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Proving the Double Bottom Line

An Analysis of the "Discourse of Social Performance in Microfinance" with a Focus on Private Foreign Investors

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Abstract (English)

In this paper I discuss the context and character of what is called “social performance in microfinance” by referencing discourse theories. I focus on the interest group of private foreign investors and examine in which way five organizations that define themselves as social investors - BlueOrchard, responsAbility, Oikocredit, Triodos and Triple Jump - influence the discourse of social performance. While fostering a trend towards commercialisation, they promise to reach a “double bottom line”, social benefits for poor people and financial profits for investors, at the same time.

My main findings give evidence that some of the leading private foreign investors contribute significantly to the distribution of industry information and shaping the public image of microfinance. Their participation in several initiatives is definitely not unselfish and they use international acknowledged social performance indicators for advertising efforts. However, given increasing stress of competition, their engagement helps to remind the various players in microfinance, not to lose sight of their social mandate.

Abstract (German)

In dieser Arbeit dikutiere ich das Thema „Soziale Leistung von Mikrofinanz“ unter Bezugnahme auf Diskurstheorien. Ich konzentriere mich auf die Interessengemeinschaft der privaten, ausländischen Investoren und untersuche, auf welche Weise fünf Organisationen, die sich selbst als soziale Investoren bezeichenen - BlueOrchard, responsAbility, Oikocredit, Triodos und Triple Jump - den Diskurs über die soziale Leistung von Mikrofinanz beeinflussen. Während sie den branchenweiten Trend in Richtung zunehmender Kommerzialisierung fördern, versprechen sie eine „double bottom line“, also einen doppelt positiven Effekt, sowohl für die Lebensbedingungen armer Menschen, als auch in Form finanzieller Profite für Investoren.

Meine Resultate belegen, dass einige der führenden privaten, ausländischen Investoren einen wesentlichen Beitrag zur Verbreitung von Fachwissen und der Gestaltung des öffentlichen Profils von Mikrofinanz leisten. Ihr Mitwirken an diversen Initiativen ist sicherlich nicht ganz uneigennützig und international anerkannte Sozial-Indikatoren werden für Werbemaßnahmen genutzt. Doch angesichts zunehmenden Wettbewerbsdrucks hilft ihr Engagement, die zahlreichen Mikrofinanz-Akteure daran zu erinnen, den sozialen Zweck ihres Handelns nicht aus den Augen zu verlieren.

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Abbreviations

ACCION	Americans for Community Cooperation in Other Nations
ADA	Appui au Développement Autonome
AECI	Agencia Española De Cooperación Internacional
AFMIN	African Microfinance Network
ANF	ASN-Novib Fund
APR	Annual Percentage Rate
ASCA	Accumulating Savings and Credit Associations
BRI	Bank Rakyat Indonesia
CDO	Collateralized Debt Obligations
CERISE	Comité d'Echanges de Réflexion et d'Information sur les Systèmes d'Epargne-crédit
CGAP	Consultative Group to Assist the Poor
DFI	Development Finance Institutions
DMCF	Dexia Micro-Credit Fund
EBRD	European Bank for Reconstruction and Development
ESG	Environmental, Social, Governance
Eurosif	European Sustainable Investment Forum
FMO	The Netherlands Finance Development Company
Hivos	Human Institute for Development Cooperation
IAMFI	International Association of Microfinance Investors
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
ILO	International Labour Organization
IPO	Initial Public Offering
KfW	Kreditanstalt für Wiederaufbau
M-CRIL	Micro Credit Rating International
MDG	Millennium Development Goals
MFI	Microfinance Institution
MFT	Microfinance Transparency
MIV	Microfinance Investment Vehicle
MIX	Microfinance Information eXchange
MSC	Microcredit Summit Campaign

NBFI	Non-Bank Financial Institution
NGO	Non-Governmental Organisation
NPO	Non-Profit Organisation
PAT	Poverty Assessment Tool
PIIF	Principles for Investors in Inclusive Finance
ROSCA	Rotating Savings and Credit Associations
PIIF	Principles for Investors in Inclusive Finance
PODEM	Fundación para Promoción y el Desarrollo de la Microempresa
PPI	Progress out of Poverty Index
rADER	responsAbility Development Effectiveness Rating
rAGMF	responsAbility Global Microfinance Fund
SPI	Social Performance Indicators
SPM	Social Performance Management
SPS	Social Performance Standards
SPTF	Social Performance Task Force
TJ SPA	Social Performance Assessment Questionnaire and Scoring Tool
UN	United Nations
UNPRI	United Nations Principles for Responsible Investment Initiative
USAID	United States Agency for International Development

1. Introduction

„Not having enough money is bad enough.
Not being able to manage whatever money you have is worse.
This is the hidden bind of poverty."
(Collins *et al.* 2009: 184)

Although overall global wealth has increased significantly in the past 50 years, its allocation is extremely unbalanced so that poverty is still widespread. The most complete data on poverty currently available indicates that in 2005 about 1.4 million people worldwide lived below the absolute poverty line, defined by the World Bank as $1.25 a day. That represented 26 percent of the developing world's population (Chen and Ravallion 2008). Many more living slightly above this statistical benchmark were still hampered by poverty-related problems in their daily lives. For decades, several initiatives for cooperative development cooperation have been launched to improve this situation but due to the problem's complexity the results fell short of expectations.

In 2000 the United Nations set 10 "Millennium Development Goals" (MDG) to reduce poverty verifiable until 2015, using criteria such as relative standards of income, education, health care and human rights, to name a few. The MDG 2010 progress report revealed the following sobering facts: the recent global economic and financial crises negatively impacted emerging economies and labour markets; malnutrition persists in many regions; education has improved considerably although girls are still disadvantaged. Furthermore, the MDG report found that increasing rural migration was forcing increasing numbers of people to live in urban slums (refer to UN 2010). While great effort will be necessary to achieve the MDG by 2015, one evolutionary, innovative financial concept that offers promise is microfinance.

What is microfinance? A frequently cited story begins with a visionary professor of economics at Chittagong University in Bangladesh, Dr. Muhammad Yunus. During a severe hunger crisis in the mid 1970s he extended a personal loan to several poor women who were ineligible for credit from conventional banks due to a lack of collateral. Consequently, Yunus learned that most of these women were dependent on local moneylenders to whom many of them were deeply indebted. Microcredits, also known as microloans, provided these women the seed capital to start up small businesses and create new sources of income. What Yunus began with his students as a small project gradually evolved into a bank for poor people, the Grameen Bank. The bank's business model was a great success and was instrumental in providing the blueprint for a relatively new industry: microfinance. In 2006, Muhammad Yunus and Grameen Bank were awarded Nobel Prizes for Peace in recognition of their important contribution to humankind.

Today microfinance comprises not only loans, but also other financial services, such as deposits, money transfers and insurances. The financial products' terms are adapted to the living conditions of poor people, and microfinance is now popular in many countries in various forms determined by the local socio-economic conditions. Grameen Bank alone serves over eight million borrowers (Grameen 2010). Yunus' project has been a best practice model for thousands of newly created institutions commonly known as Microfinance Institutions (MFIs), which manufacture and deliver microfinance products and services to the world's poor. In the field of development cooperation, microfinance has become a broadly recognised and promoted tool for reducing poverty and developing economic structures in peripheral regions.

Unlike donation-based development projects that depend on charity, MFIs are self-sustaining operations that rely on sound business practices to fund their activities. MFIs have proven to be successful not only socially but also in a cost-effective way, thus allowing them to overcome the financial obstacle of restricted donor funding. Currently, there is a huge, unsatisfied demand for financial products and services for the world's poor: Financial services are concentrated worldwide on wealthy people in high-income countries while in poor regions only a small percentage of the population has access to formal banks (CGAP and The World Bank 2010). However, as more commercial finance companies discover its business merits, microfinance is gradually becoming a relevant sector in the global finance industry.

Although MFIs' customer services are restricted to certain territorial areas, the operations required to deliver a microcredit may involve a diverse range of players from around the world. In many cases, MFIs must rely on foreign sources of capital as the working capital and banking services they require is unavailable to them in the local financial market. During the 1980s and 1990s donors and public investors supported the development of the microfinance industry through subventions and loans with favourable terms. More recently, as the basic infrastructure became established and the sector has shown stability and favourable returns on investment, an increasing number of private foreign investors have entered the industry (Reille *et al.* 2009;

MicroRate 2010). Most of these private microfinance investors are set up as specialised investment management companies. They channel money from wealthy individuals, foundations and institutional investors towards MFIs, using financial instruments called Microfinance Investment Vehicles (MIVs). MIVs attract financiers by offering attractive financial conditions and the social bonus of helping poor people. They call this dual outcome a “double bottom line” (see e.g. Triple Jump 2010). At the same time private foreign investors may influence changes to the character of microfinance. For example, they may have direct influence on the business strategies of MFIs, play an active role in the international microfinance arena, or act as a link between research institutions and MFIs.

With this trend towards increasing involvement of private capital, the global microfinance sector is currently undergoing a phase of fundamental change. A strong trend towards commercialisation is influencing the practice and the image of microfinance. Advocates and critics of commercialism are debating whether it is possible to reach a double bottom line, social benefits for poor people and financial profits for investors, at the same time. Or whether profit orientation is rather necessary for the advancement of the microfinance sector. Is there a trade-off between social and financial objectives or does social efficiency go hand in hand with good business practices? The disagreement on this issue leads to a need to evaluate the social performance of microfinance activities. As recent developments in microfinance have produced unprecedented challenges for the players involved, they strive to establish new reference points with which to appraise their business approach. Social performance measurement is intended to provide statistical evidence about the player’s social behaviour. The respective activities are summarized as “Social Performance Management” (SPM) which has become a keyword in discussions about this changing sector and various stakeholders contribute to what I call the “Discourse of Social Performance in Microfinance”.

The term “Social Performance” does not stand for a static, predefined concept. On the contrary, its meaning is modelled in the course of a dynamic process of ongoing, discursive debate. It was brought into existence by certain interest groups that follow similar strategies and aim to establish broadly recognised standards by creating special institutions, know-how and a certain public image. My thesis describes the context and character of what is called social performance in microfinance. By referencing discourse theories I address questions regarding the social construction - the origins, development and effects - of this discourse. Because of the complexity of this topic and the diverse array of players involved I found it prudent to focus on one interest group I believe is, and will continue to be, among the most powerful and influential player, the private foreign investors. My research examined the following two core questions: Which strategies do private foreign microfinance investors follow with regard to the discourse of social performance in microfinance? What influence might their participation have on the development of the entire microfinance sector given the trend towards increasing commercializing of the industry?

My investigation is divided into seven parts. Following this introduction, chapter two deals with the approach of discourse analysis in social science. While it is not possible to execute a comprehensive research program, which I will explain later, I use guidance of discourse analysis to look beyond a superficial description of social performance in microfinance. In chapter three I give an overview of microfinance and discuss important issues and developments in the sector, including a short presentation of various groups of players. In chapter four the focus is directed to one of the most influential of these groups, the private foreign investors. This involves an evaluation of their current standing and influence on the global microfinance sector. In chapter five I examine the discourse of social performance and sum up recent developments and different viewpoints, mainly on the basis of scientific sources and specialised institutions' publications. After this I go back to my focus group and analyse five specific private foreign investors in chapter six. I explain why I estimate these case studies as meaningful and assess their contribution to the discourse based on publications and interviews with representatives. Chapter seven concludes with a review of my findings and highlights meaningful aspects as answers the core research questions.

2. The research program

“Of course, discourses are composed of signs;
but what they do is more than use these signs to designate things”
Foucault (2007: 54)

Before addressing the issue of microfinance I will provide some background to socio-scientific discourse analysis. What do I expect from including perspectives of this approach into my research?

Soon after I became involved with microfinance I became aware of the tremendous expectations the public had for this sector. Microcredit was being hyped as the "magic bullet" for eliminating poverty by influential entertainment and political personalities and institutions such as the United Nations (UN). Consequently, the sector underwent rapid expansion within a short period of time. A major part of this success story can be attributed to the creation of this public image. However, the higher the expectations the more difficult is it to keep the positive image alive. Eventually, observers questioned the potential of microcredit to be the panacea for global poverty. The recent trend towards commercialism gives further credence to the critics as profits often collide with social interests. The participation of private foreign investors in social performance initiatives may be an attempt to perpetuate the positive image of microfinance by dressing commercialism in social wardrobe. This possibility leads to the question as to why people believe that microfinance is either good or bad. Socio-scientific discourse analysis investigates why certain phenomena are acknowledged as real within a society.

Although discourse analysis is sometimes classified as a method, more precisely it can be attributed to constitute a research program. There is no standardized set of methods which gives researchers a work schedule for analysing discourses. There is not one prominent mentor or school which defines how to exercise discourse analysis. Discourses are elusive and a researcher can only concentrate on some aspects from a certain perspective, so it does not make sense to determine a specific set of methods for the analysis. Several authors describe their methodologies for investigating specific topics. But first and foremost they present a research perspective. Following this perspective various socio-scientific methods can be adapted to the needs (Schwab-Trapp 2003: 169-170).

2.1. The discursive construction of knowledge

For my purposes I apply aspects from a research program defined by the sociologist Rainer Keller as “discourse analysis based on the sociology of knowledge”. Keller’s approach assumes that everything we know is produced through discourse. What we consider as knowledge is socially constructed, typed and legitimized. The aim of Keller’s research program is to investigate how these discourses are constructed through communication and social practices by the process of stabilising and transforming symbolic orders. Furthermore, he is interested in the effects discourse has on societies, such as on the establishment of laws, classifications, statistics or technical innovations. The analysis is meant to retrace processes and impacts of social construction, objectivation, communication and legitimization of knowledge on the level of social players. Social players receive special attention as they are considered to be the architects of discourses (Keller 2007: 57). Keller provides a theoretical framework as well as practical suggestions for carrying out the analysis.

In summary, Keller’s theoretical deliberations combine the sociology of knowledge presented by Peter L. Berger and Thomas Luckmann and discourse theories, initially developed by Michel Foucault. Sociologists Peter L. Berger and Thomas Luckmann (1997) define knowledge as everything which is accepted by society as knowledge. Thus, every medium of meaning which makes sense or which can be reasonably interpreted (for instance patterns of action and interpretation, norms and regulations, language, classifications, institutions, professions, feelings and perceptions) is knowledge. For them, reality is socially shaped in a continuous process of interactive objectivation, stabilization and acquisition of arrangements of knowledge. In this way every society collects a storehouse of knowledge which is complex, heterogeneous and inconsistent. This conglomeration is shaped by social structures, erratic allocation and differentiation. It is generated over time and presented to individuals as objective facts through intermediates like family, school or media. In the end nobody possesses the same knowledge nor does everybody have equal opportunity to contribute to the production, implementation and acquisition of knowledge. For every person certain fragments of societal knowledge are more important than others.

