latin America	Central and East Europe	Middle East	Total
KindsOfFunding	Donations	5	4	5	0	0	14
	Donantions and Loans	9	12	0	0	1	22
	Loans	5	7	10	6	0	28
	Guarantee or Equity investment	1	1	2	0	0	4
Total		20	24	17	6	1	68

Table 8.8: Crosstable of Kinds of funding and Continent

In the table the four classifications of Kinds of Funding and the five continents/regions are shown. It can be concluded that most of the 'donations and loans' combination are given in Asia. The type of funding 'loans' is mostly used in Latin America. When looking at the continents, both in Africa and Asia most of the MFIs receive donations in combination with loans. For Asia 50% of all MFIs receive this combination of funding. However, in Latin America and Central and East Europe this combination does not occur. For these two continents/regions most or all the MFIs receive solely a loan. The last funding source 'guarantee or equity investment' is present in Africa, Asia and Latin America. The data can also be visualised in the bar chart on the next page.

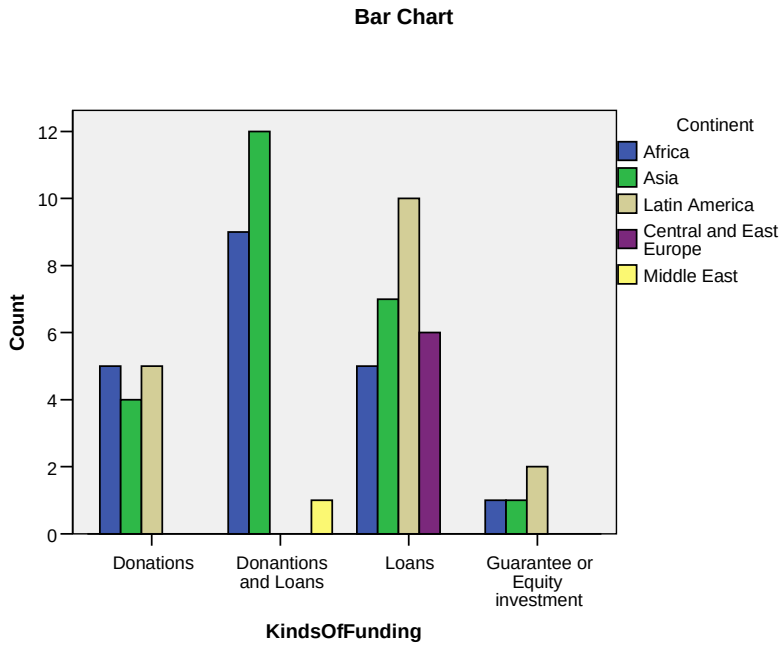

Figure 8.5: Bar chart of Kinds of funding and Continent

In order to test if both variables are dependant on one another, the already explained precondition for testing two qualitative variables indicates that all possible combinations should be represented by at least five cases. From table 8.8 it can be concluded that this precondition is not met. To meet the precondition many cases should be summed up or deleted. Not only cases in Central and East Europe and the Middle East should be deleted, also some types of funding should be summed up. Deleting and summing up this many cases would lead to a disordered image. Therefore, it was chosen not to convert the data which makes testing for dependency between the two variables impossible.

8.2.2 Kinds of funding & Years of Existence

Based on the short explanation of Cordaid's funding types in 8.2, it can be expected that number of years of existence of a MFI influences the kind of funding received. The longer a MFI exists, the more likely that the MFI receives loans or guarantees instead of donations. The following table and means plot show the average year of existence for each funding source.

Report

Years of existence

KindsOfFunding	N	Mean	Std. Deviation
Donations	14	15.21	8.154
Donantions and Loans	22	12.91	8.901
Loans	28	10.18	4.754
Guarantee or Equity investment	4	13.25	5.852
Total	68	12.28	7.225

Table 8.9: Statistics table of Years of existence of MFIs divided by funding source

Based on the reasoning above it would be expected that the average year of existence would increase from donations to guarantee or equity investment. The table does not show this increase in means. Contrary, the mean is highest for organisations which receive donations. Also the means plot on the following page shows that the expected increase over the line of kinds of funding cannot be found in the data.

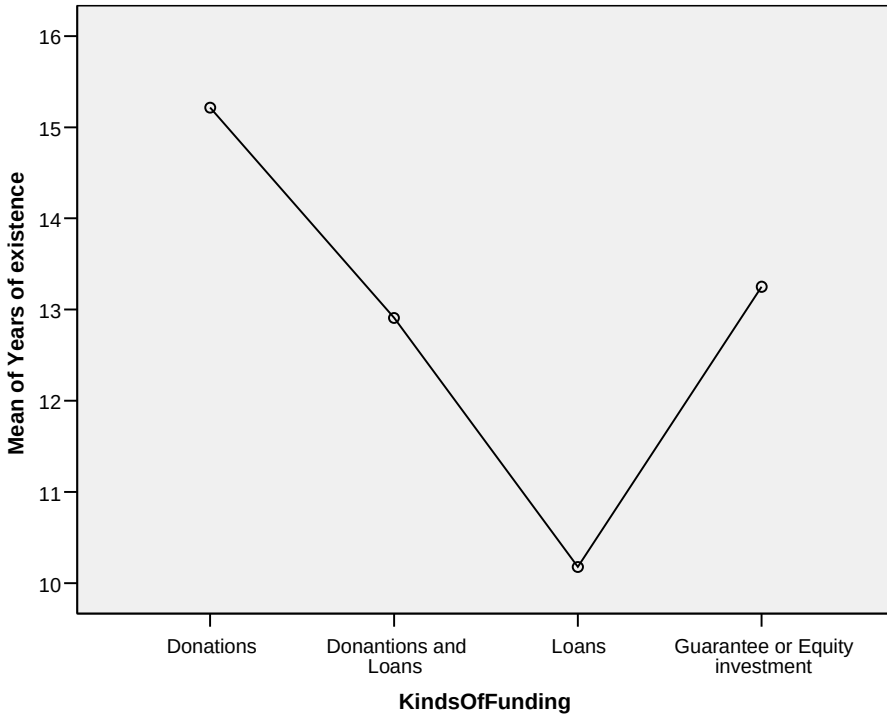

Figure 8.6: Means plot of Years of existence of MFIs divided by Kinds of funding

Because one kind of funding is represented in only four cases, it is impossible to assume normal distributions in the subgroups. Therefore, the relation between Years of existence and Kinds of funding is test with the Kruskal Wallis test. From the test result in table 8.10 it can be concluded that, with an alpha of 5% ($\alpha = 0.05$), there is no significant relation between the variables ($\chi^2 = 4.593$, $p = 0.204$). This implies that sources of funding received by the MFI are not influenced by the number of years they already exist. In the next subparagraph it is tested if the financial performance of an organisation does influence the sources of funding received.

Test Statistics[a,b]

	Years of existence
Chi-Square	4.593
df	3
Asymp. Sig.	.204

a. Kruskal Wallis Test

b. Grouping Variable: KindsOfFunding

8.10: Kruskal Wallis test results of dependency between Kinds of funding and Years of existence

8.2.3 Kinds of funding & FSS

Thirdly, the relation between kinds of funding and financial self-sustainability is analysed. It can be expected that the FSS is highest for organisations who receive guarantees or equity investments. One of the criteria for choosing the most appropriate type of funding for a MFI is their financial performance. Within Cordaid this criteria is also used; the better the financial performance the less support needed so the more sophisticated the kind of funding.

In the table and means plot it is shown that the average FSS for the different subgroups corresponds to this reasoning. The average FSS shows an increasing line from donations to guarantees or equity investments. In table 8.12 the test results are summed up.

Report

FSS

KindsOfFunding	Mean	N	Std. Deviation
Donations	78,2807	14	28,93471
Donantions and Loans	92,2591	22	34,50526
Loans	99,7985	27	24,13966
Guarantee or Equity investment	107,8075	4	4,46037
Total	93,3048	67	29,19662

Table 8.11: Statistics table of FSS divided by Kinds of funding

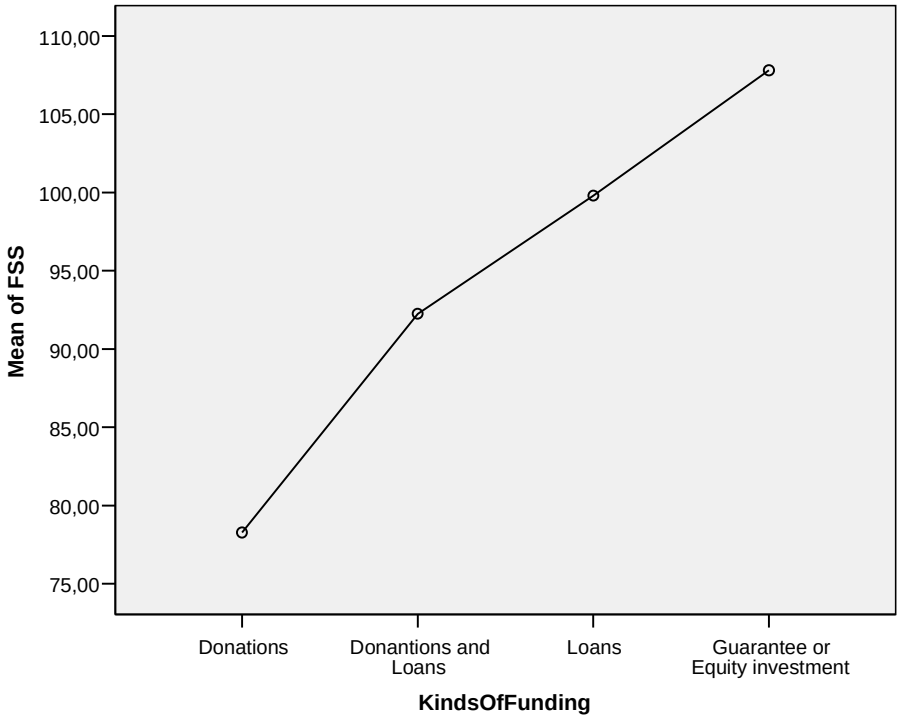

Figure 8.7: Means plot of FSS divided by Kinds of funding

Despite of the increasing means, after testing the relation, it becomes clear that the relation is not significant with an alpha of 5% ($\chi^2 = 6.477$, $p = 0.091$). With an alpha of 5% the relation might not be significant because the differences between the means are not large enough to be significant.

Test Statistics[a,b]

	FSS
Chi-Square	6,477
df	3
Asymp. Sig.	,091

a. Kruskal Wallis Test

b. Grouping Variable: KindsOfFunding

Table 8.12: Kruskal Wallis test results of dependency between FSS and Kinds of funding

8.3 Years of existence & FSS

In the previous paragraph the influence of FSS and Years of existence on Kinds of funding was tested. The first test did show a significant effect while the second did not. To get a better overview of the data it is important to also test the relation between FSS and Years of existence. The following figure shows the scatter plot of the two variables.