How is knowledge created in detail? According to Berger and Luckmann the acquisition of knowledge occurs in steps. The starting points are abstract symbols which become externalized in certain situations. Actions and interpretations related to these symbols then become solidified through reciprocal typification by various players. This process is repeated continuously and finally institutionalised, which gives the actions and interpretations the appearance of being objective. Institutions can be described as legitimized complexes of rules for action. They outlast short-term situations and apply certain instruments for control and sanction. Institutions stand for stability and objectivity especially when they deal with third parties who are not involved in their construction. Institutionalization is the final step for knowledge to become legitimized and objectivised. Thus, created reality is the basis for individual action in certain societies. It becomes implanted early on in childhood and is reinforced through secondary socialisation in specific social areas (Keller 2005: 41-43).

Keller uses this understanding of knowledge as a starting point and adds discourse theories, especially those formulated by Foucault. In contrast to linguistic traditions of discourse analysis, Foucault does not investigate the formal use of language but focuses instead on the construction of reality through the social act of communication. For him, speakers do not act solely according to their intention independent of their environment. Rather, they are guided by institutionally stabilized regulations and orders of certain discourses. Foucault tries to uncover regularities in the practical communication of discourses, structures as expression of power and knowledge, and the historical embedding of certain phenomena. Using a constructivist perspective Foucault asks for basic patterns of scientific classifications in specific historical periods. He investigates discourses as expressions of formations of knowledge and social practice (Keller 2005; Foucault 2007).

Foucault defines “discourse” as a number of statements which appear at different locations but follow the same regulatory guidelines and deal with a specific topic. The emergence of these statements is regulated by institutional and symbolic mechanisms which determine what people say and in which context. Rules of formation structure, which statements appear in a certain moment. Thus, discourses are not only the sum of symbols but, in fact, social practices which form objects in a systematic way. Foucault questions this systematisation. His proposal of discourse analysis asks for the conditions of a statement’s existence, for their borders, for correlations to other statements and for which alternatives are excluded (Keller 2007: 44-46).

The question of how a discourse is formed is linked to the power relations within a society. Foucault states that every society has its own “politics of truth”. Mechanism and instances decide on which statements are considered true and which are not. Foucault uses the term “dispositive” to name the set of activities which carry a certain discourse and implement consequences. For instance, dispositives can be laws, practices of communication or patterns of action (Keller 2007: 48-50). He furthermore points out that knowledge is not only a resource of power but also creates power (Keller 2005: 126).

2.2. Putting theory into research practice

Keller suggests merging Berger and Luckman's action oriented theory of knowledge with Foucault's more structural discourse theory. By this means he tries to sensitize for the procedural social construction on knowledge as well as for power relations defining which statements become legitimized (Keller 2003: 205). The following paragraphs explain core elements of Keller's theoretical foundation which is composed of the above mentioned inputs, then proceed to describe the practical guidelines for empirical research.

2.2.1. Discourse analysis based on the sociology of knowledge

Discourse analysis based on the sociology of knowledge deals with processes and practices of the production and circulation of knowledge within societies. It focuses on discourse as a specific field where these processes take place (Keller 2007: 58-59) and investigates the objectivity of orders and its construction through discursive communication. The aim is to reconstruct processes of social construction, circulation and mediation of patterns of action at the institutional level and among social players. Discourse is a structured practice which constitutes knowledge in a dynamic way. A discourse is continuously updated, reproduced and transformed by new statements. Keller's interest is in the stages of the process where knowledge is created, formed, developed and regulated and where consequences become effective as power relations. Construction of knowledge through discourse has several effects, one of those being that social players put discourses into dispositives or practices which gives them a more or less solid appearance. Thus, produced knowledge is the basis for the perception of certain phenomena and adequate reactions. Discourse not only appraises and legitimizes knowledge, it also produces know-how, for example instruments to deal with certain phenomena. Through this process it also encourages the emergence of new social players (Keller 2005: 181-232).

Neither Berger and Luckmann nor Foucault provide concrete suggestions for empirical research practice. Keller attempts to remedy this by suggesting the use of qualitative socio-scientific methods for discourse analysis and a need to look for structures of form and content. He poses several questions: Who is legitimized to give statements in a certain context? What can be said? Which resources are used to take part in the discussion? The underlying assumption is that discourse constitutes reality (Keller 2003: 206). Discourse can be retraced by referencing empirical data, the most important being text produced by social players. Given their theoretical qualities, statements should be investigated not as singular expressions, but within the context of their formative input as elements of discourse. The actions and speaking roles of social players should be conducted and evaluated not from a level of individual self-interest, but from the level of their position within the discourse process (Keller 2005: 181-188). It is the social players who produce the statements that transform discourses. They decide which statements are perceived as true and which are false by using symbolic methods. However, they also are influenced by the specific rules and resources of current discourse (Keller 2007: 62).

2.2.2. Hints for empirical research

Discourse analysis based on the sociology of knowledge may address the following questions:

- When does a certain discourse appear? When does it disappear?
- Where and in what way does a discourse emerge? What practices, resources, means and strategies are used to form a discourse?
- What terms and strategies are typical for a discourse?
- What rules of formations and which structures are effective?
- What incidents influence a discourse?
- How is a discourse implemented as a dispositive?
- What social players are active in the formation of a discourse? What resources do they use and what interests and strategies do they follow?
- Who carries a discourse? Who is the target group?
- What do the relationships between different discourses look like?
- What are the consequences of a discourse? What effects of power does it have?
- How can certain characteristics of a discourse be explained?
- What phenomena do the analysis of a discourse explain?

Discourse analysis does not necessarily look for the first sources of a discourse. More important is the context of space and time, the spreading, institutional regulation and the contribution of different players to the development of a discourse. It asks for resources of power like money, know-how, symbolic, social or cultural capital which influence the player's capacity to take part in the formation of a discourse and its consequences (Keller 2005: 257-258).

In a more detailed discussion of the practical research process, Keller explains that discourse analysis is always a form of hermeneutic interpretation of text. Hence, it is essential to disclose steps of interpretation. Statements about the issue of research always need to be supported and open to critical examination. The researcher needs to act systematically and self-reflexively. He must be aware of his own positioning within a discourse and continuously question the methods in use. It is never easy to draw a line, for instance when choosing the period under study or selecting the data, but these decisions must be made on the basis of justified criteria. A discourse analysis is meant to describe, understand and explain. First, a discourse should be reconstructed by investigating regularities, issues and players, then hypotheses should be presented explaining different aspects of the development of a discourse, the relationships involved, and the anticipated effects and consequences (Keller 2005: 265-269).

From the outset, the methodological procedure requires that a number of decisions be made. Firstly, the discourse areas - issues, institutional settings and players - must be selected. Secondly, the research question should be defined, although it can be modified in the course of the research process. Next, an adequate theoretical perspective as well as the methodological approach must be chosen. The fourth decision requires the selection of a data set that is compatible with the research topic. To familiarize oneself with the range of possible data, one can follow links between various data sources. Keller recommends using the grounded theory approach, that is, using a seemingly important document as a guide to locate other works which may have similar or very different points of view. Also, social players of the investigated discourse can be used as sources of information, however it is imperative to not take their opinions for granted and to always question their statements. A discourse can never be isolated from others and the deeper the researcher delves into a topic the more sub-discourses become visible. While the selection of meaningful data may be difficult, the selection process is of critical importance for ensuring the integrity of the project. Thus, data sets should be qualified and representative of a variety of positions on the research topic, but within a practical, manageable range. The ongoing research process necessitates continuous, ongoing modifications to the data set. One must recognize that while data sources provide information about the context of a discourse, they are also a component of it.

Following the selection process a method for analysing the data must be chosen. It is necessary to keep in mind certain expectations since it is possible to use the same data to obtain information, simultaneously, about both context and construction of a discourse, although the research perspective is different in each case. In any case, it is not only about summarizing the collected data but rather a systematic reflection. For detailed data analyses Keller proposes to follow approaches of qualitative socio-scientific research and Foucault's interpretative analytic. He distinguishes three components for analysing the structure of a discourse:

1. Statements shall be examined with regard to their formation in certain situations, which means questioning who produces statements, in which way, where and for whom. It is about the positioning and relations of speakers and recipients, formative institutional settings, actions as provocations for statements, societal context and power relations within a discursive area. Keller denotes the system behind this process as "patterns of interpretation". He does not ask for subjective intentions of a speaker but for typical social frames for the emergence of a statement. The situational context can be differentiated into historical, institutional and situative categories. Methods for interpreting statements in such a context are listed in a discourse-specific "repertoire of interpretation".
2. Statements need to be analysed in terms of linguistic and rhetorical structures, for instance which terms, categories, classifications, metaphors and arguments are used. Keller calls this the "story line" of a discourse.
3. Several data sets should be combined to describe a discursive area as one set never deals with a discourse exhaustively. In fact, one set may affect elements of various discourses so fragments must be identified step by step. The goal is to work out a matrix for classifying issues, functions and effects of a discourse which provides a basis for interpreting the findings.

Finally the empirical outcomes must be correlated to the question of research and incorporated into the current body of science (Keller 2007: 82-109; 2003: 208-212).

2.3. Application for analysing social performance in microfinance

Following this guidlines I carry out a discouse analysis of “social performance in microfinance” as followed:

Context

Specific content and the issue of investigation was discussed in the introduction chapter. This is already the result of comprehensive research about microfinance in general. To familiarize myself with the issue I relied on various sources, including introductory literature, press articles and websites of organisations involved, applying Keller’s recommendations for data gathering. I soon discovered there has been much discussion about the increasing involvement of private foreign investors and about social performance initiatives. Consequently, I redirected my investigations to related working papers of research facilities, publications of private foreign investors and took part in the Annual Meeting 2010 of the Social Performance Task Force (SPTF). There, I observed discussions about recent developments, learned the approaches of the players involved and conducted interviews with representatives of private foreign investors. These experiences convinced me that the question of investors’ strategies with regard to the discourse of social performance and potential effects on the industry are worthwhile topics for investigation. A detailed explanation of this conclusion will unfold throughout the following chapters.

Data and analysis

As a discourse can never be investigated exhaustively meaningful data sets must be selected. Some of the aforementioned sources used for determining context were also referenced for analysing the discourse of social performance in microfinance. My discourse analysis is limited to its focus on the interest group of private foreign investors. While this group includes a diverse array of companies and organisations it is concentrated on about a dozen prominent leaders, five of which I investigate in detail. To analyse their approach toward social performance I rely on publications (especially their homepages, annual reports and social performance reports) and interviews with representatives.

The information presented in the following chapter is confined to what I consider most pertinent to gain an understanding of the discourse. Discussions about social performance are as yet incomplete as they have only recently begun. Nevertheless, I include only data that was published as of January 2011. Analyses of the five case studies follow the approach of Meuser and Nagel (1991) for evaluating expert interviews: first I go through the contents of the publications as well as the interview transcripts and look for meaningful headlines to summarise comparable data. Then I tighten the information and form categories. Finally I screen these categories for statements which constitute important elements of the discourse.

Interpretation

I am aware that the selected data sets contain limited elements of the broad discourse about social performance in microfinance and that the data also touches other discourses. The challange is to identify those statements which are essential parts of the discourse of interest. Others must be excluded to maintain focus on the research subject. The conclusion will provide qualified answers to the questions: Which strategies do private foreign microfinance investors follow with regard to the discourse of social performance in microfinance? What influence might their participation have on the development of the entire microfinance sector given the trend towards increasing commercializing of the industry? To address these questions I extrapolated the findings from the case study analyses to the broader context of the discussion about social performance in microfinance.

3. Overview on microfinance

"Every now developed country has its own history of microfinance."
(Seibel 2003: 1)

Microfinance today comprises a very heterogeneous field. It is a globalized, fast developing sector that goes back to widely ramified historical roots, modified to meet specific local and social requirements and which involves many different players. The following overview of microfinance provides points of orientation by describing a number of key aspects. I focus on characteristics that will provide the reader with a basic understanding of microfinance function in preparation for further discussion.

I start with the question of why financial services are needed by poor people to manage their lives. Thereupon, I explain why they are generally excluded from formal banking systems and describe the alternative sources of financial services available to them. I then discuss the pros and cons of these alternatives and how their limitations lead to the emergence of microfinance. Following a review of important microfinance "ancestors", I present three initiatives – Grameen Bank, Banco Solidario and Bank Rakyat Indonesia (BRI) – that were important role models for the emergence of several thousand MFIs in recent years. I discuss key aspects of microfinance programs offered by today's practitioners today. Finally, I give a practical example of the processes and players involved in advancing a $200 microcredit to a woman.

The following statements about characteristics of microfinance are based on introductory literature, publications of research facilities and websites of important organizations. In the view of discourse analysis it draws a picture of reality which is commonly accepted by the public.

3.1. Managing little money

The World Bank's estimate of 1.4 million people living in absolute poverty, defined as earning less than $1.25 per day, only gives a rough idea of the global dimensions of poverty. One must keep in mind this $1.25 value represents a statistical average only. Closer observation of the day to day lives of people living in poverty reveals they not only have very little money but also very unsteady incomes. One day they earn more money, the next day less, the day after maybe nothing. For instance, day labourers never know whether they will get a job when they get up in the morning, street hawkers may be robbed and lose their whole stock, while farmers rely heavily on unpredictable weather patterns and earn money only in times of harvest. Members of poor households carry the full risks of volatile incomes. In addition, many of their jobs involve unhealthy and dangerous working conditions, complicated by the fact that poor people are unable to afford adequate insurance protection and medical treatment in the event sickness or injury. In any case, social safety nets and health care are virtually non-existent in most low-income nations.

A team of researchers from Princeton University (Collins *et al.* 2009) accompanied 250 poor households in India, Bangladesh and South Africa in the course of one year and observed how they manage their daily lives in the face of extreme financial constraints. The financial diaries of these households provide the following insights:

Although poor households earn very little money and have to spend most of it on basics, first and foremost to buy food, they do not immediately use up their total funds. There is a strong need to save and lend money to manage risks and to afford bigger expenditures for housing, education, medical treatment, social events and other essentials. The households observed spent a lot of time and energy on financial management. The annual cash turnover of their financial transactions reached up to 500 percent of the household's income. They saved, borrowed and loaned at the same time, using various informal instruments because, in general, they did not have access to established banking infrastructures (Collins *et al.* 2009: 1-16). As one of the persons interviewed stated: „I don't really like having to deal with other people over money, but if you're poor, there's no alternative. We have to do it to survive" (Collins *et al.* 2009: 13).