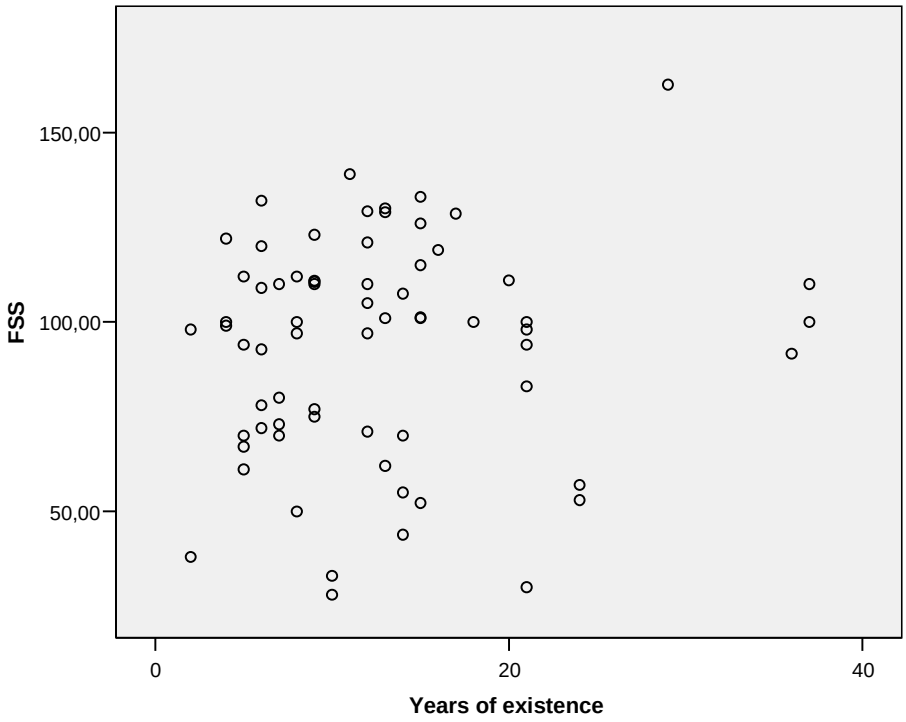

Figure 8.8: Scatter plot of FSS and Years of existence

There is no clear line indicating a higher FSS when number of years increase. Also after testing the correlation with an alpha of 5%, it can be concluded that the small positive relation is not significant ($r = 0.095$, $p = 0.222$). The test results are visualised in table 8.13 on the next page.

Correlations

		Years of existence	FSS
Years of existence	Pearson Correlation	1	,095
	Sig. (1-tailed)		,222
	N	69	68
FSS	Pearson Correlation	,095	1
	Sig. (1-tailed)	,222	
	N	68	68

Table 8.13: Correlation of Years of existence and FSS

Thus, the number of years of existence of a MFI does not influence the financial self-sustainability of a MFI. There are MFIs who already exist very long but whose FSS remains low. This also explains why years of existence did not influence sources of funding while the financial performance of a MFI did. The financial performance is linked with sources of funding as it is used as criterion for choosing the most appropriate source of funding. Years of existence should not be used as criterion as it does not show a significant relation with FSS.

9. Data analysis; Social Performance Management

This third chapter on data analysis focuses on SPM. The hypotheses formulated in chapter 5 will be tested. In the first four paragraphs, all hypotheses concerning individual SPM dimensions and financial performance will be discussed. These hypotheses will be tested with the correlation coefficient. In the fifth paragraph the relation between the transformation process and SPM will be tested. The sixth paragraph will discuss the regional impact on SPM. For testing the last two hypotheses a Kruskal Wallis test and a Mann Whitney test will be used.

9.1 Outreach to the poor and the excluded & FSS

In paragraph 5.1 the contradiction between the visions of the institutionists and welfarists was explained. The institutionists believed that breadth of outreach is necessary since poverty is widespread around the world. Due to the scale of the problem, private capital is needed to alleviate poverty. In order to attain private capital MFIs should be financially self-sufficient. On the contrary, the welfarists believed that focusing on breadth shifts the focus away from depth and reaching the poorest of the poor. In their opinion, because it is costly to reach the poorest of the poor, MFIs need public capital like donations. For them, financial self-sufficiency is not a measurement of success but social impact is. Following the reasoning that depth of outreach is more costly and therefore it is harder to achieve financial self-sufficiency, the following hypothesis was constructed in chapter 5.

> *When outreach of MFIs is more socially-oriented in terms of depth and (geographic) targeting, financial sustainability will be harder to achieve and therefore FSS is lower.*

In more statistical terms the hypothesis will be;

H°. There is no relation between Outreach to the poor and the excluded (SPM 1) and FSS of MFIs

H¹. There is a negative relation between Outreach to the poor and the excluded (SPM 1) and FSS of MFIs

Because both variables are quantitative, the relation will be tested with the correlation coefficient (*r*). The figure on the next page shows the scatter plot of SPM 1 and FSS. All cases are positioned based on their values of SPM 1 and FSS. The X-axis of the figure represents SPM 1 and the Y-axis represents FSS.

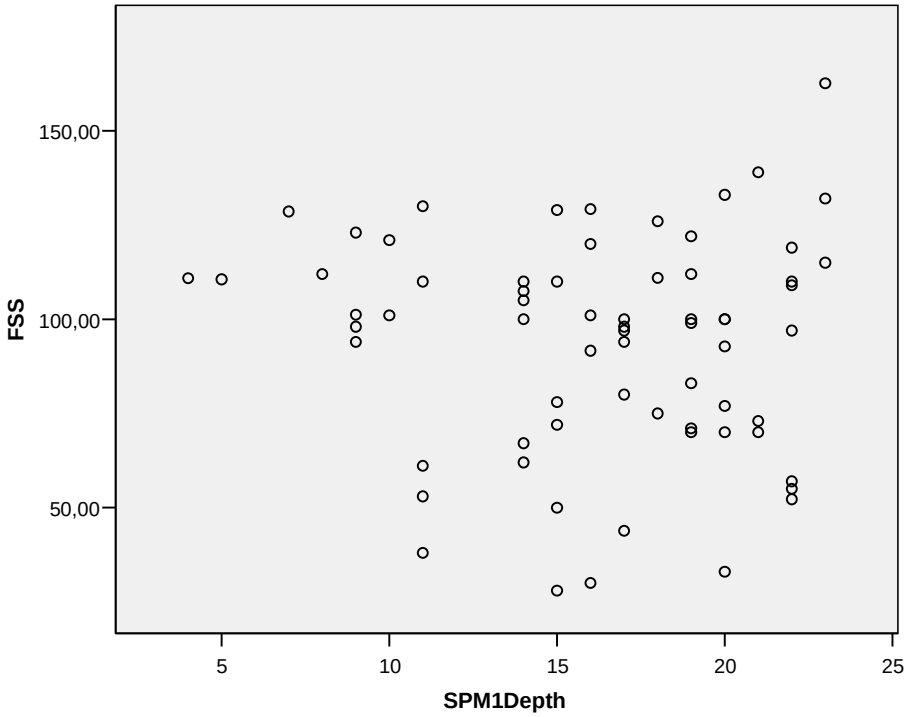

Figure 9.1: Scatter plot of SPM1 and FSS

In the scatter plot no clear relation can be found. Should there be a clear negative relation the dots would be centralised from the left top down to the right bottom. Also the results of the hypothesis test indicate that there is no significant relation between SPM 1 and FSS. In table 9.1 the results can be found.

Correlations

		SPM1Depth	FSS
SPM1Depth	Pearson Correlation	1	-,051
	Sig. (1-tailed)		,339
	N	69	68
FSS	Pearson Correlation	-,051	1
	Sig. (1-tailed)	,339	
	N	68	68

Table 9.1: Correlation of SPM1 and FSS

There is hardly a negative relation between management which emphasizes the outreach to the poor and the excluded and the financial self-sustainability of MFIs. However, with an alpha of 5% ($\alpha = 0.05$) the relation is not significant ($r = -0.051$, $p = 0.339$). This implies that when MFIs focus on reaching the poorest of the poor this does not negatively have to affect their FSS.

9.2 Adaptation of services and products to target client's needs & FSS

In paragraph 5.2 it is argued that just as in the business world, MFIs can gain benefits when adapting services and products to their clients needs. If the services and products suit the needs of the clients well, the clients will appreciate the services, the products and the MFI more. This will result in clients who are more willing to continue using the services and products of the MFI. In order to do so, the clients must repay their loans in full and avoid default. For the MFI on time payments reduce risks. When the repayment rates are higher or the default rates are lower, the costs of the MFI will decrease and their financial self-sufficiency will increase. Following this reasoning the following hypothesis was constructed in chapter 5.

When services and products of MFIs are adapted to client needs and therefore more socially-oriented, financial sustainability will be easier to achieve and therefore FSS is higher.

In more statistical terms the hypothesis will be;

H°. There is no relation between Adaptation of services and products to target client's needs (SPM 2) and FSS of MFIs

H¹. There is a positive relation between Adaptation of services and products to target client's needs (SPM 2) and FSS of MFIs

Figure 9.2 shows the scatter plot of SPM 2 and FSS. The plot would represent a clear positive relation when the dots would be positioned on a visual line from bottom left to top right.

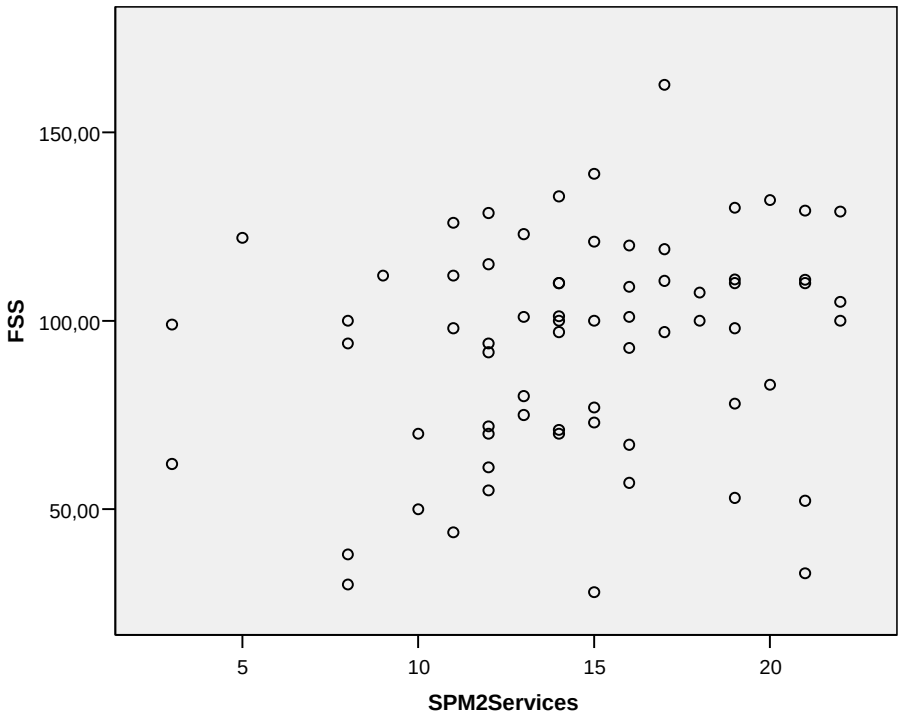

Figure 9.2: Scatter plot of SPM2 and FSS

The dots in the scatter plot are centralised between a SPM 2 rating of 10 and 20. The correlation table 9.2 shows that there is a significant positive relation between SPM 2 and FSS (r = 0.209, p = 0.043).