3.1.1. Formal banking services

How do poor people manage their financial needs? Let us first look at the formal banking system which is a fundamental pillar of well-functioning economic systems. As licensed entities with certain legally defined competences, banks administer 96 percent of all registered deposits worldwide (the number of registered deposits is the indicator giving the most comprehensive data on access to financial services). The Consultative Group to Assist the Poor (CGAP), an independent policy and research centre dedicated to advancing financial access for the world's poor, estimates that in sum there are about as many registered bank accounts as people living worldwide. However, the distribution is very unbalanced: In high-income countries people typically have several bank accounts, whereas the majority of people living in developing countries are excluded from the formal banking systems. For instance, in sub-Sahara Africa only about 12 percent of the population is able to use formal banking services; in South Asia 22 percent; and in Latin America 40 percent (CGAP 2010: 4-8). Even within these poorly covered areas, formal banking is concentrated on rich people living in urban centres (CGAP and The World Bank 2009: 12-13).

The main reason for this disparity is that commercial private banks are generally not interested in providing their services to poor people. To compete, they focus on those business areas which promise the best returns on investment. Providing services to the poor is considered too laborious for two reasons: First, the potential clients only deal with small amounts of money which results in high transaction costs; and second, risk assessment is difficult because poor people can neither provide a stable income and collateral for loans nor credit histories (see e.g. MIX 2010). Alternatives to private banks can be state-owned institutions which serve poor people through social programs. Some have built good infrastructures on a regional or national level and have the potential to effectively provide financial services to low-income households. However, in the past most state owned banks have been managed inefficiently. Consequently, they relied on subsidies and very few reached their outreach and social impact objectives (Mukherjee 1997).

3.1.2. Informal providers of financial services

As discussed previously, poor people have a strong need to carefully manage the little money they have. Without access to conventional financial institutions they must rely on various informal ways to manage money. Unofficial observations show that modes of informal financial management are similar in different regions of the world. The most common sources of financial services for the poor are family members, friends or business partners. Borrowing from relatives and friends is often reciprocal and/or obligatory. Members of a social network with a temporary surplus of funds lend to others in need and borrow later, perhaps from the previous borrower, when their own situation deteriorates. Additionally, anyone who has been successful in improving his or her financial position is morally obliged to help others. Normally the deals are not recorded and no interest is charged, but social costs, obligations and shame can be influential factors in these transactions (Collins *et al.* 2009: 47-53).

Another source of loans to the poor are the so called “moneylenders”. Historical accounts report that moneylending had already become an organized profession in India 1,700 to 2,200 years ago (Seibel 2005). Moneylenders possess financial resources which they use to provide loans. They know the local market well and maintain personal relationships with their customers through lending procedures that are quick, easy and flexible. In agricultural areas it is common for traders, processors or input suppliers to act as moneylenders. Moneylenders are often accused of charging exorbitant interest rates and of otherwise exploiting their clients (Helms 2006: 37-38). Informal methods also exist for saving money. It is dangerous to store money at home as theft is widespread in poor areas. Furthermore, saving money requires tremendous self-discipline, especially for those who have very little to begin with. To overcome these potential obstacles, many households use “money guarding” services whereby they entrust their savings to another person for safe-keeping (Collins *et al.* 2009: 47-53). Deposit collectors offer this service similar to moneylenders in an informal but professional way in exchange for fee and do not pay any interest on deposits like it is usual on formal banking accounts (Helms 2006: 37-38).

In summary, these individual modes of informal money management are often the most comfortable, if not the only, options available to poor households. Close personal relationships provide incentive for honouring the debt and allow flexibility in difficult situations. However, these instruments have three main disadvantages:

1. Informal financial services are unreliable. There may be no money available when it is needed simply because no member of a person’s social network has any surplus funds on hand at the time. In addition, promises may be broken, emergencies can make arrangements impossible to execute, money may be lost due to criminality, etc.

2. A second disadvantage is lack of anonymity. Because of the close personal relationships involved, knowledge of a person's financial weakness may get out into the community. This can result in social ostracization of the individual with its predictable consequences for that person - a loss of dignity and self-respect.
3. Thirdly, no transparency about the terms of the "contract". Cheating and exorbitant, obscure costs are unavoidable in many cases (Collins *et al.* 2009: 54-58; Helms 2006: 39-40).

Another informal mode of financial management involving more people in a more equitable arrangement is commonly referred to as a "savings club". The basic idea of savings clubs is that a number of persons contribute a small amount of money at regular intervals. Social relations within the group help reinforce the discipline to save. One person is in charge of depositing the money at a banking account or other secure location. At a certain date everyone gets their contributions back to use at their discretion. Members are not permitted to withdraw their funds before the specified date to prevent them from squandering their money on unnecessary expenses (Collins *et al.* 2009: 114-115). Like most people, the poor are not immune to temptations to buy goods that promise instant gratification, such as alcohol, but which can be counterproductive, if not destructive, in the long run.

Savings clubs come in different forms, such as "rotating savings and credit associations" (ROSCA) or "accumulating savings and credit associations" (ASCA). In the case of ROSCAs individual contributions are pooled in a common fund. One by one, each group member gets the use of the total fund to meet their individual needs for a specific period of time. The procedure is repeated until every member has had the exclusive use of the funds for the specified time period. As no money needs to be stored in one location since it is always in circulation risk of loss or theft is minimized (Armendáriz de Aghion and Morduch 2005: 57-60). ASCAs are similar, the main difference being that more than one group member gets the use of the whole fund. Instead the common pot is used to give loans to a number of persons. They must repay the money and some interest on an agreed schedule. This gives members flexibility in making use of a loan and the ASCA's capital grows over time (Collins *et al.* 2009: 117).

These collective modes are inexpensive to operate, easy to manage, transparent and flexible because members decide on the rules themselves. However, they do have inherent risks, one of which is that too much flexibility can undermine the repayment moral. Another disadvantage is that savings clubs lose their frameworks as soon as one member defaults on his contribution or cheats on the others. In these cases the whole system can easily collapse. Perhaps the biggest disadvantage of savings clubs is the limitation imposed on the amount of money they can accumulate due to the limited size and limited financial means of the memberships (Collins *et al.* 2009: 118-138). Nevertheless, savings clubs are a success story considering their long history dating back to the 15th century in regions of Western Africa and South-East Asia (Sütterlin 2007: 39-40). As I point out in the following section, the core principles of savings clubs can be retrieved in the early stages as well as in the current practice of today's microfinance sector.

3.2. Building inclusive financial systems

Economic relations are monetized throughout most of the world. Wealthy countries rely on a formal banking system which offers the majority of the population efficient and safe ways to manage their money. In the absence of comparable structures in low-income countries, the majority of their population must rely on available informal modes of financial management. While important for their daily lives, they have several shortcomings. The origins of formal banking systems provides important tips for improving services to the world's poor. The following short historical review shows that important pillars of today's banking system in Europe started as initiatives which resembled present-day microfinance programs. Indeed, they have a long tradition of providing best practice models for subsequent activities and discussions about issues like joint liability and appropriate interest rates.

3.2.1. Roots of microfinance

Perhaps one of the first successful initiatives for offering formal financial services to the poor on a wide-scale was the Irish "loan fund" system. It was started in 1720 and aimed to give loans to people living in penury. Initially, wealthy persons provided capital for interest free loans which were administrated by independent institutions. Repayment was enforced by the historically approved method of peer monitoring within credit groups. The system worked to some extent for a century, but growth was limited. However, with modification of various principles, including the introduction of interest on loans and deposits and establishment of a Loan Fund Board in 1836 to regulate and supervise the fledgling sector, loan funds experienced a phase of extensive growth (Seibel 2003).

In 1840 about 300 institutions providing loans and deposits were operating throughout the country. They worked on a sound capital basis, administration was efficient and the credit groups which included a high participation of women were reliable in repaying the loans. Ironically, the model's success led to its demise. As funding was attracted on the capital markets by offering high interest rates to investors, the loan fund system increasingly became a serious competitor for established banks. The latter used their political influence to induce the government to cap interest rates in 1843. Consequently, loan funds lost their main competitive advantage and suffered from insufficient funding. In addition, severe famines led to high defaults and in the end most of the institutions went bankrupt (Sütterlin 2007: 40-41).

> "This history of the Irish Loan Funds thus comprises three phases: a century of gradual growth as informal institutions; a few decades of rapid expansion as formal institutions in a conducive regulatory environment; and a century of decline due to financial repression" (Seibel 2003).

The Irish loan funds lost their practical importance but not their exemplary function. In Germany similar systems offering financial services to the poor arose in the 19th century and established the foundation from which developed an inclusive banking system in Western Europe. Inspired by the Irish model, the first credit institution called "Sparkasse" was established in Hamburg in 1778. The initial aim was to build reserves for illness and old age (Sütterlin 2007: 41-43). After regulation was introduced in 1838 the movement spread and services were expanded to provide loans to rural areas.

Around the same time, but independently, two other initiatives were started: credit cooperatives for peasants, introduced by Friedrich Wilhelm Raiffeisen; and Hermann Schulze-Delitzsch's „Volksbanken", urban savings and credit cooperatives targeting manufacturers. Delitzsch did not use any substitution from the beginning and Raiffeisen also soon realized that support from the wealthy hinders long term sustainability, and consequently shifted away from charity. After several decades of slow growth the "Cooperative Act of the German Reich" of 1889 gave the cooperatives a legal framework and the Raiffeisenbanken, Volksbanken and Sparkassen started to push moneylenders and most private banks out of business.

Investigating this development in detail, Seibel (2003) identifies the following factors for their success:

- self-help and self-reliance, based on savings provided by depositors or shareholder
- local outreach with lasting house-banking relationships
- the evolution of a legal framework
- abandoning joint and several liability of cooperative members in favour of limited liability
- effective delegated supervision through own apexes, so-called auditing federations

The German movement of cooperative banks is a perfect example of how banking on the level of poor households can foster economic progress, albeit, only in combination with other positive macro-economic developments. Even within Western Europe different countries have taken different paths in building up banking systems, suggesting that there is no single best practice model. In fact, replication of the German model has failed in many low-income countries. For example, the Indian government tried to replicate the Raiffeisen banking model in 1892 and enacted the "Co-operative Credit Societies Act" in 1904. However, the state was not able to establish an appropriate administrative structure so that bureaucracy, immoderate government intervention and loan channeling to certain groups or individuals undermined self-management and self-reliance (Seibel 2005).

Following World War II the reconstruction of war-damaged Western Europe demonstrated the importance of financial infrastructure to emerging economies. The German state-owned bank „Kreditanstalt für Wiederaufbau" (KfW) played a decisive role in channeling aid capital provided by the European Recovery Program for productive purposes, a role model that was replicated by many low-income countries (Sütterlin 2007: 44). These countries attempted to develop their agricultural sectors by introducing large agricultural banks to provide subsidies to farmers. Inexpensive loans were meant to encourage farmers to invest in irrigation, fertilizer, new crop varieties and technologies to increase productivity. But in most cases the models failed mainly because of inadequate regulation of interest rates. Often, inflation was higher than borrowing rates and deposit interest was too low to attract savings. In many cases credit was allocated on the basis of political favouritism rather than according to productivity of recipients. In addition, government banks often became instruments of financial repression by powerful persons. Finally, incentives to save and disincentives to default on loan payments were omitted from these models (Armendáriz de Aghion and Morduch 2005: 8-10).

This brief historical review shows there have been several past attempts to offer financial services to the poor. German cooperative banks are still very successful although the socio-economic context has changed and the income level of their customers has improved. However, many attempts to establish formal banking systems in low-income countries have failed. Only since the 1980s have three organizations – Grameen Bank, Banco Sol and BRI – established themselves as successful leaders in and models for today's microfinance sector. Several key elements for their success reflect the lessons learned from the Irish loan fund system and the German cooperative movement.

3.2.2. Role models of today's microfinance sector

The three MFIs most often considered to be role models for the global microfinance sector emerged around the same time, but independently, in different parts of the world. Their practical approach for offering microfinance services is similar but their organizational structures differ. Grameen Bank in Bangladesh, headed by its charismatic leader Dr. Muhammad Yunus, was set up as a social business. It follows a non-profit approach and is owned predominantly by its clients. Banco Solidario in Bolivia started as a NGO but was converted into a commercial private bank in 1992. In contrast, Bank Rakyat Indonesia is a state owned bank which underwent important reforms in 1984. The following discussion explores possible origins of MFIs.

Grameen Bank, Bangladesh

In the context of independence from Pakistan, widespread flooding and a severe famine in the mid-1970s, Dr. Muhammad Yunus, a professor of economics at Chittagong University, began a series of experiments of lending to poor households. The borrowers repaid reliably and Yunus eventually convinced the central bank of Bangladesh to support the establishment of a special branch in the village of Jobra. Soon the model was expanded to other regions and group lending as a central mechanism for loan security became a substitute for collateral, which is virtually non-existent in poor populations. Donor support by the International Fund for Agriculture and Development, the Ford Foundation and various governments enabled a rapid growth of the bank (Armendáriz de Aghion and Morduch 2005:11-12).

By the end of the 1990s Grameen Bank faced some major crises. Certain business practices proved to be unfavourable while at the same time disastrous flooding destroyed the businesses of many clients. Within a short period of time rates of repayment dropped from 98 percent to 75 percent. In response, a new model, “Grameen II”, was introduced incorporating two major reforms: First, the lending terms were amended to offer creditors not only one-year loans with weekly repayments but also contract periods ranging from three months up to three years. Also, outstanding loan balances could now be topped up to the full value of a new loan in the event of liquidity problems while the client and loan officer negotiated a new repayment schedule, thereby loosening the joint liability. Second, Grameen II introduced deposit services following the model of its competitor ASA. This brought an important new product to its customers and an efficient source of funding. By the end of 2004 the loan portfolio was completely covered by savings of Grameen members (Collins *et al.* 2009: 154-162).

As of October 2010, Grameen Bank had 2,565 branches, serving 8.33 million borrowers, of whom 97 percent were women. The borrowers own 95 percent of the bank’s equity with the remaining 5 percent owned by the government. It had a loan recovery rate of 97 percent and deposits amounted to 150 percent of outstanding loans of $922.34 million. Deposit rates are attractive, ranging from 8.5 percent to 12 percent, while the loan interest rate of 22 percent is relatively low (unless otherwise indicated, all credit interest rates are stated per annum on a declining basis). In addition, Grameen Bank offers less expensive microcredits for income generating purposes (20 percent), for housing (8 percent), for students (5 percent) and interest free loans for beggars (Grameen 2010).