Correlations

		SPM2Services	FSS
SPM2Services	Pearson Correlation	1	,209*
	Sig. (1-tailed)		,043
	N	69	68
FSS	Pearson Correlation	,209*	1
	Sig. (1-tailed)	,043	
	N	68	68

*. Correlation is significant at the 0.05 level (1-tailed).

Table 9.2: Correlation of SPM2 and FSS

9.3 Improving clients' social and political capital & FSS

Paragraph 5.3 discusses the relation between social and political capital building of MFI clients and FSS of the MFI. The relation is explained through the strengthening of trust between the MFI and its clients and the strengthening of the MFI's reputation. Good reputation and trust lower opportunistic behaviour from clients. This results in clients who are less likely to default or act like free riders. For the MFI this will lower transaction costs and thus increase their financial self-sustainability. In paragraph 5.3 this reasoning was described in the following hypothesis.

> *When MFIs improve the social and political capital of clients, and therefore are more socially oriented, financial sustainability will be easier to achieve and therefore FSS is higher.*

In more statistical terms the hypothesis will be;

H°. There is no relation between Improving clients' social and political capital (SPM 3) and FSS of MFIs

H¹. There is a positive relation between Improving clients' social and political capital (SPM 3) and FSS of MFIs

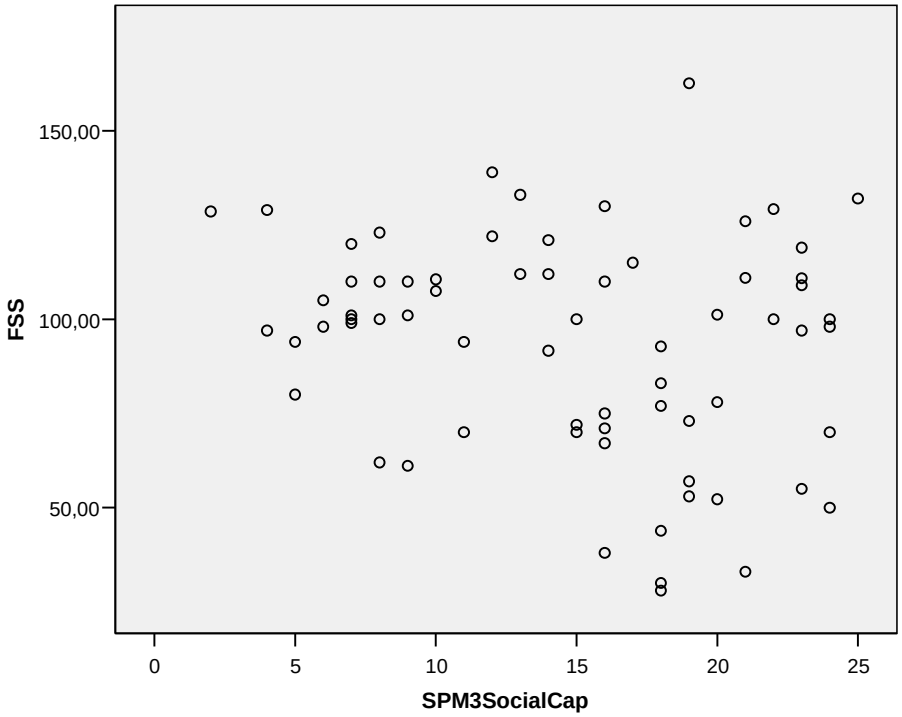

Figure 9.3: Scatter plot of SPM3 and FSS

Correlations

		SPM3SocialCap	FSS
SPM3SocialCap	Pearson Correlation	1	-,216*
	Sig. (1-tailed)		,039
	N	69	68
FSS	Pearson Correlation	-,216*	1
	Sig. (1-tailed)	,039	
	N	68	68

*. Correlation is significant at the 0.05 level (1-tailed).

Table 9.3: Correlation of SPM3 and FSS

The scatter plot shows that the data is spread. The correlation table shows that there is a significant relation but a negative one (r = -0.216, p = 0.039). This would imply that if the management of a MFI would focus on social and political capital building of clients this would negatively affect the MFI's financial self-sustainability.

9.4 Social responsibility of MFI & FSS

In paragraph 5.4 it is argued that social irresponsible behaviour can have negative effects for profit seeking as well as for non-profit seeking organisations. Sales, recruitment of employees and access to capital can be hindered because of social irresponsible behaviour. However, it might also work the other way around. Social responsible behaviour might improve an organisations performance. When MFIs show they are socially responsible in the way they treat the community, their employees, and clients, trust is built between the different actors. For a MFI public trust might be useful as it results in (financial) support of the public. Costs might decrease and income might increase as there is trust between the actors. Based on this, in paragraph 5.4 the following hypothesis was constructed.

> *When the social responsibility of MFIs is high, and therefore they are more socially- oriented, financial sustainability will be easier to achieve and therefore FSS is higher.*

In more statistical terms the hypothesis will be;

H°. There is no relation between Social responsibility of the MFIs (SPM 4) and FSS of MFIs

H¹. There is a positive relation between Social responsibility of the MFIs (SPM 4) and FSS of MFIs

The relation between the two variables is visualised in the scatter plot in figure 9.4.

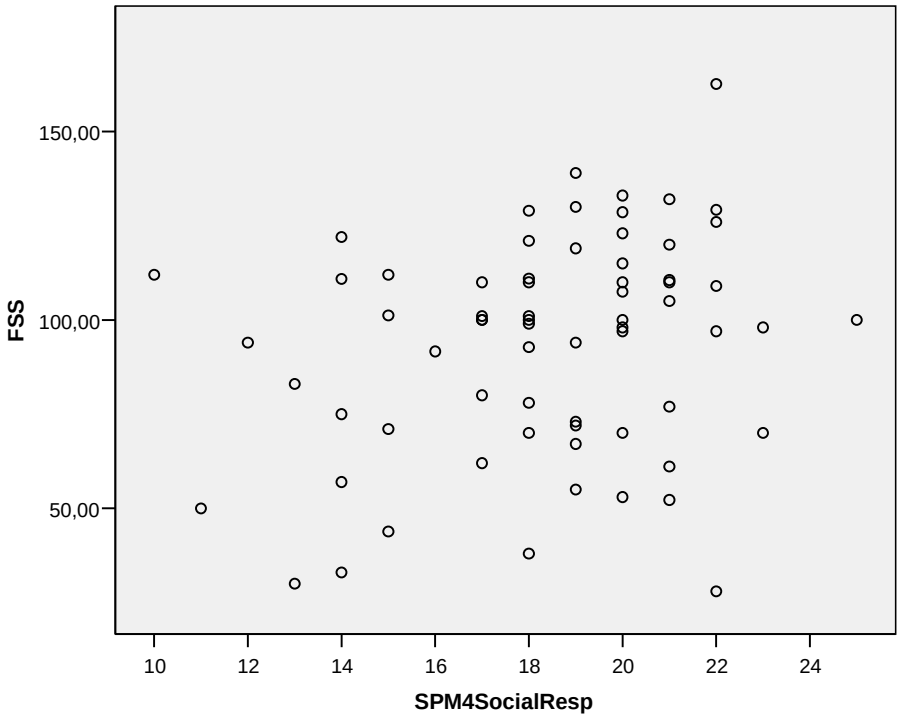

Figure 9.4: Scatter plot of SPM3 and FSS

Many of the dots are centralised a little left from the middle of the X-axis. The test results in table 9.4 on the next page show that a significant positive relation between the variables is found. This means that the H¹ is accepted.

Correlations

		SPM4Social Resp	FSS
SPM4SocialResp	Pearson Correlation	1	,257*
	Sig. (1-tailed)		,017
	N	69	68
FSS	Pearson Correlation	,257*	1
	Sig. (1-tailed)	,017	
	N	68	68

*. Correlation is significant at the 0.05 level (1-tailed).

Table 9.4: Correlation of SPM4 and FSS

With an alpha of 5% the results of the hypothesis test indicates that there is a positive relation between social responsibility of the MFI and its financial self-sustainability (r = 0.257, p = 0.017). If the management of a MFI focuses on social responsible behaviour in relation to the community, employees and clients, the financial performance of the MFI can improve.

9.5 Stage in transformation process & SPM

In paragraph 5.5 it was explained that the transformation process of MFIs is one of the current trends in the microfinance industry. When MFIs convert from more informal to more formal institutions it will become easier to access (commercial) capital. The new formal structures require MFIs to diversify products and services and focus on operational and financial self-sustainability. In chapter 5 it was argued that the stage in the transformation process influences the focus on SPM. In addition, it was argued that the further in the transformation process the MFI is, the larger the focus on SPM. Financial self-sustainability is necessary before MFIs can transform into more formal institutions. Therefore it can be argued that at the beginning of the transformation process the main focus is on FSS instead of SPM., When the MFIs have reached higher FSS later in the transformation process, they can give more emphasis on their social performance. In contrast, it can also be argued that the transformation lowers the focus on SPM due to mission drift. The social mission of more formal and commercial oriented organisation might erode because of commercial pressure. Chapter 5 summarizes both lines of reasoning as follows.

The further in the transformation process the higher the focus on SPM

versus *The further in the transformation process the lower the focus on SPM*

The stage in the transformation process is measured by the variable Legal status. In the research seven different legal statuses were identified which were later comprised to two subgroups. The focus on SPM is measured by the total score on SPM of a MFI. The four individual dimensions are summed up and together they form the variable SPM Total.

In more statistical terms the hypothesis will be;

H°. There is no relation between Stage in transformation process and SPM Total of MFIs

H¹. There is a relation between Stage in transformation process and SPM Total of MFIs

The following table shows the mean and standard deviations of SPM Total for all the subgroups.

Report

SPM Total

Legal Status	Mean	N	Std. Deviation
NGO, NGO with a legally seperate microfinance unit/program or Membership society/union/cooperative	65,33	43	12,065
Limited Company, Regulated Non-Banking Financial Company (NBFC), Rural bank or Commercial bank	61,54	26	11,786
Total	63,90	69	12,016

Table 9.5: Statistics table of SMPTotal divided in 7 stages of transformation (measured by Legal status)

The mean of the MFIs belonging to the first subgroup is the highest. For the second subgroup comprised of the more commercial oriented kind of organisations, Limited companies, NBFCs and banks, the mean is almost 5 points lower.

In order to test if there is a relation between the two variables a Mann-Whitney test is conducted. A Mann-Whitney test instead of a Kruskal Wallis test is chosen because the variable Legal Status just exists of two subgroups. Furthermore, this test is chosen as normality of the subgroups cannot be assumed. The results of this test are presented in table 9.6.

Test Statistics[a]

	SPM Total
Mann-Whitney U	455,500
Wilcoxon W	806,500
Z	-1,283
Asymp. Sig. (2-tailed)	,200

a. Grouping Variable: Legal Status

Table 9.6: Mann-Whithney test results of dependency between SPMTotal and Stage in transformation process (measured by Legal status)

From the test results it can be concluded that the relation between SPM Total and Stage in transformation process is not significant (U = 455.500, p = 0.200). Although the means of the two subgroups differ, the difference is not large enough to be significant.

9.6 Commercialization per continent & SPM

The last hypothesis in chapter 5 discussed the relation between commercialization differences across continents and SPM. Multiple authors indicate that the commercialization of the microfinance industry varies across countries and continents. The commercialization process depends on multiple aspects like policy environment, regulation and supervision and the money and capital markets. There are researchers who indicated that differences in commercialization between continents. Multiple authors stated that Latin America has the most commercial microfinance industry, followed by Asia. In paragraph 5.6 it is explained that commercialization could have a negative effect on SPM as commercialization is linked with market principles and profit. This dominant market-based and profit-driven way of thinking implies a focus on financial instead of social performance. Following this reasoning, at the end of paragraph 5.6 the following hypothesis was constructed.

> *The focus on SPM will be least in Latin America, followed by Asia and thirdly by Africa, the Middle East and Central & East Europe.*

In more statistical terms the hypothesis will be;

H°. There is no relation between Continent and SPM Total of MFIs

H¹. There is a relation between Continent and SPM Total of MFIs

The statistic table 9.7 summarizes the means of SPM Total of all the continent/regions. The means of Central and East Europe and Latin America are the lowest. A low score on SPM Total is in accordance with the described literature. The high score on SPM Total in Asia is contradictory to the hypothesis in chapter 5. In paragraph 5.6 it was described that Asia was the second most commercial microfinance industry and therefore it was expected that in Asia the focus on SPM would be less. The mean for Africa lies close to the one for Latin America.

Report

SPMTotal

Continent	N	Mean	Std. Deviation
Africa	20	60.15	11.254
Asia	24	72.25	11.961
Latin America	18	58.44	8.024
Central and East Europe	6	58.33	7.916
Middle East	1	70.00	.
Total	69	63.90	12.016

Table 9.7: Statistics table of Continent and SPMTotal

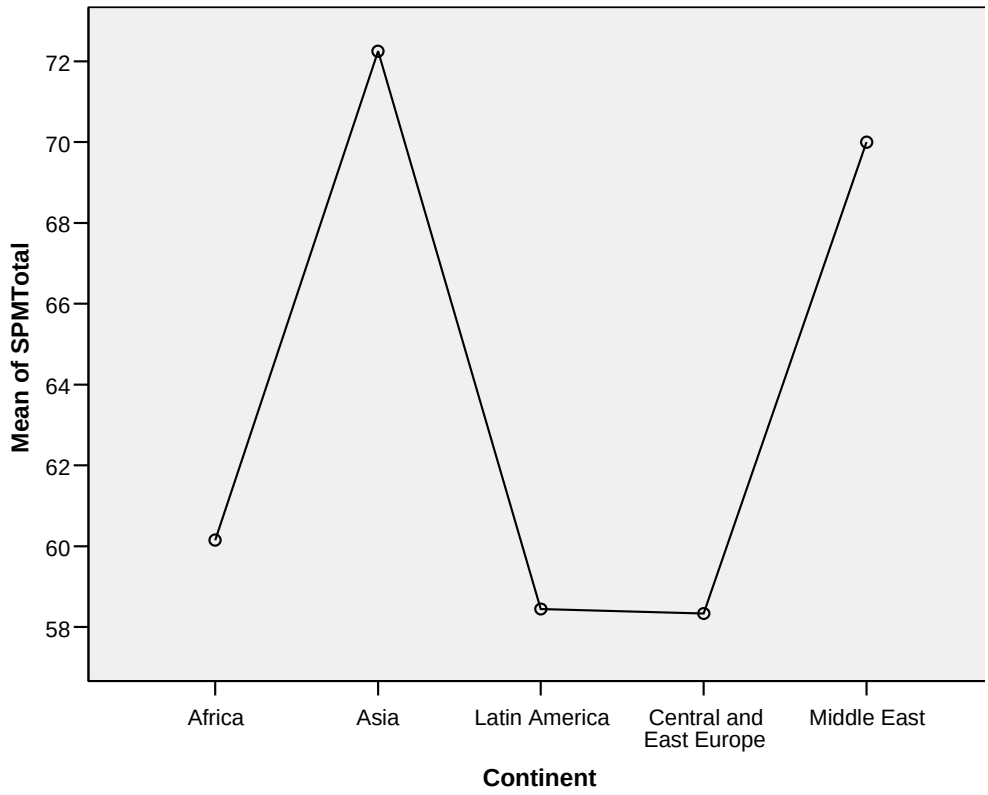

Figure 9.5: Means plot of Continent and SPMTotal

Also in the means plot it becomes clear that the means of SPM Total of Latin America, Africa and Central and East Europe are lower than the mean of Asia.

With the Kruskal Wallis test it can be tested if there is a significant relation between Continent and SPM Total. From the results in table 9.8 on the next page it can be concluded that there is a significant relation (χ^2 = 17.641, p = 0.001). This implies that the focus on SPM varies across countries with MFIs from Asia focusing the most on SPM and MFIs from Latin America, Africa and Central and East Europe having a lesser focus on SPM.

Test Statistics[a,b]

	SPMTotal
Chi-Square	17.641
df	4
Asymp. Sig.	.001

a. Kruskal Wallis Test

b. Grouping Variable: Continent

Table 9.8: Kruskal Wallis test results of dependency between Continent and SPMTotal

9.7 Critical note

The previous four paragraphs in this chapter analysed the hypotheses related to the SPM dimensions and financial performance. Direct relations have been tested. However, it is important to also test if there might be intervening effects which influence these direct relations. Based on the significant relation between SPMTotal and Continent and Continent and FSS it might be expected that the individual relations of the four SPM dimensions and FSS are intervened by Continent. Also Legal status could have an intervening effect on these relations. Therefore it is important to include another chapter of data analysis. In the next chapter the intervening effects of both the variables Continent and Legal Status will be tested.

10. Data analysis; intervening effects

As already mentioned this chapter focuses on possible intervening effects.

10.1 Intervening effect of Continent

This first paragraph analyses the intervening effect of Continent and is divided in four subparagraphs all focusing on one of the SPM dimensions.

10.1.1 Intervening effect of Continent on the relation between SPM 1 and FSS

Testing the direct relation between SPM 1 and FSS resulted in a negative but not significant correlation (r = -0.051, p = 0.339). Table 10.1 shows the correlations for each continent/region.

Correlations

Geographic Region			SPM 1	FSS
Africa	SPM 1	Pearson Correlation	1	-,475*
		Sig. (1-tailed)		,017
		N	20	20
	FSS	Pearson Correlation	-,475*	1
		Sig. (1-tailed)	,017	
		N	20	20
Asia	SPM 1	Pearson Correlation	1	-,077
		Sig. (1-tailed)		,359
		N	24	24
	FSS	Pearson Correlation	-,077	1
		Sig. (1-tailed)	,359	
		N	24	24
Latin America	SPM 1	Pearson Correlation	1	-,064
		Sig. (1-tailed)		,404
		N	18	17
	FSS	Pearson Correlation	-,064	1
		Sig. (1-tailed)	,404	
		N	17	17
Central and East Europe	SPM 1	Pearson Correlation	1	-,004
		Sig. (1-tailed)		,497
		N	6	6
	FSS	Pearson Correlation	-,004	1
		Sig. (1-tailed)	,497	
		N	6	6
Middle East	SPM 1	Pearson Correlation	.[a]	.[a]
		Sig. (1-tailed)		.
		N	1	1
	FSS	Pearson Correlation	.[a]	.[a]
		Sig. (1-tailed)	.	
		N	1	1

*. Correlation is significant at the 0.05 level (1-tailed).

a. Cannot be computed because at least one of the variables is constant.

Table 10.1: Intervening effect of Continent on the relation between SPM 1 and FSS

In table 10.1 the relation between SPM 1 and FSS is controlled for the variable Continent. For each continent/region the relation between SPM 1 and FSS is tested. From table 10.1 it becomes clear that strength and direction of the correlation coefficients of the different subgroups differ a lot. The Middle East is left out of the discussion of the subgroups as this subgroup consists of just one MFI and is therefore too small to calculate correlations.

The correlation coefficients for SPM 1 and FSS remain negative for all continents/regions. However, the differences in strength are remarkable. The correlation coefficients for Asia, Latin America and Central and East Europe are positioned relatively close to the correlation coefficient calculated in hypothesis one (Asia; r = -0.077, Latin America; r = -0.064, Central and East Europe; r = -0.004). Just as the relation tested in chapter nine these relations are not significant (Asia; p =0.359, Latin America; p = 0.404, Central and East Europe; p = 0.497). In contrast, the correlation coefficient of Africa is more than nine times larger than the initial correlation coefficient and becomes significant (r = -0.475, p = 0.017).

10.1.2 Intervening effect of Continent on the relation between SPM 2 and FSS

Also in relation to the initial relation between the second SPM dimension and FSS (r = 0.209, p = 0.043) the strength and direction of the correlation coefficients for each continent/region differ from the initial relation. The results are visualised in table 10.2 on the next page.

The correlation coefficient for SPM 2 and FSS remains positive for Africa, Latin America and Central and East Europe. For these subgroups the correlation coefficients are even stronger than the initial correlation coefficient (Africa; r = 0.303, Latin America; r = 0.490, Central and East Europe; r = 0.253). However, of these correlations only the one for Latin America is significant on a reliability interval of 95% (Latin America; p = 0.023). For MFIs in Africa and Central and East Europe the relation is no longer significant (Africa; p = 0.097, Central and East Europe; p = 0.314). Furthermore, the correlation coefficient for Asia turns out to be negative instead of positive and also no longer significant (r = -0.128, p = 0.275).

Correlations

Geographic Region			SPM 2	FSS
Africa	SPM 2	Pearson Correlation	1	,303
		Sig. (1-tailed)		,097
		N	20	20
	FSS	Pearson Correlation	,303	1
		Sig. (1-tailed)	,097	
		N	20	20
Asia	SPM 2	Pearson Correlation	1	-,128
		Sig. (1-tailed)		,275
		N	24	24
	FSS	Pearson Correlation	-,128	1
		Sig. (1-tailed)	,275	
		N	24	24
Latin America	SPM 2	Pearson Correlation	1	,490*
		Sig. (1-tailed)		,023
		N	18	17
	FSS	Pearson Correlation	,490*	1
		Sig. (1-tailed)	,023	
		N	17	17
Central and East Europe	SPM 2	Pearson Correlation	1	,253
		Sig. (1-tailed)		,314
		N	6	6
	FSS	Pearson Correlation	,253	1
		Sig. (1-tailed)	,314	
		N	6	6
Middle East	SPM 2	Pearson Correlation	.[a]	.[a]
		Sig. (1-tailed)		.
		N	1	1
	FSS	Pearson Correlation	.[a]	.[a]
		Sig. (1-tailed)	.	
		N	1	1

*. Correlation is significant at the 0.05 level (1-tailed).

a. Cannot be computed because at least one of the variables is constant.