BancoSol, Bolivia

In Latin America the American development organization ACCION (Americans for Community Cooperation in Other Nations) started a microcredit program in Recife/Brazil in 1973. The initiative was successful and eventually expanded to 14 countries on the continent. In 1986 ACCION supported a group of entrepreneurs in Bolivia to found a NGO called “Fundación para Promoción y el Desarrollo de la Microempresa” (PODEM). Initially based on donor funding, PODEM was able to serve 45.000 microcredit clients within the first five years (Sütterlin 2007: 47-48). Small working capital loans were provided to groups of three or more people dedicated to similar activities. The group members had to guarantee for their obligations jointly. Because of the initiative’s success and a huge unsatisfied demand for its services, in

1992 the NGO was converted into the first commercial bank to specialize in microfinance and re-named Banco Solidario S.A., or BancoSol. Today, 18 years later, BancoSol has more than 100 branches in eight large cities, currently offering loans to 130,000 clients and deposits to over 260,000 customers. Women comprise 46 percent of the customer base and 40 percent of the total loan portfolio (BancoSol 2010).

Bank Rakyat Indonesia (BRI)

BRI was founded as a small association in 1895 during Dutch colonialism. After 50 years of slow but steady growth and several organizational changes, it became owned and regulated by the independent state of Indonesia after World War II (BRI 2010). In the early 1970s the government used the infrastructure of 3,600 local branches to provide inexpensive, subsidized microcredits to farmers to promote agricultural development. However, with a repayment rate around 50 percent, in 1984 BRI was reformed. Attractive deposit interest rates were introduced to attract investors while loan rates were raised to 44 percent to cover costs. Loan repayment incentives were implemented and local authorities were integrated into the program. Consequently, the recovery rate improved to 95 percent (Sütterlin 2007: 49).

Today BRI is the leading bank for rural microcredits in Indonesia and with $19.4 billion assets, is the largest institution offering microfinance services worldwide, in addition to its retail-, corporate- and investment-banking operations. It is based on a strong franchise, stable and low-cost funding base, reasonable asset quality and a conservative provisioning policy (Fitch 2008: 11). Since 2003 BRI has been publicly listed, with the public controlling 43 percent of its shares (BRI 2010).

3.3. Frequent points of discussion

So far some aspects of how microfinance services are delivered to end clients were already mentioned. Recall that every MFI has its own mode of operation which is adapted to its unique local, social and economic conditions. While a detailed discussion of this heterogeneity is well beyond the scope of this thesis, in this chapter I point out some basic attributes which are frequent topics of discussion. Although my main research is focused on the global level of foreign investments it is important to keep these various aspects of MFI practices in mind, in order to follow the development of social performance management.

3.3.1. Microcredits for the poorest of the poor?

Microfinance clients are often described as poor people, predominantly women, who are excluded from the formal banking sector. Lacking collateral they are considered by commercial banks to be poor credit risks. Small loans help them to start small businesses such as shopkeeping, sewing or stock breeding to create new sources of income (see e.g. MSC 2009).

In fact, microfinance clients are a diverse group of people living at various levels of poverty. Studies show that only a small percentage fit the defining criterion for “absolute poor”, which is living on less than $1.25 a day (see e.g. Ghalib 2010; PPI 2010). Supporting very poor and destitute people with microfinance services may only be reasonable in combination with other initiatives like education or health care programs and may require ongoing subsidies. Thus, various development organizations have integrated microfinance programs into their projects (see e.g. World Vision 2010; Care 2010). Most MFI clients already have a source of income and may use microcredits to expand their business or diversify into a second one. However, not all of them are entrepreneurs so microcredits may also be used to buy consumer products, improve housing, bridge periods of low income or to pay down other debt (Collins *et al.* 2009: 164-167).

About two thirds of MFI clients worldwide are women and some MFI’s cater exclusively to women (CGAP 2010). Practitioners cite women’s higher vulnerability to poverty and their more socially responsible behaviour as reasons for this gender bias. In addition to increasing their income, microfinance is promoted as a tool for empowering women and strengthening their social positioning (see e.g. Grameen 2010). However, critics claim the gender preference is because women are more susceptible to social pressure than men, making it easier for lenders to induce them to repay their loans. Furthermore, they suggest that while women are seen as reliable borrowers, in fact their husbands compel them to pass on the money to them so that, ultimately, it’s the men who use the money while the women assume responsibility for repaying the loans (Onyuma and Shem 2005). On the topic of empowerment one must understand that microcredits can also add more working pressure on women, the family situation may become heavily influenced and changing gender roles can lead to severe conflicts (see e.g. Mayoux 2007; Dabringer 2007). Thus, while microfinance has the potential to improve many aspects of women’s lives, it can also have negative effects which must be anticipated and avoided.

3.3.2. Why are poor people reliable debtors?

MFIs face two major constraints for managing the risk of defaults: First, they know little about their clients' incomes and repayment behaviours, and second, their clients have little, if any, property which can be used as collateral. Nevertheless, historically MFI loan repayment rates have been very high and many outperform conventional banks in this category. Grameen Bank for example can rely on the experience that 97% of its borrowers repay their loans reliably (Grameen 2010). How can this be explained?

Traditionally, most MFIs used to work with credit groups as did the early Grameen Bank and the Latin-American forerunners ACCION and Finca. The latter developed the method of village banking. In contrast to Yunus's model based on small solidarity groups of about 5 persons, village banking organizes whole communities to process loans to individuals and encourage collective socio-economic development on a local level (Finca 2010). Today there are various group lending models around the world. What they have in common is a foundation built on personal relationships and social pressure. Group members support each other by sharing advice and motivating one another to maintain discipline. They may also influence repayment by threats of social exclusion, or disqualify in advance those they consider unlikely to meet their obligations (see e.g. Marr 2004; Hermes and Lensink 2007). Although the functionality of credit groups has been emphasized in the past, negative effects from too much social pressure led many MFIs to adopt other incentives for repayment. Several studies (see e.g. Armendáriz de Aghion and Morduch 2005; Jain and Moore 2003) indicate that the model of credit group may not be crucial for achieving a high repayment rate.

Perhaps the biggest incentive for clients to repay is the prospect of qualifying for an even larger loan after the initial loan has been repaid. Microcredits have relatively short credit periods of about six to twelve months so that entrepreneurs can only use them to improve their business in increments. Also, if clients use the loan to smooth consumption, for instance to pay school fees in the beginning of the school year, they may want this support in the next year. Thus, clients often stay with the same MFI for several years through multiple loan cycles. This requires MFIs to ensure they have enough working capital to disburse subsequent credits when their clients are performing well, to avoid losing both the client's trust and future business. In certain cases, to reduce their risk MFIs may ask the borrower for a third party guarantor, or assign property such as business or household assets as collateral (Dellien *et al.* 2005).

3.3.3. Exploitation by high interest rates?

What is an adequate interest rate for microcredits? MFIs need to cover their costs and earn some surplus to fund improvements to their operations. However, relative to credits, expenditures are high. Adjusted for inflation MFIs generally charge between 10 percent and 35 percent per annum interest on loans. What makes microcredits so expensive to maintain are the high transaction costs (Collins *et al.* 2009: 133). These include wages for loan officers to make regular visits to clients, often in remote locations; travel expenses and the inherent risk of transporting money; and, the expenditures of time and energy invested in teaching clients how to manage their finances. As a rule of thumb, the poorer the clients and the worst the pre-existing infrastructure, the higher the transaction costs. Table 1 shows a breakdown of Indian microloan interest rates by component and loan value. The comparison of two loan amounts, 2,000 and 20,000 Rupees (about 30 and 300 Euro) shows that operating costs, which are fixed and independent of the loan amount, represent a much higher interest rate for the smaller loan.

Table 1: Cost Components of Lending

Component	Rs. 2,000 Loan	Rs. 20,000 Loan
Financial Costs	10 percent	10 percent
Loan Loss	2 percent	2 percent
Operating Costs	25 percent	7 percent
Profit	3 percent	3 percent
Total Price	**40 percent**	**21 percent**

Source: MicroFinance Transparency (2011)

Can poor customers afford the interest rates necessary to cover these costs? To reduce interest rates would require some form of subsidy, such as donor funding. Although many leading MFIs benefited from donations in the past, they learned that subsidies made them dependent on donors and constrained their range of activities. However, micro-credit clients have shown they are able and willing to pay interest rates that allow MFIs to operate independent, financially sustainable organizations. While the relationships between costs to the client, MFI services and MFI profits determine interest rates, studies indicate that profit-orientation is not a predominant driver of interest rates and unreasonable lending practices are an exception within the microfinance industry (Rosenberg *et al.* 2009).

3.3.4. Not only loans?

Muhammad Yunus gained broad public attention with his concept of microcredits, but by the 1990s MFIs began to realize there was a need for other financial products besides microloans. Increasing sophistication of the sector drove innovation and the implementation of more flexible loan products, money transfer services, deposits and insurances adapted to the needs of the poor. To encompass this plurality the term “microfinance” came into use (Helms 2006: 4).

Flexible loan products

In order to keep transaction costs as low as possible MFIs only offer a limited range of products. Conventional loans have the advantage of greater efficiencies due to their repetitive, routine administration procedures that require only limited skills from staff. Monitoring conventional loans is much easier as managers can focus on key indicators like fixed repayment rates and contract periods (Jain and Moore 2003: 12-13). Increasing competition between microfinance providers and the target groups' requirements for loans to meet their specific needs has motivated more progressive MFIs to expand their range of loan products. These MFIs tailor their loans to fit the project to be funded, whether it be an agricultural investment, housing, school fees or special projects like supplying drinking water or outfitting biogas plants (see e.g. KADET 2010; PRASAC 2010). As flexibility is a crucial factor for poor people managing their household income this development also strengthens the MFI's competitiveness with informal moneylenders.

Deposits

Although there are many more savers than borrowers in the world (CGAP and The World Bank 2009) the importance of savings to the poor has been largely neglected until recently. One reason may be that in most countries only licensed financial institutions are allowed to offer deposit services, which excludes MFIs structured as NGOs. In addition, setup costs and administration are prohibitive and many institutions are not aware of the benefits of savings (Helms 2006: 24). But deposits are of value not only to clients, but also to MFIs as a source of funding.

Money transfer

In poor regions it is common for family members to leave their homes to look for sources of income in urban centres or foreign countries and send money back to their relatives. Traditionally, the funds are transported back home in cash either by the income earner or by a trusted third party, practices which can be expensive and risky. MFIs may use their infrastructure and modern techniques (for example banking via mobile phones) to process money transfers quickly and easily thus mitigating risks, reducing costs and delivering a more regular, stable income to relatives at home (see e.g. Tameer Micro Finance Bank 2010).

Insurances

Injuries, sickness, death of family members and loss of income or property are frequent shocks that can have devastating effects on poor households. In most low-income countries there are no public safety nets. Studies reveal that in many countries less than six percent of the population has health insurance. Informal methods of pooling risk and sharing costs among a number of people are popular but tend to be insufficient (Collins *et al.* 2009: 66-70). Currently, micro-insurance is not wide-spread but many MFIs are working aggressively to develop this service. To meet the needs of the poor, micro-insurance must be adequate to cover the risks, easy to understand and affordable. Many MFIs already offer insurance protection against death of the debtor and loss of property. This insurance not only protects the clients' households against unexpected events, but also secures the loan repayment for the MFI. More difficult to underwrite are agricultural insurance, due to the myriad of unpredictable variables involved, and health insurance which requires a complex administration process. Some argue that insurance services should not be commercialized, but instead, should be offered by the state (Helms 2006: 25-29).

3.4. Different actors commited to microfinance

After discussing important aspects of the daily practice of microfinance at the client level, I conclude this chapter by identifying the main players that comprise the global microfinance sector. While there are many more players involved I limit my discussion to the most influential ones, which are important for my further research.

3.4.1. Microfinance Institutions (MFI)

A MFI is characterized by the target group of poor people that it serves. The term stands for a heterogeneous group of institutions which include, non-governmental organizations (NGOs), cooperatives, non-bank financial institutions (NBFI) as well as state-owned or private banks (CGAP 2005). While MFIs generally pursue similar mandates to reduce poverty in a socially and economicly sustainable way, their approaches may differ.

NGOs and cooperatives tend to emphasize social benefits for poor people. They try to reach the most under-supplied customers living in urban slums or remote rural areas. Typically, these organizations are officially listed but are not regulated and therefore not allowed to deliver financial services other than microcredits. Many are subsidized by donors who enable them to charge reduced interest rates or to offer additional services like education programs. However, they may lack the financial strength necessary to reach a broad customer base and to improvise new techniques for improving efficiency. On average, to cover their administrative costs these organizations require a loan interest rate of about 25 percent (inflation-adjusted). Although most NGOs and cooperatives follow a not-for-profit approach, Cull *et al.* (2008: 11-15) emphasize this does not mean they don't generate enough income to cover costs and earn a surplus. What distinguishes them from commercial players is that they don't distribute profits to investors or shareholders. For NGOs their reputation is crucial. „For microfinance to continue expanding on these terms, institutions will need to maintain access to a stream of subsidized funds – and that will depend on the ability to prove the institution's social worth relative to other social interventions" (Cull *et* al 2008: 12).

Most MFIs start as NGOs, then evolve into licensed institutions as they expand. NBFIs represent an organizational model with more competencies than NGOs (e.g. they are allowed to administer deposits) but less entitlements and supervision than banks. However, there are also established commercial banks that expand their client base by targeting relatively poor people with microfinance services, in addition to their traditional products. Compared to NGOs and cooperatives, banks tend to serve customers mainly in urban areas with a smaller proportion of women as clients. Furthermore, they disburse larger loans on average, preferably on an individual basis secured by collateral, which suggests their microcredit customers are better-off. As their costs for screening, monitoring and processing loans are lower banks, despite their profit orientation, charge only about 13 percent interest (Cull *et* al 2008: 13-22). Banks' well-developed infrastructures permit them to offer not only loans but various microfinance services. They are also leading in the implementation of technical innovations such as mobile banking (see e.g. Equity Bank 2010).

It is difficult to estimate the total number of active MFIs worldwide as many of them are not registered, nor is this statistic officially recorded in any international database. The largest global data collection is done by Microfinance Information Exchange (MIX). This business information provider reported that, as of year-end 2010, about 2,000 MFIs were reporting financial and social performance data on a voluntary basis (MIX 2010). This represents roughly 20% of the estimated 10,000 or more MFIs operating worldwide.

To improve microfinance services MFIs often join forces either within a country or that span national borders. These networks facilitate information and resource exchanges between MFIs, such as ongoing training programs, industry events, latest research and tools, legal and regulatory changes, etc. (see e.g. the African Microfinance Network AFMIN 2010). Additionally, they provide a more influential collective voice for microfinance providers to advocate policy issues (Helms 2006: 69-72).

3.4.2. Governments

The role of governments in microfinance is a controversial topic. Helms explains:

> "An emerging consensus holds that governments do have an important role to play in ensuring favourable policy environments within which microfinance can flourish. A good policy environment allows a range of financial service providers to coexist and compete to offer higher-quality and lower-cost services to large numbers of poor clients" (Helms 2006: 75).

Well-informed governments can help to improve the financial system through favourable policies in areas like banking regulation or supervision. They can provide infrastructure, such as credit bureaus, which help simplify the administration of loans and prevent over-indebtedness of customers. They can also enact legislation to protect borrowers who may otherwise be at the mercy of lenders. Unfortunately, most countries have yet to implement these safeguards (CGAP and The World Bank 2009: 30).

Furthermore, many government welfare programs like Bolsa Família in Brazil include microfinance components (MDS 2010). BRI demonstrates that state-owned banks have the potential to deliver microfinance services efficiently. However, many others have failed because of bad governance, political patronage and weak incentives for borrowers to repay. Government credit programs are often limited to certain sectors (e.g. agriculture) or geographical regions and do not necessarily reach the most dynamic markets. Often, they do not even serve the intended target group due to corrupt misappropriation of the resources. While subsidies allow more favourable terms for clients, absence of penalties for default undermines the borrowers' discipline to fulfil their obligations. Publicly-funded, state-owned banks also have competitive advantages over their private MFI counterparts which can be used to drive the latter out of business (Helms 2006: 76-79).

Next to competitive situations there are many opportunities for public-private partnerships to cooperatively advance the development of a nation's microfinance sector. The Columbian program, Banca de las Oportunidades, is one example. Through close cooperation between the Colombian government and several private MFIs, the extension of financial services to the country's poor, especially those in remote areas, has been advanced significantly within only a few years. Banca de las Oportunidades improves the financial infrastructure, initiates financial education and sets other policies to lower expenses for private microfinance suppliers which, in exchange, deliver services to the end clients (Banca de las Oportunidades 2010).

3.4.3. Funders

A well-developed, inclusive financial system should provide the bulk of funding for microfinance on the domestic market from public savings, loans from commercial banks, bond issues and the domestic stock market (Helms 2006: 93). In practice, foreign funding sources still play an important role. International support helps to establish and strengthen microfinance infrastructure.

Donors

International Institutions, for instance the World Bank, the International Labour Organization (ILO) and the European Commission, as well as private companies and foundations like Deutsche Bank, the Ford Foundation and the Bill and Melinda Gates Foundation support governmental microfinance programs, private MFIs and various global initiatives as donors (see e.g. the sponsors of the Microcredit Summit Campaign MSC 2010). They sponsor or deliver policy support, technical assistance, grants and give favourable loans, equity investments and guarantees. CGAP (2005) reports that at least until the year 2004, donations of about $500,000 to one billion per year have been the main source of international support for the microfinance sector. Meanwhile, foreign investors surpassed this amount and are actually leading sources of foreign loans, equity investments and guarantees. As commercial providers cannot keep up with the high demand for these services, which are both costly and risky to administer, there will be an ongoing need for donors, especially in the areas of research and development of new technologies, extension of financial infrastructure, increased transparency and improving know-how on all levels (Helms 2006: 95-99).

Development Finance Institutions (DFI)

In the early days of microfinance, funding was provided almost exclusively by donors. By the late 1990s bilateral and multilateral organizations had begun to offer quasi-commercial loans, equity investments and guarantees. In doing so, they introduced commercialization to the sector. Their mandates were to strengthen the microfinance infrastructure and introduce benefits to attract private investors. Their quasi-commercial status allows some degree of latitude for these organizations to offer more favourable terms and to invest in less developed areas with their inherent higher risks. Investments in this group grew rapidly, reaching $2.5 billion by the end of 2006. In 2008, there were 19 DFIs investing primarily in MFIs but also through private Microfinance Investment Vehicles (MIV), governments and networks. They are highly concentrated with five DFIs (KfW, EBRD, IFC, AECI, FMO) representing 72 percent of the total sum of public foreign investments. However, while DFIs are meant to be precursors to private commercial investments, the relationship between the two camps can become tense. For example, they may come into competition, especially when DFIs withdraw too slowly from already mature markets and undermine commercial competition with more attractive terms (Reille and Forster 2008).

Private foreign investors

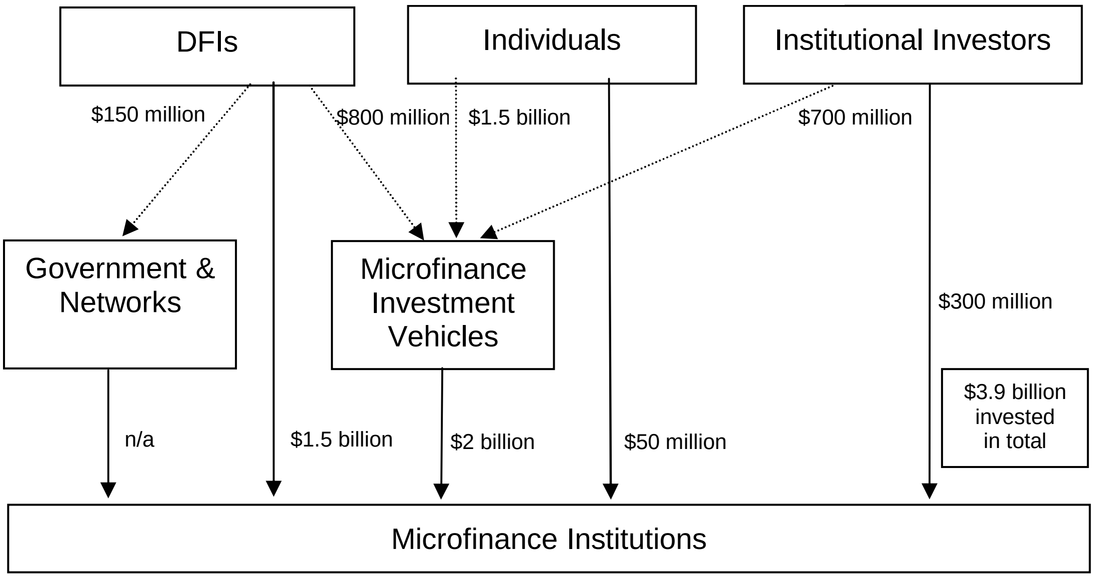
As MFIs matured throughout the 1990s and proved to be well-managed, sustainable entities with reliable performance histories , private investors began to invest in the industry. An exception is the Dutch cooperative society, Oikocredit, founded in 1975 to manage reserves of members of The World Council of Churches in a social responsible way and already financing MFIs in the 1980s. Otherwise, the first international commercial bank involved was Deutsche Bank which began investing in microfinance in 1998. Soon, other global investment banks followed and introduced new microfinance funds in cooperation with specialized investment companies. Thus, Credit Suisse started the “Global Microfinance Fund” in association with responsAbility; Morgan Stanley partnered with BlueOrchard launched the “Loans for Development I and II” funds. These hybrid organizations promote investment products with a “double bottom line”: a solid financial return plus the social return from contributing to a worthwhile cause (see e.g. BlueOrchard 2010). In addition to providing new sources of capital, the engagement of commercial banks also introduces mainstream financial tools to MFIs, such as currency hedging (Reille and Forster 2008).

Capital raised by these investors is delivered to MFIs in the form of debt obligations, equity investments or guarantees, mostly through a range of so called “Microfinance Investment Vehicles” (MIV). These financial instruments are defined by CGPA as follows:

> “An MIV is an independent investment entity specialized in microfinance with at least 50 percent of its portfolio invested in microfinance. It intermediates capital from private and public investors to microfinance providers operating in emerging markets and/or to other MIVs” (CGAP 2009: 4).

MIVs have gained importance in recent years, managing about half of all foreign microfinance investments as of 2008. They are backed by individual investors, foundations, DFIs and, increasingly, by institutional investors such as international banks, insurance companies and pension funds. The investment enterprises which manage MIVs are predominantly private companies, but also non-profit organizations, cooperative societies and other financial organizations (Reille and Forster 2008). I dedicate chapter four to a detailed discussion of this group. In chapter six I present in depth case studies of BlueOrchard, responsAbility, Oikocredit, Triodos Bank and Triple Jump. Below, figure 1 shows a summary of the various foreign sources of microfinance funding, the majority of which become pooled in MIVs.

Figur 1: Foreign Investment Microfinance Landscape



Source: CGAP (2006)

Domestic funding market

For domestic funding, MFIs may utilize debt and equity investments from local commercial banks, deposit proceeds from their own clients, or both. In general, to ensure compliance with legal and regulatory procedures, these avenues for accessing capital are available only to registered institutions. An important advantage of domestic funding over foreign funding is the absence of currency exchange risk with its inherent hedging costs. As microfinance clients also benefit from deposit services, the whole domestic financial sector is strengthened by funding through domestic sources. Regardless, many MFIs prefer foreign funding sources as they offer better terms and conditions than commercial domestic banks and deposit taking requires additional knowledge (Helms 2006: 104-105). Generally, domestic banks investing in microfinance are more commercially orientated (CGAP 2005: 4)

Another potential source of domestic funding may be an Initial Public Offering (IPO). Recently, some of the biggest microfinance banks issued IPOs, tapping into a new source of funding for their operations. In 2007 the Mexican Banco Compartamos received much public attention when its valuation reached 13 times book value. Commercially oriented players felt encouraged by this high demand while critics pointed out the risk of creating a speculative bubble (Reille and Forster 2008). Eventually, headlines reported that Compartamos Banco had been charging interest rates on its microloans sometimes in excess of 100 percent (see e.g. Epstein and Smith 2007).

3.4.4. Research facilities, consultants, platforms

The tremendous development of the microfinance sector in recent years would certainly not have been possible without the support and accompanying services of research facilities, consultants and platforms on different levels. Those discussed in the following paragraph are only a handful of many different organizations within this group. The selection shall provide a general overview of the wide variety of players that comprise this group.

Perhaps the most recognised research centre dedicated to microfinance is CGAP. It is housed at the World Bank and supported by over 30 development agencies and foundations. Next to providing market intelligence, CGAP develops new tools, promotes standards and offers advisory services (CGAP 2010). The World Bank itself, or to be more precise, the group's members IBRD (International Bank for Reconstruction and Development) and IDA (International Development Association) are also directly support the microfinance sector by offering policy advice and financial support to governments (Worldbank 2010). In Europe, the non-profit organization ADA (Appui au développement autonome) based in Luxembourg has been an active promoter of microfinance for over 15 years. ADA works on research, the development of new financial products and on building partnerships (ADA 2010). One initiative launched by ADA with the support of others is The Rating Initiative. Its aim is to foster the development of independent ratings for MFIs which makes the involvement of investors, donors and other microfinance stakeholders easier. Financial ratings are important for providing relevant information as a basis for investment decisions. In addition, the initiative also promotes social ratings which assess the MFI's social performance (The Rating Initiative 2010). Various other initiatives correlated with social performance tools will be presented in chapter 5. The first of these will be the international platform SPTF, which brings together over 850 members working on social performance issues. Of course, there are several other forums and associations which pool with different organizations, for example The European Microfinance Platform or IAMFI (International Association of Microfinance Investors). The latter helps commercially oriented microfinance investors fulfill their financial and social goals by offering market intelligence and educational and networking events (IAMFI 2010). In addition to non-profit institutions there are also specialized companies like Symbiotics, which combine research and advisory services with brokerage and asset management services (Symbiotics 2010).

4. Focus group: Private foreign investors

"Some people see a logical progression from donors supporting microfinance in its infancy, to social investors helping it to become financially viable, before more commercial investors replace them to propel the industry further forward to bigger and better things – at a profit. We disagree."
(Van Golstein Brouwers/Triodos Investment Management 2003: 2)

Essential characteristics of microfinance were presented in the previous chapter. I now turn to the group of players I chose to investigate in greater detail - private foreign investors. My primary questions are: What strategies do private foreign microfinance investors follow with regard to the discourse of social performance in microfinance, and what influence might their contribution have on the development of the microfinance sector in the context of increasing commercialization? In this chapter I give my reasons for selecting this group as the focus of my discussion. I describe them in more detail, explaining their activities, significant developments in recent years, the current allocation of investments and their standing in relation to other sources of funding. I conclude with evidence to support my opinion of this group as being a key factor in the context of the increasing commercialization of microfinance. Other goals in this chapter are to prepare a basis for questioning the role of this group in the discussion about social performance (chapter 5), and to establish the context for analyzing five case studies in chapter 6. The data sources for this chapter are primarily specialized publications of research facilities.

4.1. Investing in microfinance

In a Focus Note of August 2005, CGAP called attention to the rapid growth of foreign microfinance investments. These totalled $1.2 billionUS of foreign investments by mid 2004. The majority was administered by DFIs, but already $460 million was being channeled via private MIVs to 500 MFIs. The Dexia Microcredit Fund, managed by BlueOrchard, was considered a flagship for a number of rising specialized financial instruments (CGAP 2005). Over the next two years, from 2004 to 2006, MIV investments tripled and CGAP's specialists were most appreciative:

„This new investment stream is good news for microfinance providers. Microfinance needs a broader capital market to secure the funding required to scale-up outreach and serve a greater number of financially excluded, low-income people" (Reille and Forster 2008)

As of December 2009, CGAP counted 91 active MIVs. Together they managed $6.2 billion assets out of an estimated $12 billion of total foreign investments in microfinance. MIVs growth rates were impressive: 86 percent in 2007, 34 percent in 2008 and 25 percent in 2009 during the years of global financial crisis (Glisovic and Reille 2010). Compared to the 20 percent sell-off experienced on average by emerging market funds in 2008, this was very good performance, indeed (Reille *et al.* 2009). An examination of the various MIV funding sources shows that 42 percent of the capital is provided by institutional investors, foundations and NGOs, 34 percent comes from individuals, 21 percent from public investors and three percent from other MIVs (Reille and Glisovic-Mezieres, 2009). The preferred regions for private foreign investments were Latin America and the Caribbean (37 percent of MIVs investments in 2008) as well as Eastern Europe and Central Asia (35 percent). The remaining 28 percent went to Southern Asia (nine percent), East Asia and the Pacific (seven percent), Sub-Saharan Africa (six percent) and others. This concentration was due to better infrastructures and less volatile markets in the preferred regions, although Southern Asia, East Asia and Sub-Saharan Africa all experienced rapid growth in 2009 (MicroRate 2010).