Table 10.2: Intervening effect of Continent on the relation between SPM 2 and FSS

10.1.3 Intervening effect of Continent on the relation between SPM 3 and FSS

Correlations

Geographic Region			SPM 3	FSS
Africa	SPM 3	Pearson Correlation	1	-,350
		Sig. (1-tailed)		,065
		N	20	20
	FSS	Pearson Correlation	-,350	1
		Sig. (1-tailed)	,065	
		N	20	20
Asia	SPM 3	Pearson Correlation	1	-,113
		Sig. (1-tailed)		,299
		N	24	24
	FSS	Pearson Correlation	-,113	1
		Sig. (1-tailed)	,299	
		N	24	24
Latin America	SPM 3	Pearson Correlation	1	-,259
		Sig. (1-tailed)		,158
		N	18	17
	FSS	Pearson Correlation	-,259	1
		Sig. (1-tailed)	,158	
		N	17	17
Central and East Europe	SPM 3	Pearson Correlation	1	-,149
		Sig. (1-tailed)		,389
		N	6	6
	FSS	Pearson Correlation	-,149	1
		Sig. (1-tailed)	,389	
		N	6	6
Middle East	SPM 3	Pearson Correlation	.[a]	.[a]
		Sig. (1-tailed)		.
		N	1	1
	FSS	Pearson Correlation	.[a]	.[a]
		Sig. (1-tailed)	.	
		N	1	1

a. Cannot be computed because at least one of the variables is constant.

Table 10.3: Intervening effect of Continent on the relation between SPM 3 and FSS

Initially a negative significant relation was found between SPM 3 and FSS (r = 0.216, p = 0.039). However, the correlation tests for SPM 3 and FSS splitted up for Continent show that none of these correlations are longer significant on a reliability interval of 95%. The direction of the correlation coefficients remains negative for all subgroups. However, the correlation coefficients do differ in strength. For Africa and Latin America the correlation coefficients become stronger (Africa; r = -0.350, p = 0.065), Latin America; r = -0.259, p = 0.158). For the other two subgroups the correlation coefficients become weaker (Asia; r = -0.113, p = 0.299, Central and East Europe; r = -0.149, p = 0.389).

10.1.4 Intervening effect of Continent on the relation between SPM 4 and FSS

Correlations

Geographic Region			SPM 4	FSS
Africa	SPM 4	Pearson Correlation	1	-,050
		Sig. (1-tailed)		,418
		N	20	20
	FSS	Pearson Correlation	-,050	1
		Sig. (1-tailed)	,418	
		N	20	20
Asia	SPM 4	Pearson Correlation	1	,375*
		Sig. (1-tailed)		,035
		N	24	24
	FSS	Pearson Correlation	,375*	1
		Sig. (1-tailed)	,035	
		N	24	24
Latin America	SPM 4	Pearson Correlation	1	,531*
		Sig. (1-tailed)		,014
		N	18	17
	FSS	Pearson Correlation	,531*	1
		Sig. (1-tailed)	,014	
		N	17	17
Central and East Europe	SPM 4	Pearson Correlation	1	-,128
		Sig. (1-tailed)		,405
		N	6	6
	FSS	Pearson Correlation	-,128	1
		Sig. (1-tailed)	,405	
		N	6	6
Middle East	SPM 4	Pearson Correlation	.[a]	.[a]
		Sig. (1-tailed)		.
		N	1	1
	FSS	Pearson Correlation	.[a]	.[a]
		Sig. (1-tailed)	.	
		N	1	1

*. Correlation is significant at the 0.05 level (1-tailed).

a. Cannot be computed because at least one of the variables is constant.

Table 10.4: Intervening effect of Continent on the relation between SPM 4 and FSS

In comparison to the initial correlation (r = 0.257, p = 0.017), the relation between SPM 4 and FSS remains positive and significant for MFIs in Asia (r = 0.375, p = 0.035) and Latin America (r = 0.531, p = 0.014). For Africa (r = -0.050, p = 0.418) and Central and East Europe (r = -0.128, p = 0.405) the relation becomes negative and no longer significant.

Based on the newly calculated correlations it can be stated that for all SPM dimensions the relation with FSS is influenced by the continent/region in which MFIs are located. Due to the differences in strength and direction between the subgroups the control variable Continent has an intervening effect on the relations tested in hypotheses one until four.

10.2 Intervening effect of Legal Status

This second paragraph analyses the intervening effect of Legal Status and is divided in four subparagraphs all focusing on one of the SPM dimensions. For this the seven options of Legal Status are again subdivided in two subgroups.

10.2.1 Intervening effect of Legal Status on the relation between SPM 1 and FSS

Testing the direct relation between SPM 1 and FSS resulted in a negative but not significant correlation coefficient (r = -0.051, p = 0.339). When controlling for Legal Status the following correlation coefficients were found.

Correlations

Legal Status			SPM 1	FSS
NGO, NGO with a legally seperate microfinance unit/program or Membership society/union/cooperative	SPM 1	Pearson Correlation	1	,110
		Sig. (1-tailed)		,245
		N	43	42
	FSS	Pearson Correlation	,110	1
		Sig. (1-tailed)	,245	
		N	42	42
Limited Company, Regulated Non-Banking Financial Company (NBFC), Rural bank or Commercial bank	SPM 1	Pearson Correlation	1	-,220
		Sig. (1-tailed)		,140
		N	26	26
	FSS	Pearson Correlation	-,220	1
		Sig. (1-tailed)	,140	
		N	26	26

Table 10.5: Intervening effect of Legal Status for the relation between SPM 1 and FSS

The relation between SPM 1 and FSS remains not significant for both subgroups. It is however remarkable that for the first subgroup the direction of the correlation coefficient changes to positive instead of negative (r = 0.110, p = 0.245). For the second subgroup the negative correlation coefficient becomes stronger but is still not significant (r = -0.220, p = 0.140).

10.2.2 Intervening effect of Legal Status on the relation between SPM 2 and FSS

Correlations

Legal Status			SPM 2	FSS
NGO, NGO with a legally seperate microfinance unit/program or Membership society/union/cooperative	SPM 2	Pearson Correlation	1	,159
		Sig. (1-tailed)		,157
		N	43	42
	FSS	Pearson Correlation	,159	1
		Sig. (1-tailed)	,157	
		N	42	42
Limited Company, Regulated Non-Banking Financial Company (NBFC), Rural bank or Commercial bank	SPM 2	Pearson Correlation	1	,267
		Sig. (1-tailed)		,093
		N	26	26
	FSS	Pearson Correlation	,267	1
		Sig. (1-tailed)	,093	
		N	26	26

Table 10.6: Intervening effect of Legal Status on the relation between SPM 2 and FSS

For both the subgroups of Legal Status the significant positive relation between SPM 2 and FSS (r = 0.209, p = 0.043) can no longer be found. The correlation coefficient for SPM 2 and FSS drops 0.050 for the first subgroup (r = 0.159) and increases 0.058 for the second subgroup (r = 0.267). However, for both subgroups the relations are no longer significant on a reliability interval of 95% (subgroup 1 p = 0.157, subgroup 2 p = 0.093).

10.2.3 Intervening effect of Legal Status on the relation between SPM 3 and FSS

Correlations

Legal Status			SPM 3	FSS
NGO, NGO with a legally seperate microfinance unit/program or Membership society/union/cooperative	SPM 3	Pearson Correlation	1	-,122
		Sig. (1-tailed)		,221
		N	43	42
	FSS	Pearson Correlation	-,122	1
		Sig. (1-tailed)	,221	
		N	42	42
Limited Company, Regulated Non-Banking Financial Company (NBFC), Rural bank or Commercial bank	SPM 3	Pearson Correlation	1	-,326
		Sig. (1-tailed)		,052
		N	26	26
	FSS	Pearson Correlation	-,326	1
		Sig. (1-tailed)	,052	
		N	26	26

Table 10.7: Intervening effect of Legal status on the relation between SPM 3 and FSS

Also the significant negative relation between SPM 3 and FSS (r = -0.216, p = 0.039) is no longer significant for both subgroups. For the first subgroup the correlation coefficient becomes -0.122 (p = 0.221) and for the second subgroup -0.326 (p = 0.052). Both relations remain negative but are no longer significant.

10.2.4 Intervening effect of Legal Status on the relation between SPM 4 and FSS

Correlations

Legal Status			SPM 4	FSS
NGO, NGO with a legally seperate microfinance unit/program or Membership society/union/cooperative	SPM 4	Pearson Correlation	1	,267*
		Sig. (1-tailed)		,043
		N	43	42
	FSS	Pearson Correlation	,267*	1
		Sig. (1-tailed)	,043	
		N	42	42
Limited Company, Regulated Non-Banking Financial Company (NBFC), Rural bank or Commercial bank	SPM 4	Pearson Correlation	1	,167
		Sig. (1-tailed)		,207
		N	26	26
	FSS	Pearson Correlation	,167	1
		Sig. (1-tailed)	,207	
		N	26	26

*. Correlation is significant at the 0.05 level (1-tailed).

Table 10.8: Intervening effect of Legal Status on the relation between SPM 4 and FSS

The relation tested in hypothesis four (r = 0.257, p = 0.017) only remains significant for the first subgroup. The correlation coefficient becomes 0.267 and remains significant on a reliability interval of 95% (p = 0.043). For the second subgroup the correlation coefficient drops to 0.167 making the relation no longer significant (p = 0.207).

It can be concluded that the control variable Legal Status has an intervening effect on relations tested in hypotheses one until four. The direction of the relation tested in hypothesis one changed for one of the subgroups. For the other three hypotheses the correlation coefficients were no longer significant for one or both of the subgroups.

Conclusion

The main question which was introduced in chapter four focused on the relation between social performance management and financial performance of MFIs. The research question asked if sustainable financial performance of MFIs is influenced by their social performance management. Through a questionnaire with questions on the four dimensions of social performance management and on financial performance indicators this relation was researched. In total 69 partners of Cordaid filled out the questionnaire.

From the analysis of the individual variables, it becomes clear that on average a MFI has almost 125.000 active borrowers. However, this number is heavily influenced by an extreme outlier from Asia. After excluding this outlier the average of active borrowers became almost 55000. The means of the four SPM dimensions lie between the 14.62 and 18.28. For each dimension a MFI could earn a maximum of 25 points. For both SPM 3 and 4 there were some MFIs reaching this maximum score. For the other two dimensions (SPM 1 and 2) the maxima were 23 and 22, respectively. The average total score on all SPM dimensions was 63.9 points. When calculating the separate means for each continent/region included in the study, it became clear the Asian MFIs scored highest on all individual dimensions of SPM as well as on the total score of SPM. Latin America scored second highest on SPM 2, Africa on SPM 1 and 3 and Central and East Europe on SPM 4. For the total score on SPM the means of these three continents/regions lay close together while Asia had a far higher score. Separate means were also calculated for two legal status subgroups. On average NGOs and membership organisation scored the highest on depth of outreach and building social and political capital. The more commercial-oriented limited companies, NBFCs and banks, scored highest on adaptation of services and products and on social responsibility. This is logical as the last two dimensions are also more common in the for-profit world. The means of the financial indicators show that on average the partner MFIs of Cordaid can cover their operational expenses and can almost cover their imputed costs of capital, too. After deleting an outlier for the variable OSS, the average OSS of 67 partners was 108.6%. The average FSS was a little lower, namely 93.55%.