4.1.1. Investment environment

Although foreign microfinance investments are growing rapidly, a total volume of $12 billion is dwarfed by the global market for socially responsible investment with assets of $4 trillion. Reille and Forster (2008) believe the recent investment boom does not signal the entrance of mainstream commercial, profit-driven investors to the microfinance sector. They argue that there is still much potential to attract investors who are primarily socially motivated and willing to accept relatively low returns on investment. Despite limited profits, investing in MFIs can offer favourable financial attributes. Joan Trant, Executive Director of the International Association of Microfinance Investors (IAMFI), describes the microfinance sector as a challenging market for commercial investors:

"From the investors' perspective, the industry suffers from a dearth of information, a low level of transparency, a lack of accepted guidelines and standards, and an absence of many investor services common in more established asset classes such as uniform credit

> ratings, credit bureaus, debt default tracking, objective equity valuations, exit strategies, a secondary market for liquidity, and fund manager rankings. Local legal, regulatory and fiscal environments can give rise to daunting hurdles. Furthermore, the vast majority of commercial MFIs have their roots in nonprofits that transformed to regulated entities, and ownership, governance and management capacity often raise concerns" (Trant 2010).

On the other hand, Trant suggests that from a business perspective the high market demand for investments and promising prospects regarding the future development of the microfinance sector are great incentives to accept these challenges. As business partners MFIs offer additional potential benefits: loyal client bases; low default rates; high interest rates can be justified to cover operational costs; and, high solvency rates due to short loan periods. Debt and equity offerings by MFIs, while growing, are limited to only a few in the sector due to valuation difficulties and lack of exit strategies. In addition, opposing views on governance between founders with a strong social mandate and profit-oriented new shareholders may cause internal conflicts. But again the excellent asset quality of MFIs and high net interest returns can make equity investing in microfinance attractive. The possibility of long-term funding provided by developmental investors is an additional bonus (Trant 2010).

According to the rating agency Fitch Ratings (2008), experience has demonstrated that microfinance can be a commercially-viable, financially-sustainable enterprise as MFIs are characterized by good asset quality and low rates of delinquency and default. The sector has also demonstrated a resilience to external macroeconomic shocks, and MFIs also tend to recover more quickly from economic downturns than traditional banks. This can be explained by the fact that an MFI's asset base is domestic and relatively independent of international macroeconomic events. Of the funds they may receive from international sources, much comes from donors or aid agencies which, in contrast to commercial investors, stay invested with the MFIs throughout times of financial crisis thereby reducing systemic risk. More threatening are events that influence the repayment capabilities of microcredit lenders, but even here the impacts of external shocks are seldom an issue as MFI client businesses generally serve local markets, usually operate in the informal sector and are not dependent on imports. In fact, increasing costs for imported products may actually benefit MFI clients as the local consumer chooses to buy more affordable domestic products and services. Furthermore, micro businesses typically have few assets, short lead production times and high turnovers of stock, and they often employ family members and friends, all of which make them very flexible in adjusting to changing economic conditions. It is these very features of micro businesses that makes ongoing access to MFI loans essential to maintaining their operations, thus creating the incentive for borrowers to establish and sustain a clean repayment record. However, despite borrowers' best efforts increases in default rates may result from rising prices (especially food prices) which burden the budgets of microfinance customers, domestic events that increase unemployment, foreign remittances and local currency devaluations (Fitch 2008: 12-14). Recent developments from the global financial crisis 2008/2009 show the microfinance sector, while not immune to the effects, is relatively stable during macroeconomic downturns. Growth rates slowed mainly because of local consequences of the financial crisis.

4.1.2. Categorization of Microfinance Investment Vehicles (MIV)

Given this challenging environment it is understandable why few international companies have ventured into the microfinance market until now. Over half of all private microfinance investors' assets (about 59 percent) are managed by the ten largest specialized investment enterprises. Although this value has decreased from 78 percent in 2005, the industry is still highly concentrated within a few key players. The investment company BlueOrchard alone manages several MIVs with assets totalling more than $1 billion. Its competitor responsAbility has $0.8 billion under management (MicroRate 2010).

MIVs can be categorized in several ways. CGAP (Reille and Forster 2008) proposes one differentiation into six groups, suggesting several approaches:

1. Registered mutual funds: the biggest group, targeting mainly individual investors by offering close to money market returns (around 3 percent p.a. in Euros). They invest primarily in senior debt of MFIs in the most mature markets and must follow strict disclosure regulations. Examples are the responsAbility Global Microfinance Fund and Triodos Fair Share Fund.
2. Commercial fixed-income investment funds: similar to the first group but with a higher share of institutional investors, larger investments, relatively low operating cost ratios and without regulation and supervision by capital market authorities. The average net return in Euros is 4.8 percent. One example is Triodos-Doen.
3. Structured finance vehicles: one of the newest forms of financing in microfinance. They pool and repackage loan assets as marketable securities and provide MFIs larger loans and longer maturities. One example is BlueOrchard Microfinance Securities-1.

4. Blended-value funds: these funds are most heavily mission-driven, serving smaller MFIs also in more difficult regions like Sub-Saharan Africa. Investors - primarily individuals, foundations and NGOs - only receive below market returns of about 1.5 percent. One example is Hivos-Triodos Fund.
5. Holding companies of microfinance banks: they finance equity and technical assistance to start-up MFIs, often acting as an investment arm of DFIs. One example is Opportunity Transformation Investments.
6. Private equity funds: equity firms and venture capital companies comprise this fast growing group by offering equity investments to high-growth MFIs in emerging markets, especially in Asia. One example is ACCION Investments in Microfinance.

Some funds, like Oikocredit, do not fit into any of these categories. There are two major forms of foreign investment in MFIs: debt, where funds are loaned to MFIs in exchange for an interest return, and equity, where the investor buys shares of the institutions. Depending on the share class, equity investors may have voting rights and gain control of a seat on the board of directors. A third form is guaranteeship where the investor provides a guarantee of loan repayment to the lending institution in the event of a borrower’s default (CGAP 2005). By yearend 2009 debt far exceeded the other investment categories, accounting for 81.6 percent of all MIV investments. Equity was a distant second at 17.6 percent followed by guarantees at 0.5 percent and other forms at 0.3 percent. Including all categories, over 3,000 investments in MFIs averaging $1.4 million each were processed in 2009. The average equity investment was considerably higher at $2.3 Million (MicroRate 2010).

4.1.3. Recent developments and prospects

How did the microfinance sector develop in recent years from an investor’s point of view? In reaction to the financial crisis DFIs increased their investments to prevent a credit squeeze. Two new funds of $250 million and $100 million were introduced in 2008 (Reille *et al.* 2009). However, while institutional investors such as pension funds did not increase their investments, they at least maintained their positions and a feared flight of investment capital did not occur. In contrast, investment enterprises were successful in attracting additional capital from retail investors and recorded high growth rates. For example, ResponsAbility’s Global Microfinance Fund grew 96 percent in 2008 and, in December 2008, was the fifth largest MIV with $378 million assets under management (Reille and Glisovic-Mezieres 2009).

In 2009 the supply of MIV assets grew faster than the demand from preferred partner MFIs, as the latter decelerated expansion in response to the overall economic decline. The result was a significant increase in portfolio cash holdings with no productive place to go. This put MIVs under pressure as a certain amount of liquidity is necessary for bridging timing differences between transactions, whereas too much liquidity reduces the return on portfolio investment (MicroRate 2010). Also, for the first time a few MIVs were forced to take significant write-offs. The combined effect was an average two percent decline in MIV fixed-income returns. While these events dampened investor expectations somewhat, relative to other financial sectors microfinance continues to deliver dependable, attractive investment returns in times of crisis (Glisovic and Reille 2010)

For 2010 and 2011, MIV asset managers expect similar returns to those in 2009, although they expect increasing competition among MIVs will put pressure on management fees. Many are redirecting their focus from fundraising to risk management and investment diversification and some are moving up-market, from microfinance to small- and medium-sized enterprises. Promising emerging markets for microfinance investments are Brazil, China and Nigeria (Glisovic and Reille 2010). However, the rapid growth rate of private foreign investments is limited by the slower rate of development to bring new MFIs to maturity. To become a registered institution in order to gain access to a broader selection of investment capital requires improvements in administrative and operational capacity. Thus, back office upgrades, more sophisticated risk management processes, more experienced, specialized staff and strengthening of management structures will be necessary (Fitch 2008: 14-15). One positive effect of the recent financial crisis for the microfinance sector is that it served as a selection process for weeding out those MFIs that did not have a viable, sustainable business model.

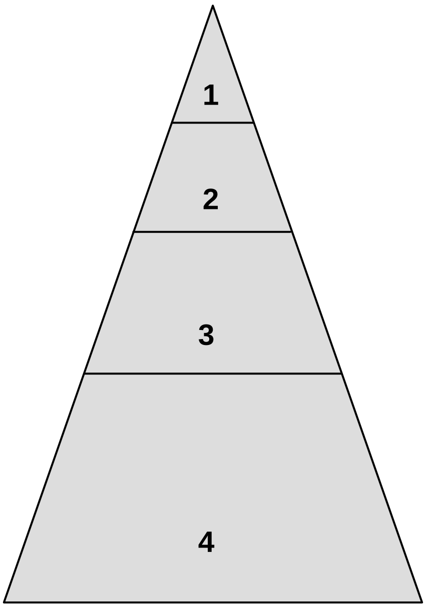
4.2. Impacts on MFIs

Why is funding from private sources important for MFIs? Because the ratios of microcredit recipients to people in poverty remain quite low, even in many relatively well developed microfinance markets, clearly indicating the need to reach out to more clients. For example, by mid 2007, in Bangladesh 35 out of 100 persons living in poverty were microcredit clients, in Vietnam the rate was 25 percent and in Peru only 13 percent (Fitch 2008). The capacity for millions of private investors from around the globe to allocate large amounts of capital to MFIs makes them a valuable and reliable source for funding the growth of MFI portfolios.

4.2.1. Growth and transformation

MFIs can be divided into four tiers on the basis of their attractiveness to foreign investors (see figure 2). The top tier comprises about 150 institutions representing less than 2 percent of all MFIs worldwide. These MFIs are mature, mostly regulated companies with a track record of profitability over several years (Fitch 2008). The majority of MIVs focus on this top tier. On average, MIVs allocate 40 percent of their capital to only five major MFIs, giving these top tier MFIs a strong bargaining position with investors from which they can negotiate higher loans with longer terms of up to 8 years. While much shorter than DFI loan terms of up to 15 years they are still much longer than local investors will offer. On the other hand large MFIs already have debt-to-equity ratios of seven to one on average which limits further borrowing and necessitates a buildup of equity capital. In fact, in some markets the supply of debt already exceeds the demand. This situation also affects smaller tier two and tier three MFIs. These less established operations are increasingly targeted by MIVs offering debt financing to an oversaturated market, when equity investment combined with technical assistance would better serve the MFIs (Reille and Foster 2008).

Figure 2: The MFI Pyramid



Tier 1
- Max. 2% of total MFI universe by number
- Often referred to as “top-tier”, estimated to number 150
- Track record of profitability over several years
- Mature, and mostly regulated
- Access to commercial funding from domestic and international sources

Tier 2
- Max. 8% of total MFI universe by number
- At or near profitability
- Younger, smaller and typically unregulated NGOs
- Access to international funding sources from specialised microfinance funds, typically non-deposit taking, limited sources of domestic funding

Tier 3
- 20% of total MFI universe by number
- Approaching profitability
- Typically young, small and unregulated NGOs
- Dependent on grants and donations

Tier 4
- 70% of total MFI universe by number
- Not profitable
- Start-up, small and unregulated NGOs
- Funded by grants and donations only

Source: Fitch (2008)

Joint ventures between private investors and MFIs often coincide with the transformation from a not-for-profit NGO or cooperative to a registered, profit-driven institution. This introduces the potential for “mission drift”, where social goals become secondary to profits. Shareholder interests may pressure MFIs to neglect their mandates to serve and assist the poor (Trant 2010). Muhammad Yunus expressed his opinion on profit-oriented MFIs as follows: “Commercialization has been a terrible wrong turn for microfinance, and it indicates a worrying “mission drift” in the motivation of those lending to the poor. Poverty should be eradicated, not seen as a money-making opportunity” (Yunus 2011). Ultimately, the investors’ priorities will determine the nature and policy of the MFI, so to avoid mission drift it will be crucial for MFIs to partner with like-minded investors interested in delivering social returns, even at the (potential) cost of lower financial returns.

Transforming to a registered institution introduces several practical changes to the day-to- day operations of MFIs. Product lines may be expanded to include new client services, such as deposit accounts; the institution becomes more complex presenting challenges to staff and management who must adapt to new regulations, goals and operational procedures; and, the MFI may become too bureaucratic and lose the close relationship with its client base. The process of transformation from unregulated MFI to a regulated NBFI or bank is costly and requires expertise which must be provided by third parties through grants and technical support. Business opportunities for private investors are dependent on development agencies that provide this backing (Fitch 2008).

4.2.2. Ownership structures

In 2005 CGAP predicted low demands for equity investments as only a limited number of MFIs that met criteria regarding legal status, size and profitability were considered worthwhile partners for MIVs and eligible for equity investments. CGAP pundits believed that future regulated MFIs would focus increasingly on deposit taking and local investors as capital sources (CGAP 2005). Initially, due to their perceived risk, only investors with a strong social mandate used equity investments. Today, equity investments have increased in popularity as attractive MFI growth rates, limited competition and high market potential entice commercial investors (Reille and Forster 2008). By the end of 2008, 13 private equity funds had invested $257 million in MFIs. Because of their short track record - 3.5 years on average - the return on investment was still uncertain (CGAP 2009). However, in 2009 equity investments increased by 46 percent compared to 15 percent growth of debt investments. Glisovic and Reille welcomed the positive trend in equity investments: “[...] such investments are needed to strengthen the equity base of distressed MFIs, as well as to propel MFIs in high-growth markets such as India” (Glisovic and Reille 2010).

An ADA discussion paper (2009) investigates the ownership structure of 39 regulated MFIs at the end of 2002 and 2007. It shows that foreign equity in these MFIs increased by 336 percent over five years, more than double the growth of local equity funding. Generally, when foreign investors buy shares, they either acquire an insignificant proportion (0 percent – 20 percent of an MFI’s total equity) or acquire controlling interest through the purchase of 80 percent to 100 percent of the shares. Currently, the numbers of MFIs under foreign control are limited but increasing. The highest proportion of foreign equity investments (about 50 percent) comes from commercial investors, although NGOs, Foundations, Development Funds and Agencies also make significant contributions. This has disturbing implications when one recalls that public money is intended to support smaller MFIs but only mature institutions are eligible to receive foreign equity investments (ADA 2009).

As statistics show a clear trend towards foreign ownership, one must consider what effects this may have on development of the microfinance sector. Equity investments are attractive alternatives to debt financing and a necessary source of funds for MFIs which intend to expand their businesses. Foreign sources of equity capital may have further positive influences on MFI efficiencies:

> "It is almost accepted as a general principle that foreign equity investments, in contrast to local equity investments, have the positive effects of not only offering MFIs much larger sums of money, but of also providing them with more expertise in terms of products and services, and with more knowledge in terms of governance" (ADA 2009: 22).

Nevertheless foreign ownership also involves certain risks. When strategic and operational decisions concerning MFIs are made by foreign entities, it is not guaranteed the consequences will be beneficial to the local community. For example, the professional training of local staff may be neglected, or the steps required to achieve future autonomy of the MFI may not be taken. Also, foreign shareholders often repatriate large portions of MFIs' profits to their countries instead of spending it to improve the MFIs' operations. In the long run these disadvantages can make foreign equity investments less sustainable than local sources of funding through savings or local debt and equity investments. Furthermore, it appears that local ownership can be very positive for both MFIs and the communities they serve. As numbers of local shareholders increase, it becomes easier for MFIs to attract more local funding, which in turn influences the MFI towards more community-oriented policies and goals which ultimately strengthens the entire domestic financial sector (ADA 2009). Unfortunately, compared to the relatively rapid growth of foreign equity investments, local ownership of MFIs is increasing very slowly.

> Local equity is often not available at all, or not available in adequate amounts or under adequate conditions. And local investors are sometimes only attracted by the expected financial returns of microfinance investments, but are not interested in the influence that local ownership and local governance can have for the economic development of their country or their region, in the long run. Thus, MFIs are almost forced to accept foreign equity funding, as shows the case." (ADA 2009: 23)

4.2.3. MIVs compared to DFIs and domestic funding sources

As discussed earlier, there are four general categories of commercial funding sources available to MFIs depending on their stage of development. Table 2 provides a comparison of the main features in each of the following categories: MIVs, DFIs, local banks and deposits.

Table 2: Main characteristics of funding sources

Funding Sources	MIV	DFI	Local banks	Deposits
Backing	Private investors	Public investors	Various	MFI clients
Main advantages for MFIs	Large loan-amounts	Favourable loan terms	No currency exchange risk	Self-sufficiency
Considerable disatvantages for MFIs	Currency exchange risk	Limited sources	Rare availability	Difficult to introduce
Trend	Increasing importance	Still important, but decreasing compared to MIVs	Increasing, but still limited number of players	Increasing, but slow implementation

Source: own description based on the references of the following paragraphs

MIV versus DFI

DFIs are intended to pave the way for private investors. While they follow a more commercial approach than donors, DFIs offer favourable conditions to MFIs which gives them time to develop sustainable economic structures. In addition, DFI investments are frequently linked with technical assistance. However, MIV managers often complain that DFIs withdraw too late from a relatively mature market, compete against MIVs and force them out of markets. When MFIs have the choice, they prefer DFI funding:

> „From the MFI's perspective, the long-term commitment and brand value of DFI investors can be crucial to protect their social mission and provide comfort given the relatively unstable political and socioeconomic contexts within which they operate. Many fear that private investment will be the first to flee in times of crisis." (Reille and Forster 2008: 14)

However not only donors and DFIs contribute to the structural development of MFIs via technical assistance and favourable terms. Private investors also play a crucial role in imparting governance capacity and management skills (Reille and Foster 2008).

MIV versus local banks

MFIs have access to various sources of private funding. In addition to MIVs, domestic commercial banks in some countries are becoming increasingly involved in funding MFIs. As more foreign investors ask MFIs to prioritize social and environmental results and there are still relatively few profit-oriented foreign investors in this sector, local banks tend to follow a more profit-oriented approach (Reille and Foster 2008). For

MFIs, foreign investors offer the advantages of lower interest rates, few collateral requirements, more willingness to negotiate, longer credit periods, quick disbursement and good reputations (CGAP 2005). Thus, if an MFI is accepted as partner by a recognized MIV like Oikocredit, other investors step in because they trust Oikocredit's due diligence process. On the flip side, one of the biggest advantages of local funding sources compared to foreign investments is the absence of currency exchange risk. In 2008 about three quarters of cross-border investments were processed in the hard currencies US-Dollar or Euro (Reille *et al*. 2009). The exchange risk commonly stays with the MFIs although MIVs might have better opportunities to handle this risk. Consequently, many MFIs experienced severe losses over the course of the recent financial crisis and learned to demand their loans be issued in local currency. The positive effect of adopting this strategy shows: in 2009 local currency loans increased by 54 percent and at the time this was written, accounted for 31 percent of all outstanding direct debt investments (Glisovic and Reile 2010). Today, social investors and donors are ushering in the development of new foreign currency hedging strategies. Long term, the development of deeper, broader local currency markets will make it easier to mitigate this risk (Apgar and Reille 2010). The ultimate goal, in any case, should be to wean MFIs off of dependence on foreign capital as they become viable, sustainable operations capitalized by local capital markets.

MIV versus Deposits

Another source of local funding is the deposits of microfinance customers. This method has the advantages of allowing MFIs to create their own, independent capital bases as well as providing clients with an important, additional financial service. A study on the stability of small deposits which investigated five MFIs, concluded that some portion of small balance deposits can be used as a stable source of funds. Despite the conventional view that low-income depositors transact more frequently, the data show that, in general, this is inaccurate and even natural disasters have no significant effect on deposit balances. As a precaution, the authors recommend MFIs analyze the depositer behaviour over at least three years before using their savings for loans (Abakaeva and Glisovic-Mezieres 2009). An obstacle for many MFIs is that most countries require MFIs to be registered and supervised before they are eligible for deposit-taking. As such, this option is only practicable for banks and NBFIs which excludes MFIs set up as NGOs.

4.3. The key role of private foreign investors

Chapter 4 concludes with a summary of points discussed above that support the argument that private foreign investors will play a leading role in the further development of the microfinance sector. In my opinion, events from recent history and those currently transpiring have revealed three certainties: (1) private foreign investors are crucial to the whole industry; (2) the future supply of private foreign investments is almost guaranteed, and; (3) MIVs can exercise substantial influence over MFIs.

(1) Microfinance has been developing well, especially over the past five years, as measured by indicators like the outreach to increasing numbers of poor, the efficiency of MFIs, and the expanding range of products offered by MFIs. However, the demand for microfinance services is far from satisfied. Penetration rates remain low, even in relatively well-developed microfinance markets, so at the regional level the demand for MFI services far exceeds supply. The fact that many MFIs receive MIV investments suggests that a growing MFI industry will require ongoing foreign investment into the foreseeable future. This view is reinforced by the observation that MFIs tend to evolve from unregulated institutions to formal banks, which coincides with business expansion and a need for additional funding, and also makes them more attractive to MIVs. MIVs concentrate on about 150 top tier MFIs in certain geographic regions. Although currently, it appears the demand of these MFIs for foreign debt funding is almost met, the number of mature MFIs will increase continuously and more countries will be able to offer favourable environments for foreign investors in future. While domestic sources of funding increase in popularity, MIVs can offer attractive terms to persuade MFIs, to some extent, to choose foreign funding over other capital sources. In fact, data show that MIVs already overtook DFIs in terms of the amount of capital invested. Admittedly, DFIs are still growing but MIVs develop much faster. While DFIs will carry out their mandates to prepare the field for private investments, they will ultimately withdraw to be replaced by MIVs. Equity investments represent another promising field.

(2) The main advantage of MIVs over DFIs and the reason why the public tries to encourage private capital investment is that, in the long run, the private sector can provide far more capital. The recruitment of private individual and institutional investors as sources of microfinance capital has just begun. As MIVs attract larger financial players like pension funds, which are now cautiously sampling the market, investment volumes will likely experience rapid and unprecedented growth. In particular, the

relative resilience demonstrated by MFIs during the recent financial crisis makes it an attractive alternative investment for large financial institutions. From an investor's perspective, microfinance is an asset class worthy of closer inspection and monitoring based on its short-term performance record. With time it could become a key sector to hold in any well-diversified portfolio.

(3) The importance and promising aspects of MIVs make private foreign investors influential players in the microfinance sector. Today's largest of these enterprises are opinion leaders and actively represent this group of players on the international stage. They exercise considerable bargaining power, introduce commercial business practices at various operational levels and influence public opinion. That same influence plays a significant role in their relationships with MFIs. They can offer attractive funding terms, making them desirable partners for MFIs which, in exchange are willing to be more accommodating to the MVIs. In fact, it is the prospect of receiving MIV funding that motivates small MFIs to transform into regulated entities. Representing a large share of the MFI's capital empowers the investor to demand special terms, such as higher yields or adoption of specific social standards. Even more evident is their influence regarding equity investments. As shareholders, MIV managers can at least have input at board meetings - a right which many indeed exercise, as chapter 6 will demonstrate. Majority shareholders may even take charge of strategic decisions and change the whole direction of an institution.

5. The emergence of Social Performance Management

"Creating the base for responsible finance in low-access environments
is likely to be a complex undertaking that can be achieved only over time.
The potential pay-off makes the investment in getting started worth the effort".
(Brix and McKee 2010: 21)

I begin this chapter with a question: do microfinance services help the poor to improve their lives? In an attempt to answer this important question, I discuss the many claims by MFIs of successful microcredit clients who escaped poverty by starting small businesses with their loans. Over the years public campaigns gained momentum and spread a very positive image of microfinance, but more recently critics have surfaced who question the validity of these claims. While impact studies give much empirical evidence to support claims that microfinance has contributed to alleviation of poverty, it does have its limits and has also been tainted by the inappropriate practices of some of its less ethical participants. Practitioners have responded to these criticisms with initiatives designed to measure social performance and develop management tools that can be used as benchmarks for evaluating an MFI's efficacy in achieving its social goals. They can also help reveal weak areas and provide valuable information for improving operations. Despite these initiatives the current trend towards commercialization has sparked an ongoing debate as to whether or not a double bottom line in microfinance – simultaneous financial and social returns – is a possibility or contradictory.

To address these issues I discuss the background and significance of the discourse of social performance in microfinance. I chose this approach based on the experience I gained about the key points of this discussion at the SPTF Annual Meeting 2010. I also present for discussion some social performance initiatives supported by the five private foreign investment enterprises introduced in chapter 6. The sources for this chapter were derived from various websites, press articles and scientific literature.

5.1. The public image of microfinance

The story of Bathula Vijaya, a client of the Indian MFI SHARE, reveals how microfinance can enable disadvantaged women to escape poverty:

> Bathula Vijaya was born in Macharla town of Guntur district, Andhra Pradesh. Her parents were daily labourers. […] On being told about SHARE, Bathula attended one of its meetings conducted at Chilakaluripeta. She enrolled herself as a member. She took Rs 6,000 as her first loan and invested the amount in the pickle business. Soon, their business started to flourish. Unfortunately while they were in the fourth year of their relationship with SHARE, Yasudaya met with an accident. Out of the earnings from the business, Bathula managed to pay the hospital charges and also the loan instalments without any difficulty. Today Bathula has her house renovated; she is able to send her children to an English medium school; and she has diversified her business to sell spices along with pickles. She is grateful to SHARE for helping her become financially comfortable (SHARE 2010).

Success stories like this are often used by microfinance advocates to promote their cause. MFIs and investment enterprises list similar examples on their homepages. Press articles often start with such personal stories to establish a relationship with the audience. The story line usually follows the same pattern: a young woman grows up in poverty, becomes a MFI client, uses a microloan to expand a small business and pays back the loan. She employs other people, becomes socially empowered, sends her children to school and so forth. These stories are plausible and, although people may wonder about the persistence and assertiveness of the women as they strived towards their goals, the stories have seldom been questioned. Even if one assumes these stories are based in fact, it is likely that only the stories of greatest success were told while the tales of lesser success were buried. As such, these anecdotes must not be construed as objective evidence of positive social impact generated by microfinance activity.

5.1.1. Raising global awareness of microfinance

Trust in the poverty-reducing benefits of microfinance is shared by various international actions to promote the concept and make it known publically. The biggest global initiative for that is the Microcredit Summit Campaign (MSC). In 1997 the American NGO „RESULTS Educational Fund“ organized a first global summit in Washington D.C. where nearly 3.000 persons from 137 countries involved with microfinance participated.

They set a goal to reach 100 million of the world's poorest families with microfinance services until 2005. The target group "poorest" is defined by the MSC as people, "[...] who are in the bottom half of those living below their nation's poverty line, or any of the more than 1 billion people who live on less than $1 a day adjusted for purchasing power parity, when they started with a program" (Daley-Harris 2006: 1).

Although the campaign is faced with the problem of data gathering within a widely informal context (the number of people reached is based mainly on self-reporting of MFIs which is to a certain extend controlled by third parties), the promoters were able to announce in 2005 that the goal is almost reached. Thus, a new target was set: by 2015 an additional 175 million of the poorest shall be reached and in addition 100 million families shall raise their income above $1.25 a day. Along with this primary goal the MSC's intention is to make microfinance in general more recognized and act as a forum for people involved in the sector. This has a precedent in the annual summits which take place in different parts of the world. These events attended by business leaders and hundreds of delegates from many countries attract considerable media attention. The MSC is funded by sponsors, including private foundations, banks, large MFIs and national development agencies. The executive committee consists of eight well-known personalities among whom are Muhammad Yunus, Juan Somavia (general director of the ILO), Manuel Zelaya (former president of Honduras) and businessman/investor George Soros (MSC 2010).

In December 1998, a year after the start of the MSC, the UN decided to support microfinance by designating the year 2005 as the International Year of Microcredit. This was a powerful endorsement and promotion for microfinance as a credible instrument for achieving the MDGs, increase public awareness and encouraging innovations and new partnerships (Year of Microcredit 2010). This official recognition of microfinance by the UN was a social seal of approval for the sector.

The International Year of Microcredit generated a lot of media attention and publicity for the sector, but perhaps even more significant was the awarding of the 2006 Nobel Peace Prize to Muhammad Yunus and Grameen Bank. The Nobel Prize Committee praised Yunus's efforts to turn his vision of a world without poverty into practical action and set an example not only in Bangladesh but throughout the world (Nobel Peace Prize 2006). With the award Yunus became an icon for microfinance. Whenever the opportunity arises he exerts his influence to advocate for a purely socially-oriented industry. He also promotes more projects that adhere to a "social business" philosophy.