When dividing the data set on Continent, it can be tested if there are significant differences between continents/regions. In the second data analysis chapter three such relations were tested. First, the relation between the continent/region where the MFI is situated and the legal status of the MFI was tested. After converting the data based on the preconditions of the test, it was concluded that there is no significant relation between these two variables. The other two relations tested did find significant results. It was concluded that both the size of MFIs and their FSS is influenced by the continent/region in which they are situated. MFIs in Asia comprised the largest. The size of MFIs in Africa, Latin America and Central and East Europe did not differ a lot. In relation to the financial performance of MFIs, it was concluded that the average FSS of MFIs in Africa was significantly lower than those of the other continents/regions. For the MFIs in Latin America, Asia and Central and East Europe the average FSS was positioned above the 100%. Secondly, the data set was divided on Kind of funding. MFIs in Africa and Asia mostly received the combination of donations and loans. In Latin America this combination was not present. Here most of the projects were supported with loans. The proportion of projects that received solely donations was almost equal for the three continents. The kind of funding received by MFIs was independent on its years of existence. However, it did depend on its financial self-sustainability. Furthermore, it was tested if years of existence and FSS were related. This relation was found to be not

significant. From this it can be concluded that when choosing the most appropriate kind of funding, employees of Cordaid need not be influenced by the number of years the MFIs exist as the financial performance of MFIs is not necessary positively influenced by their years of existence.

The third chapter of the data analysis focused on testing the hypotheses constructed in chapter five. First the hypotheses of the four SPM dimensions were tested. The expected negative relation between outreach to the poor and the excluded (SPM 1) and the FSS of a MFI could not be found. The correlation coefficient was negative but very small and not significant. With a reliability interval of 95% (α = 0.05) the other three relations were found to be significant. The correlation between adaptation of services and products to client's needs (SPM 2) and FSS was positive and significant. Also for the third hypothesis a significant relation was found, although the relation was contrary to the expected direction. Instead of a positive relation, a significant negative relation was found between building social and political capital of clients (SPM 3) and the FSS of a MFI. The expected positive relation for social responsible behaviour (SPM 4) and FSS of a MFI was found, the relation turned out to be significant.

Secondly, the relation between current trends in the microfinance industry such as transformation and commercialization and social performance management were tested. In the literature the 'stage in the transformation process' is indicated by the legal status of a MFI. It was reasoned that each legal status brings along some specific preconditions for the management of MFIs. Along the line of transformation in legal status the organisation becomes more formalised and commercial. It was tested if these assumed formal and commercial preconditions have an influence on SPM within MFIs. The results of the dependency test show that the relation was not significant. It can be concluded that legal status of a MFI did not influence the social performance management within the organisation. On the contrary, a significant relation was found between the continent/region in which a MFI is located and its total score on social performance management. In the literature it was described that in Latin America the most commercial-oriented microfinance industry is found. In degree of commercialization Latin America was followed by Asia. Based on this literature it was reasoned that because of the commercialization the focus on social performance management would be the least in Latin America followed by Asia. However, the means on SPM of all continents/regions invalidated this reasoning. The average social performance management score of Latin America was one of the lowest. However, the mean of Asia was the highest. The test results indicated that the differences in means were significant. So, the relation between location of the MFI and their social performance management score is significant. However, while Latin America has the lowest score, Asia does not have the second lowest score. Instead, the score on SPM is the highest for Asia indicating that commercialization in that continent did not lead to lower scores on SPM.

In the last chapter of the data analysis possible intervening effects were tested. It can be concluded that both the variables Continent and Legal Status have a large intervening effect on the prior tested direct relations between the SPM dimensions and FSS. The relation between outreach to the poor and the excluded (SPM 1) and FSS becomes strongly negative and significant for MFIs in Africa. The relation between adaptation of services and products to client's needs (SPM 2) and FSS only remains significant for MFIs located in Latin America. For the other continents/regions and both subgroups of Legal Status the positive significant relation disappeared. The third relation between building social and political capital of clients (SPM 3) and FSS could not been found for either the continents/regions nor the subgroups of Legal Status. All correlation coefficients remained negative but were no longer significant. The relation between the last dimension of SPM (social responsible behaviour, SPM 4) and FSS remained positive and significant for MFIs in Latin America and Asia and for MFIs positioned in the first subgroup of Legal Status. For MFIs in Africa, Central and East Europe and MFIs with more commercial forms of legal status the relation was no longer significant.

The main conclusion derived from this research is that there is no general link between the social and financial performances of MFIs. The research could not find any proof for the assumption of the authors of Imp-Act and Pawlak and Matul (2004:2). These authors stated that focusing on social performance management and measurement can increase financial returns because clients are better understood and scarce resources better allocated. The hypotheses which were based on this reasoning and additional literature expected a positive relation between three of the four SPM dimensions and FSS. However, these hypotheses must be rejected because of the intervening effects. It must be concluded that in general a focus on SPM does not lead to improved financial performances of MFIs.

A possible explanation for not finding a positive relation between social and financial performance may be the time span. As the authors of Imp-Act and Pawlak and Matul (2004:2) state, it may take a while before a focus on SPM results in positive financial effects for MFIs. It is therefore recommended to repeat this research and to transform it to a longitude time-series research.

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- www.imp-act.org
- www.cerise-microfinance.org
- www.microfinancegateway.org

Annex 1: List of Cordaid partners

Continent	Country	Abbreviation	Full name
Africa	Cameroon	CECAW	Cooperative d'Epargne et de Credit des Artisans du Wouri
	Ethiopia	Wasasa	Wasasa Microfinance Institution S.C.
	Ghana	BESSFA	BESSFA Rural Bank Ltd.
	Ghana	CRAN	Christian Rural Aid Network
	Ghana	WAD-MFI	Women and Development Microfinance Institution
	Ghana	SEND	Social Enterprise Development Foundation of West Africa
	Ghana	Maata-N-Tudu	Maata-N-Tudu Association
	Kenya	JCS	Jitegemea Credit Scheme
	Kenya	KADET	Kenya Agency for the Development of Enterprise and Technology
	Kenya	MDSL	Microeterprise Development Services Ltd.
	Liberia	LEAP	Local Enterprise Assistance Program
	Liberia	Liberty Finance	Liberty Finance
	Madagascar	SIPEM	Société d'Investisssement pour la Promtion des Enterprises à Madagascar
	Malawi	PRIDE Malawi	Promotion of Rural Inititiatives and Development Enterprises Malawi Ltd.
	Mali	Six S	Consortium Six S Grapes
	Nigeria	LAPO	Lift Above Poverty Organisation
	Sierra Leone	Finance Salone	Finance Salone Ltd.
	Tanzania	MKUKUWAMBO	MKUKUWAMBO Savings and Credit Schemes
	Tanzania	WEDAC	WEDAC Ltd.
	Zambia	PRIDE Zambia	Promotion of Rural Inititiatives and Development Enterprises Zambia Ltd.
Asia	Bangladesh	ASA Bangladesh	Activists for Social Alternatives Bangladesh
	Bangladesh	DSK	Dustha Shasthya Kendra
	Cambodia	HKL	Hattha Kaksekar Ltd.
	India	ASA India	Activists for Social Alternatives India
	India	Asmitha	Asmitha Microfinance Ltd.
	India	JVS	Jana Vikas
	India	Manyaseema	Manyaseema
	India	NBJK	Nav Bharat Jagriti Kendra
	India	Share	Share Microfinance Ltd.
	India	Shramik Bharti	Shramik Bharti
	India	Spandana	Spandana Sphoorty Innovative Financial Services
	India	BFL	BWDA Finance Ltd.

	India	BRO	Bosco Reach Out
	India	NLT	New Life Trust
	Indonesia	Bina Swadaya	Microfinance Development Center of Bina Swadaya
	Indonesia	CUCO	Credit Union Coordination of Indonesia
	Indonesia	Ganesha	Ganesha Microfinance Foundation
	Philippines	ASHI	Ahon Sa Hirap Inc.
	Philippines	CARD	Center for Agriculture and Rural Development
	Philippines	KASAGANA-KA	KASAGANA-KA Development Center Inc.
	Philippines	LBF	Life Bank Foundation, Inc.
	Philippines	MILAMDEC	Mindanao Lumad and Muslim Development Center
	Philippines	KPS-Seed Inc.	KPS Small Enterprise and Economic Development Inc.
	Vietnam	TYM	Mutal Affection Fund
Central & East Europe	Armenia	MDF-Kamurj	Microenterprise Development Charitable Fund Kamurj
	Bosnia and Herzegovina	MCO MIKRA	Microcredit Organisation MIKRA Sarajevo
	Bosnia and Herzegovina	Prizma	MCO Prizma Mikro
	Georgia	Crystal Fund	Crystal Fund
	Serbia Montenegro	AgroInvest	AgroInvest
	Serbia Montenegro	Opportunity Bank	Savings Bank Opportunity International A.D.
Middle East	Palestine Area	ASALA	Palestinian Business Women's Association
Latin America	Bolivia	C.A.S.A.	Credito Amigo S.A.
	Bolivia	FADES	Fundación para Alternativas de Desarollo
	Bolivia	FFP FIE S.A.	Fondo Financiero Privado FIE S.A.
	Bolivia	FONDECO	Fondo de Desarrollo Comunal
	Bolivia	Equipo Kallpa	Equipo Kallpa
	Brasil	CEAT	Centro de Estudos e Apoio ao Trabalhador e à Trabalhadora
	Brasil	FundeSol	Agencia de Desenvolvimento Local e Socioeconomia Solidária
	Colombia	Solidaria	Asociacion Mutual Solidaria
	Colombia	MEDA	Microempresas de Antioquia
	Colombia	Consolidar	Consolidar
	Honduras	ICADE	Instituto para la Cooperacion y Autodesarrollo
	Nicaragua	FDL	Asociacion Fondo de Desarrollo Local
	Peru	Caja Nor Perú	Caja Rural de Ahorro y Crédito Nor Perú

	Peru	Credinka	Caja Rural de Ahorro y Crédito Quillabamba S.A.A.
	Peru	Caja Sipan	Caja Rural de Ahorro y Crédito Sipan S.A.
	Peru	ARARIWA	Asociacion ARARIWA
	Peru	FONDESURCO	Fondo de Desarrollo Regional
	Peru	Profinanzas	Caja Rural de Ahorro u Credito Promotora de Finanzas S.A.A.

Note: Microempresas de Antioquia (MEDA) in Colombia is not yet a partner of Cordaid. However, during a field trip of employees of Cordaid to Colombia the MFI has been visited. The MFI was willing to help with the research. In the future MEDA might become a partner of Cordaid.

Annex 2: Questionnaire

Dear partner of Cordaid,

Since its existence microfinance has been about the double bottom line. The concept of microfinance is a mixture of commercial/financial and social thoughts. Although this always has been the underlying perception, in relation to performance the financial objectives have received more attention. Over the years the focus has been on financial transparency. In contrast, performance management and measurement of microfinance's second objective has been neglected. Because of the focus on financial performance management and measurement, social performance management and measurement has received less attention and little progress has been made in the development of methods to measure and report the performance of social objectives. Cordaid is aware of this neglect of social performance management (SPM) in microfinance. Because of this, in her Strategic Plan 2007-2010 Cordaid has formulated specific aims to strengthen SPM in microfinance. In relation to this Cordaid is interested in the current SPM activities of its partners.

Because Cordaid foresees the importance of SPM in the future, Mr. J. Winter, head of the Finance Business Unit of Cordaid, asks your participation in filling out this questionnaire. During the design of the questionnaire, both the Finance Business Unit and the regional departments of Cordaid collaborated closely. Based on this questionnaire Cordaid will get an overview of current SPM activities of its microfinance partners. In the future this overview can be used to make an estimation of (technical) support and assistance needed to improve and develop SPM in microfinance institutions. The results of this research will be shared with all participating partners because for them the research can function as a useful benchmark. We hope that you can reserve some of your time to fill out this questionnaire. It will only take about 20 minutes of your time and Cordaid will be very thankful. Please save the document after filling out the answers and send the saved document back to Cordaid.

Thanks in advance

Yours sincerely,

Marieke van Loon
mln@cordaid.nl

I General information

Full name of the organisation:
Abbreviation:
Year of establishment:
Country
Total number of members/clients:
Number of active borrowers:
Total loan portfolio outstanding:
Legal status of organisation:

- ☐ NGO
- ☐ NGO with a legally separate microfinance unit/programme
- ☐ Membership society/union/cooperative
- ☐ Limited Company
- ☐ Regulated Non-Banking Financial Company (NBFC)
- ☐ Rural bank
- ☐ Commercial bank

II. Social Performance Management -> Depth of outreach

1. Does the organisation provide loans to:

choose out list	Rural areas
choose out list	Workers with insecure status (no assets and uncertainty on daily employment, e.g. casual labourers, landless tenants
choose out list	Women
choose out list	Illiterate individuals

2. Does the organisation use specific tools or mechanisms to target the very poor (people living under the poverty line) and in this way improve the depth of poverty outreach of the organisation?
   - ☐ No
   - ☐ Yes

3. If the organisation uses tools or mechanisms to identify the very poor, which of the following ones does the organisation use?

Not used	Used	
☐	☐	Information given by the community itself
☐	☐	Illiteracy
☐	☐	Poverty assessment tool
☐	☐	Housing index
☐	☐	Size of microenterprise
☐	☐	Geographic targeting tools
		Other, namely

4. Per 30-9-2006, what was the average size of an income generating loan in local currency?

5. Per 30-9-2006, what was the average size of an income generating loan for first-time borrowers in local currency?

6. What is the minimum amount (in local currency) to open an individual savings account and make regular deposits?

III. Social Performance Management -> Adaptation of services and products

7. How many different types of income generating loan products (for example different types based on loan amounts and loan terms) does the organisation provide?
   - ☐ Only 1 income generating product
   - ☐ 2 or 3 income generating products
   - ☐ More than 3 income generating products

8. Which of the following loan products does the organisation provide?

Not offered	Offered	
☐	☐	Group loans
☐	☐	Individual loans
☐	☐	Consumer/emergency loans
☐	☐	Housing loans
☐	☐	Marriage loans
☐	☐	Loans above 12 months
		Others, namely

9. What is the flexibility of repayment for organisation's clients?
   - ☐ One pattern for all clients
   - ☐ Organisation proposes different formulae e.g. for different products and target groups
   - ☐ Repayment schedule is decided on with the client when receiving the loan

10. How many different types of voluntary savings products does the organisation provide?
   - ☐ No voluntary saving products or only compulsory savings
   - ☐ 1 or 2 voluntary saving products
   - ☐ More than 2 voluntary saving products

11. Does the organisation provide (itself or in close contractual partnership with other institutions) insurance against sickness and/or any other individual risk of its clients?
   - ☐ No
   - ☐ Yes

12. Has the organisation ever conducted market surveys to improve the quality of the services and products to the clients?
   - ☐ Never
   - ☐ Sometimes on irregular basis
   - ☐ Regularly, planned in strategy

13. What is the percentage of client drop-out (a drop-out being a client who does not continue a loan and no longer is an active client) over the average number of clients in the last 12 months (or last financial year)?
   - ☐ More than 30% drop outs over the average number of clients
   - ☐ Between 10% and 30% drop outs over the average number of clients
   - ☐ Less than 10% drop outs over the average number of clients

14. Does the organisation conduct surveys on clients' drop-outs?
   - ☐ Never
   - ☐ Sometimes on irregular basis
   - ☐ Regularly

15. Has the organisation ever used tools (such as meetings, surveys or focus-group discussions) to involve its clients in the design of the services provided?
   - ☐ Never
   - ☐ In the early stages of the organisation
   - ☐ Regularly

16. Does the organisation offer (itself or in close contractual partnership with other institutions) to clients and/or their communities any of the following non-financial services?

No	Yes	
☐	☐	Credit training
☐	☐	Health services
☐	☐	Nutrition education services
☐	☐	Environmental education services[1]
☐	☐	Business training
☐	☐	Literacy training
☐	☐	Social awareness training
☐	☐	Legal counsel
☐	☐	Market information (inputs, outputs, marketing)
☐	☐	School education to children
		Other, namely

IV. Social Performance Management -> Building social and political capital of clients

17. Which of the following information is obtained by clients?

No	Yes	
☐	☐	Written statements on each of their loan/savings transactions
☐	☐	Passbook for their loans/savings

18. Do the clients have access to the organisation's financial statements and audited accounts?

☐ No
☐ On request
☐ Yes

19. Do clients of your organisation elect client representatives for participation in the organisations decision making and governance?

☐ No
☐ Yes

20. In which of the following proceeds can the client (representatives) participate?

Choose from list	Election of board of directors of organisation
Choose from list	Election of other organisational bodies (for example a regulating or supervisory board)
Choose from list	Decision making at the client's level (e.g. self-managed groups)
Choose from list	Consultation at the organisation level
Choose from list	Control at the organisation level (e.g. through participation in one of the organisational bodies)
Choose from list	Decision making at the organisational level (e.g. through participation in one of the organisational bodies)

21. Is the participation of client (representatives) effective in the way that they have already influenced some decisions or provoked any changes?

☐ There are no client representatives present or they are more symbolic than really active
☐ Participation is very informal and did not led to significant influences and decisions
☐ Participation is more formal and led to significant influence and decisions)

22. What is the percentage of women among the client representatives?

☐ No women representatives
☐ Less than 40% of client representatives is female
☐ More than 40% of client representatives is female

23. Is there an effective system of rotation for participating clients and/or representatives?

☐ No
☐ Yes

[1] Environmental education can be very broad, for example it can include advice on damaging chemicals and pesticides used in agricultural activities or advice on energy consumption.

24. Is there a system of training for representatives and/or participating clients?
- ☐ No
- ☐ Yes, on an irregular basis
- ☐ Yes, on a regular basis

25. Have the clients (and/or client representatives) formed other organisations, lobby/pressure groups at community or higher level?
- ☐ No
- ☐ Yes

26. Has the organisation (through its operations) tried to strengthen the social capital of its clients (for example careful group formation, collective action, cooperation towards common goals, relationships with other programmes, facilitation of access to previously inaccessible services, etc.)?
- ☐ No
- ☐ Indirect, minor objective of organisation
- ☐ Direct, major objective of organisation

27. Have the organisation's operations sought to increase its clients' influence with local or national government (the organisation individually or through the participation in MFIs' networks)
- ☐ No
- ☐ Indirect, minor objective of organisation
- ☐ Direct, major objective of organisation

V. Social Performance Management -> Social responsibility of the organisation

28. Does the organisation's human resource policy have or provide the following aspects?

Choose from list	Salary table with salaries defined for each job description
Choose from list	Annual training plan for staff related to job descriptions
Choose from list	Health coverage for its staff
Choose from list	Safety regulations and rules related to the workplace

29. Does the organisation adapt job characteristics of loan officers (amount of borrowers per loan officer, number of field visits) to the following circumstances?

No	Yes	
☐	☐	Target groups of the organisation
☐	☐	Type of products of the organisation

30. Can the employees participate in decision making?
- ☐ No
- ☐ Yes, through dialogue and consultation between staff and directors
- ☐ Yes, through a consultative elected body or through participation in governance

31. How many employees have left the organisation during the last 12 months, as a percentage of average number of employees? (include voluntary departure, dismissal, end of contract, etc.)
- ☐ More than 15%
- ☐ Less than 15%
- ☐ Less than 5%

32. Does the organisation take care that its actions are compatible with the local culture and values (through surveys and studies, through discussions with local authorities, key resource persons from the community, etc.)
- ☐ Nothing is done to assure this
- ☐ Information was collected at the beginning
- ☐ Information is collected on a regular basis

33. Does the organisation work with local officers who speak the local language and know the local culture?
- ☐ No
- ☐ Less than 40% of loan officers come from local community
- ☐ 40%-80% of loan officers come from local community
- ☐ More than 80% of loan officers come from local community

34. Does the organisation propose specific measures (such as rescheduling of the loan) in case of natural disaster or political conflict?
- ☐ No
- ☐ Yes

35. Does the organisation provide some type of insurance that frees the families of its borrowers from the burden of debt in case of death of the borrower?
- ☐ No
- ☐ Yes

36. How often has the organisation assisted the local community through financial support (grants or loans) for community projects (school, hospital, church, mosque, temple, etc.)?
- ☐ Never
- ☐ On irregular basis
- ☐ On regular basis

37. Did the organisation ever conduct social impact studies?
- ☐ Never
- ☐ On irregular basis
- ☐ On regular basis

VI. Financial information

38. What is the OSS2 of the organisation per 30-9-2006?
    %

39. What is the FSS3 of the organisation per 30-9-2006?
    %

40. What kind of sources of funding does the organisation have?
- ☐ Donations
- ☐ Soft loans from development agencies
- ☐ Guarantees for commercial loans
- ☐ Commercial loans from commercial banks
- ☐ Shares
- ☐ Bonds
- ☐ Mobilised savings

THANK YOU VERY MUCH FOR YOUR COOPERATION

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[2] Cordaid uses the following formulas to calculate OSS and FSS

$$OSS = \frac{\text{Financial income}}{\text{Financial costs + Operating costs + Loan loss provision}}$$

Financial income:	income from interest and loan fees
Financial costs:	paid interest on debt or deposits
Operating costs:	expenses related to the management of the loan fund, for example salaries, administrative expenses, travel expenses, depreciation and other expenses
Loan loss provision:	the allowance made for expected defaults on the loan fund

[3] $$FSS = \frac{\text{Financial income}}{\text{Financial costs + Operating costs + Loan loss provision + Imputed cost of capital}}$$

Imputed cost of capital:	the cost of maintaining the value of the net worth of the organisation, the imputed CC captures the costs of inflation

Annex 3: Clarification of the questionnaire

This annex elaborates on the interpretation of the questionnaire, the intent and clarifies the valuation of the questions. The questionnaire is divided in 6 parts. The first part provided some general information. The second until the fifth parts focused on SPM of the MFI. The last part is related to the financial performance of the MFI. The explanation will be given part by part.

I General information

In the first part, the MFIs are asked to fill out some information concerning their year of establishment, nationality, number of borrowers, loan portfolio outstanding and legal status. This information is used to control influential differences during the analysis of the data.

II. Social Performance Management -> Depth of outreach

The second part consists of questions 1 to 6 of the questionnaire. These questions try to answer if the MFI tries to reach a population which is poor and/of socially excluded from the formal banking sector. In total 25 points can be earned with these 6 questions. The more points a MFI gets, the deeper the outreach of the MFI.

Question 1 tries to answer to what extent certain clients are reached. Four groups of clients are given. These are groups who are often poor and socially excluded. The possible answers in the drop box are 'never' (0 points), 'less than 30% of the total amount of loans' (1 point) or 'more than 30% of the total amount of loans' (2 points). A maximum of 8 points can be earned with question 1. Question 2 and 3 are focused on targeting tools to target the poor and socially excluded. First it is asked if the MFI uses targeting tools (0 or 1 point), second how many and which tools are used (maximum 7 points) and finally it will also be checked if the tools used are subjective (1 point) or objective (2 points). Questions 4 until 6 are focused on the accessibility of the MFI for the poor and the excluded. The average size of income generating loan and average size of income generating loan for first-time borrowers are calculated as percentage of the GDP per capita of the country. These percentages are divided in four groups. When the percentage of the average size of income generating loan is 'above 70%' 0 points are given. If the percentage lies 'between 50 and 70%' 2 points are given. Three points are given when it lies 'between 30 and 50%' and 4 points when the average size of an income generating loan is 'lower than 30%'. For question 5, about the average size of income generating loan for first time borrowers, all the percentages are 10% lower. Question 6 is focused on the minimum amount to open an individual savings account. This amount was also calculated as a percentage of GDP per capita. Zero points are earned when the percentage is 'higher than 1%' and 1 point is earned when the percentage is 'lower than 1%'.

III. Social Performance Management -> Adaptation of services and products

Questions 7 until 16 make up the third part of the questionnaire. These questions focus on the financial and non-financial products of the MFI and the adaptation of these products to the needs of the clients. A total of 25 points can be earned in part 3.

Question 7, 8 and 16 measured the diversity of loan products and non-financial products offered. Questions 10 and 11 measured if voluntary savings and insurance products are offered. Question 13 tried to analyze the satisfaction of the clients by asking the drop-out rate. The other questions focused on the adaptation of services and products. For example it was asked if market surveys and drop-out surveys were used to improve the products. For questions 7, 9, 10, 12, 13, 14 and 15 a maximum of 2 points can be earned for each question. The first possible answer in the questionnaire is 0 points, the second 1 point and the last 2. For question 8 a total of 6 points can be earned. For each loan product offered, except group loans, the MFI got a point. Group loans are not rewarded with a point because research shows that individual loans are preferred over group loans. If the answer to question 11 is 'yes', the MFI is rewarded with 1 point. For question 16 a maximum of 4 points can be earned (0 if 'no services are provided', 1 if '1 or 2 services are provided', 2 if '3 or 4 services are provided', 3 if '5 or 6 services are provided' and 4 if 'more than 6 services are provided').

IV. Social Performance Management -> Building social and political capital of clients

Part 4 consists of the questions 17 until 27 for which a maximum of 25 points can be earned. The questions focused on the social and political capital building of the clients of a MFI. This is measured by transparency, participation of clients and stimulation of social capital building of clients.

Transparency of a MFI is measured in questions 17 and 18. A maximum of 6 points can be earned with these two questions; 4 points for question 17 if written statements (2 points) and passbooks (another 2 points) of loan/savings transactions are provided to clients and 2 for question 18 if clients have access to the financial statements of the MFI. Questions 19 until 24 focused on client participation, a maximum of 14 points can be earned for these 6 questions. For questions 21, 22 and 24 a maximum of 2 points can be earned for each question (first possible answer is 0 points, second 1 point and last possible answer 2 points). For question 19 and 23 answering 'no' means 0 points and answering 'yes' means 1 point. For the six options in question 20 the MFI can choose in the drop box if 'participation is possible' or 'impossible'. For each possible option 1 point is earned. The last three questions 25, 26 and 27 are focused on social capital building. In total 5 points can be earned with these three questions. One point for answering 'yes' at question 25 and both 2 points for the last options for questions 26 and 27.

V. Social Performance Management -> Social responsibility of the organisation

Another maximum of 25 points can be earned in part 5 of the questionnaire. The questions 28 until 37 covered the social responsibility issues relevant for MFIs. Examples of these issues are the human research policy of an MFI, adaptation to local culture and philanthropy in local community.

For both options in question 29 1 point can be earned when the answer is *'yes'*. Also for questions 34 and 35 answering 'yes' implies 1 point. For the questions 30, 31, 32, 36 and 37 the first possible answer in the questionnaire is 0 points, the second 1 point and the last possible answer 2 points. The drop box of question 28 consisted of the following answers; 'no' (0 points), 'for less than 50% of the workforce' (1 point) and 'for the entire workforce' (2 points). A maximum of 8 points can be earned for this question. Question 33 has 4 possible answers; for the first answer no points are earned, for the second answer 1 point is earned, for the third answer 2 points and for the last answer 3 points are earned.

VI. Financial information

The last part of the questionnaire focuses on the financial performance of the MFI and the kind of funding it has access to. Financial performance is measured with both the OSS and FSS. Question 40 covered the kinds of funding. The MFI is asked to mark all the types to which it has access.

Annex 4 Normality test of variables

Variable Size

Statistics

Size		
N	Valid	67
	Missing	2
Mean		54735,72
Median		8275,00
Mode		3200[a]
Std. Deviation		154864,936
Skewness		3,884
Std. Error of Skewness		,293
Kurtosis		14,761
Std. Error of Kurtosis		,578
Minimum		27
Maximum		770367

a. Multiple modes exist. The smallest value is shown

Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Size	,392	67	,000	,372	67	,000

a. Lilliefors Significance Correction

Variable SPM1

Statistics

SPM 1		
N	Valid	69
	Missing	0
Mean		16,17
Median		17,00
Mode		19[a]
Std. Deviation		4,718
Skewness		-,585
Std. Error of Skewness		,289
Kurtosis		-,388
Std. Error of Kurtosis		,570
Minimum		4
Maximum		23

a. Multiple modes exist. The smallest value is shown

Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
SPM 1	,117	69	,021	,948	69	,006

a. Lilliefors Significance Correction

Variable SPM2

Statistics

SPM 2		
N	Valid	69
	Missing	0
Mean		14,62
Median		15,00
Mode		12[a]
Std. Deviation		4,443
Skewness		-,418
Std. Error of Skewness		,289
Kurtosis		,052
Std. Error of Kurtosis		,570
Minimum		3
Maximum		22

a. Multiple modes exist. The smallest value is shown

Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
SPM 2	,075	69	,200*	,969	69	,079

*. This is a lower bound of the true significance.

a. Lilliefors Significance Correction

Variable SPM3

Statistics

SPM 3		
N	Valid	69
	Missing	0
Mean		14,83
Median		16,00
Mode		18
Std. Deviation		6,264
Skewness		-,204
Std. Error of Skewness		,289
Kurtosis		-1,123
Std. Error of Kurtosis		,570
Minimum		2
Maximum		25

Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
SPM 3	,114	69	,026	,951	69	,009

a. Lilliefors Significance Correction

Variable SPM4

Statistics

SPM 4		
N	Valid	69
	Missing	0
Mean		18,28
Median		19,00
Mode		18[a]
Std. Deviation		3,124
Skewness		-,570
Std. Error of Skewness		,289
Kurtosis		-,056
Std. Error of Kurtosis		,570
Minimum		10
Maximum		25

a. Multiple modes exist. The smallest value is shown

Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
SPM 4	,146	69	,001	,958	69	,022

a. Lilliefors Significance Correction

Variable SPMTotal

Statistics

SPM Total		
N	Valid	69
	Missing	0
Mean		63,90
Median		62,00
Mode		61
Std. Deviation		12,016
Variance		144,387
Skewness		,055
Std. Error of Skewness		,289
Kurtosis		-,540
Std. Error of Kurtosis		,570
Minimum		38
Maximum		89

Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
SPM Total	,076	69	,200*	,981	69	,379

*. This is a lower bound of the true significance.

a. Lilliefors Significance Correction

Variable OSS

Statistics

OSS		
N	Valid	67
	Missing	2
Mean		108,5937
Median		107,0000
Mode		100,00[a]
Std. Deviation		37,00173
Variance		1369,128
Skewness		,795
Std. Error of Skewness		,293
Kurtosis		3,330
Std. Error of Kurtosis		,578
Minimum		30,00
Maximum		256,91

Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
OSS	,099	67	,100	,938	67	,002

a. Lilliefors Significance Correction

Variable FSS

Statistics

FSS		
N	Valid	68
	Missing	1
Mean		93,5503
Median		100,0000
Mode		100,00
Std. Deviation		29,04856
Skewness		-,391
Std. Error of Skewness		,291
Kurtosis		-,279
Std. Error of Kurtosis		,574
Minimum		28,00
Maximum		162,63

Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
FSS	,136	68	,003	,968	68	,076

a. Lilliefors Significance Correction

Cordaid

Cordaid is one of the leading development organisations in the Netherlands with an annual budget of around 170 million euros, of which non-grants financing amounts to around 15 million euros a year.

Cordaid is committed to serving the poor and those that are deprived of their rights from a perspective of economic and social justice.
We support the poor and their organisations, regardless of age, sex, race, religion or political conviction.
Cordaid strongly believes that everyone has the right to a decent human life free from the shackles of poverty.

Cordaid is a non-governmental organisation with a Catholic tradition. Our inspiration is based on Catholic Social Teaching. For Cordaid, every single person counts. Cordaid's vision on development cooperation envisages building on the poor people's own strength to improve their livelihoods. Non-grant financing is an integral part of Cordaid's approach and strategy to development financing.

Cordaid Loans and Guarantees

In 1996, Cordaid started its Loans and Guarantees activities on the basis of the knowledge that non-grant financing can be a powerful tool in support of programmes in developing countries that improve the economic perspectives of the poor. Specialised staff in Cordaid's sector Entrepreneurship evaluate financing proposals from organisations in developing countries that work with the vulnerable poor engaged in economic activities and offer financial services to these organisations.

Cordaid has approved a total of € 100 million in Loans and Guarantees, spread over 25 countries in the period 1996-2006. This portfolio is to a large extent financed by funds from the co-financing programme of the Government of the Netherlands.

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