Under the Grameen banner other enterprises emerged in telecommunication, renewable energy and education (Grameen 2010). Yunus formed cooperatives with large companies, such as the French yogurt giant, Danone, to benefit the poor and his countless public appearances around the world make him a highly recognized and respected ambassador for microfinance.

These three events, the Microcredit Summit Campaign, the International Year of Microcredit and the honouring of Muhammad Yunus and Grameen Bank with Nobel Peace Prizes, were the most powerful contributions to the promotion of microfinance. Their timely convergence produced a very positive portrayal of the industry and laid a solid foundation for future expansion.

5.1.2. Criticism of microfinance

Despite the aforementioned endorsements of the microfinance industry it is not without its critics. They cite examples of excessive expectations, various negative features of the concept, and suspect systemics of the industry, among others. Following is a random selection of these various criticisms:

Bengali human rights activist Alam Khorshed is one of few who did not support the awarding of Nobels to Yunus and Grameen. He argued that the highly praised activities of Grameen Bank did not significantly reduce poverty in Bangladesh. Khorshed claimed that only a small percentage of microcredit borrowers were able to improve their situation, half succeeded only to sustain their former standard of living and the situations of up to 45 percent deteriorated. In his opinion, terms offered to clients are inflexible and mismatched to the living conditions of the poor and interest rates of 30 to 40 percent cause over-indebtedness. He also expresses doubt that microcredits empower women since their husbands claim the money for themselves (Khorshed 2007).

Another Yunus critic is Patrick Bond (2010), a professor of development studies at University of Kwa-Zulu Natal in South Africa. He warns of “the danger of Grameenisms”, neo-liberal values underlying Yunus’s business philosophy, namely non-state, self-help, fiscal responsibility and entrepreneurship. This would make Yunus popular among international donors like the World Bank but takes the responsibility away from those who profit from the current situation.

> „Microcredit propagators are always the first to advocate that poor people need to be able to help themselves. The kind of microcredit they promote isn't really about gaining control, but ensuring the key beneficiaries of global capitalism aren't forced to take any responsibility for poverty" (Bond 2010).

Bond further accuses Yunus of collaborating with companies that exploit the poor, treating Grameen clients poorly and of hindering critics. He cites the example of Jobra, the village where Yunus started his microcredit project. According to Bond, Jobra still suffers from poverty and is not accessible to researchers. To Bond, microcredit's main shortcoming is that it is only suitable for low-skill businesses which yield inadequate profits (Bond 2010). The journalist Gerhard Klas joins in with the attacks against Yunus, accusing him for portraying the poor as a market for profit-oriented investors. He also suggests that NGOs would, due to the popularity of microfinance, change their social activities to market-based microcredit programs (Klas 2010).

Reports like these have stirred up much controversy about microfinance as have newspaper articles that reach a much wider audience. The latter tend to appear when sensational events occur, for instance in autumn 2010 when German newspapers including "Die Tageszeitung" (TAZ 3.8.2010), "Frankfurter Allgemeine" (FAZ 14.8.2010), "Frankfurter Rundschau" (17.11.2010) and "Die Zeit" (18.11.2010) reported the initial public offering of the Indian MFI SKS which they portrayed as an example of increasing commercialism of the microfinance sector. Those same articles reported a spate of suicides of microcredit clients, implying they were evidence of unethical practices of MFIs exploiting overheated markets. Negative media reports like these probably cast more doubt on the microfinance sector than well- researched critical studies.

A discussion of the validity of these criticisms is beyond the scope of this thesis and not pertinent to my research topic. The key point is that microfinance has a very good image, but the extent of its positive impact is being challenged. As the sector expands, more critics appear, not only from within industry ranks, but also from outside media.

5.2. Measuring social effects

Client stories that paint a rosy picture of how microcredits improved their lives are often biased in favour of MFIs and ignore some of the negative aspects. The reverse is true for critics of microcredit, for example their stories of desperate borrowers committing suicide because of a business failure or an accident that prevented them from repaying their loans (see e.g. Die Zeit 2010). In many cases these damaging stories are as biased as the positively-embellished client stories. So, how can the social benefits of microfinance be evaluated more objectively? One method is to conduct impact studies where a select group of clients is investigated in detail. Another approach is to use social performance evaluations to assess MFI's efficacy in reaching predefined social indicators.

5.2.1. Impact studies

Impact studies investigate how microfinance changes the lives of a selected group of clients over a specific period of time. Researchers use different qualitative and quantitative methods to draw conclusions about certain indicators of social impact. Since the late 1980s several impact studies have been published. Nathaneal Goldberg (2005) provides a thorough overview of the most influential of about 100 publications between 1988 and 2005. The mixed results of these studies suggest that while microfinance does not necessarily improve incomes of poor households, it has the potential to do so. It can also have additional impacts, for example the empowerment of female clients, more frequent use of contraceptives, and improved nutrition for children. However, the final conclusion of an impact study is very much dependent on the method used. As Hulme (2000: 81) puts it: "The fact that no agent can both experience an intervention and at the same time not experience an intervention generates many methodological problems". How can it be shown that changes in borrowers' lives are due to microcredits? What would have happened if they had not received a loan?

Let us take the first comprehensive impact assessment which was published in 1988 as an example. In this study, Muhabub Hossain compared Grameen Bank clients to non-clients and reported the average household incomes of the former group were significantly higher and that the whole village was positively affected. He also observed that Grameen clients were younger and better educated than non-clients (Goldberg 2005: 16-17). This early study already revealed the problem of comparisons:

If we find that people who got microloans are doing better than those who didn't, does this mean that the loans caused the improvement? Maybe not. There are several other plausible explanations - for instance, that the people who apply for and get the loans may have more drive and ambition, in which case they would probably tend to do better than others whether or not they get the loan" (Rosenberg: 2010: 1).

The United States Agency for International Development (USAID) launched a project in 1995 to work on a solution to resolve this uncertainty. They developed five indicators and proposed to compare MFI clients who already ran through several loan cycles with clients who recently joined the program (Goldberg 2005: 7). The underlying assumption was that since both groups qualified for loans they were comparable in terms of preconditions for business. However, the limitations of this method are exposed with a single question: why did the second group join the program several years after the first group? Is it because of personal motives which made them somehow different from the others: perhaps they were afraid of the risk at the beginning? Did the MFI change its business strategy, for example began focusing on poorer clients so the initial situation for new clients was worse?

Another problem with evaluating a group of clients over a period of time is the task of differentiating the influence of microfinance from other factors which either help or hinder people's business activities. For instance, since 1997 Grameen Bank has been evaluating its branches using five criteria. One criterion is to determine whether clients remain in poverty. To measure this, Grameen asks 10 questions about the clients' living conditions. By the end of 2004 about 55 percent of clients that had been in the program for more than five years had raised themselves above the poverty line. Although the method and conclusion may be questionable, the result indicated that these 55 percent could meet certain basic needs. However, nobody knows what their living conditions would have been had they not participated in the program. There are many plausible explanations for this improvement of people's lives, for example that the Bangladeshi economy, which had been growing at about 5 percent per annum for the previous several years, improved living standards for the whole population. On the other hand, a study by Helen Todd found that out of 17 Grameen borrowers who were unable to improve their incomes within a decade, ten of them were set back by a serious illness in the family (Goldberg 2005: 9-12). "'The point is that a simple "pre-post" (before and after) comparison can be useful, but does not yield enough information to definitively determine the impact of the program"' (Goldberg 2005: 12). The method cannot give an accurate answer to the question "Does microfinance work?"

The current trend in impact evaluation dates back to the method Hossain used in 1988 to compare microfinance clients with non-clients. Researchers agree that only by this method can a program's influence can be isolated from other factors. Current studies rely on a selection of two groups of people of similar age, gender, education, etc. The groups are defined in advance with one group given access to microfinance services, the other group not. With time it becomes apparent whether or not the qualities of life of the first group, who had access to microfinance services, are significantly better than those of the microfinance-excluded group.

While this method is currently the most reliable, the problem remains that the comparison groups are far from identical, since many characteristics can't be measured. For example, if two similar villages are compared, one may be located closer to a main road which may give it a business advantage. This problem of "selection bias" often occurs in social science research and limits impact studies on microfinance. (Goldberg 2005: 12). Using "randomized controlled trials" may improve the method of control groups. The idea is to select a large number of people who are then randomly divided into two groups. The groups are presumed to be statistically identical, so the fact that loans are provided to one group is the only difference. Until 2010 only two studies using randomized controlled trials had been published. Neither study found any improvement in terms of household incomes for the group served by an MFI compared to the excluded group within the first 12 to 18 months (Rosenberg 2010: 2). Longer-term results were not available at the time of this writing but will be required to produce reliable statistics, as MFI clients typically run through several loan cycles over many years before they improve their living conditions.

Impact studies are important tools for generating meaningful information about the effects of microfinance acitvities on human lives. Practitioners may focus too much on success indicators and either overlook unpleasant side-effects or completely ignore, even hide, negative outcomes. However, scientific studies must also be questioned as every method has its deficiencies and every investigation involves a uniquely different set of variables. Findings can never applied universally as every microfinance program has its own modalities and operates in a unique environment. In addition, the reported results may be influenced by the agendas of certain parties, such as study sponsors, to produce an outcome that serves the best interests of these parties but is not supported by the scientific data.

Conducting microfinance impact assessments presents two main challenges: time and money. The more diversified the methods and the broader the sample set, the more meaningful are the results. The downside is that the preparation, implementation and interpretation of a detailed research program, including the observation review, takes a lot of time. Rapid developments in the microfinance sector present the risk that study results could be old news or irrelevant before they are published. “The common response to initial findings presented more than 9 months after completion of fieldwork is »our program has already been redesigned so your findings have little relevance«” (Hulme 2000: 91).

Perhaps an even greater challenge is the cost. Impact assessments may cost between $500,000 and $5 million, a hefty sum for institutions working in microfinance and hardly affordable without subsidies. In comparison, social performance assessment tools, as described below, only cost around $5,000 to $10,000 and may deliver more meaningful results for improving business practices (Hulme 2000: 89-93).

5.2.2. Social performance measurement and management

Social performance measurement is a more practice-oriented attempt to evaluate the social benefits of microfinance and provide guidelines to help practitioners improve. The findings are meant to be incorporated into business practices in a process called “Social Performance Management” (SPM). While impact studies investigate results at the client level, the social performance approach focuses on MFIs’ business practices:

> Simply put, SPM is about achieving your social goals and being socially responsible. SPM is related to how an organisation aligns its strategic planning and operational systems to an understanding of client vulnerability and poverty. Because MFIs work with vulnerable and poor communities, they also have an implicit objective to protect clients from over-indebtedness and harm – as well as to treat their staff responsibly (Campion and Linder 2008: 19).

In the absence of applied world-wide social policies for microfinance, social performance initiatives aim to advance the development of social performance tools as well as set standards based on self-commitment. For this purpose an international platform called “Social Performance Task Force” (SPTF) was created in 2005. As of 2010 the SPTF consisted of over 850 representatives from various microfinance stakeholder groups: practitioners, donors and investors, networks, technical assistance providers, rating agencies and researchers. Nine working groups work on specific topics. Regional conferences and an annual global assembly are popular events for industry participants (SPTF 2010). As a recognized forum for social performance issues the SPTF established a reference list of SPM principles for defining and evaluating social performance activities:

As organizations involved in the field of microfinance, members of the SPTF:

1. Define social performance as the effective translation of an institution's social goals into practice in line with accepted social values such as:

- Serving increasing numbers of poor and excluded people sustainably (e.g. expanding and deepening outreach to poorer people)
- Improving the quality and appropriateness of financial services available to target clients through systematic assessment of their specific needs
- Creating benefits for clients of microfinance, their families, and communities relating to social capital and social links, assets, reduction in vulnerability, increase of income, improved access to services, and fulfilment of basic needs
- Improving the social responsibility of our own organizations and the partners we support. This includes consumer protection and gender equity, as well as responsibility to staff, environment and the community.

2. Recognize that financial performance alone is insufficient to achieve our goal of serving and improving the lives of increasing numbers of poor and excluded people sustainably. Success in microfinance is driven by a double-bottom line, strong financial and social performance, and these equally important aspects are mutually reinforcing in the long run.

3. Further recognize the contributions from donors, networks, practitioners, rating agencies, investors, and other stakeholders in the systematic application and improvement of tools for social performance management, assessment, monitoring, and reporting.

4. Commit to improving the social performance of microfinance by:

- Setting clear and specific social objectives for our own organizations and expectations for the organizations we support.
- Designing, introducing and using systems to manage, assess, monitor, and report on social performance inside our own organizations and the organizations we support.
- Using information on social performance to improve our own operations.
- Verifying our social results with external assessments, audits and ratings where appropriate and available.
- Being transparent about our social performance and promoting transparency of the partners we support through regular reporting to the MIX on its indicators of social performance standards (SPS).
- Promoting and exchanging ideas, resources, good practices, and other information on social performance.
- Endorsing the Social Performance Management Principles for MFIs

(SPTF 2010)

To assess an MFI’s social performance, the SPTF identifies several indicators which are assigned to eleven categories: mission specifics, governance, range of products and services (financial and non-financial), client outreach by lending methodologies, client retention, social responsibility to clients, transparency of the costs of services to clients, human resources and staff incentives, employment creation and enterprises financed, social responsibility to the environment and poverty outreach (SPTF 2010). User-friendly questionnaires (excel-sheets) in five different languages can be accessed on the SPTF website free of charge. MFIs can complete the form as a self-assessment and deliver it to MIX. MIX personnel qualify the information and publish the results with the MFI’s financial profile on its public online database (see MIX 2010).

Several MFIs, donors and funders have now incorporated the SPTF social performance guidelines as tools for self-evaluation and determining management policy. Some instruments are developed in-house and customized to fit the specific needs of the enterprise. Others may be provided by specialized organizations to allow comparative analyses of peer groups based on standardized categories. Following are examples of international social performance initiatives and popular tools for measuring an MFI’s social performance:

Client protection

In most cases the relationships between MFIs and their customers is unequal. Microfinance clients are in a weak position as they are dependent on the MFIs services and have limited knowledge of common business practices. An effective client protection policy is needed to level this playing field in order to prevent unfair practices, improve transparency and provide a recourse mechanism. The report on “Financial Access 2010” reveals that several countries have passed consumer protection legislation in the previous two decades, but these are often inadequate and lack efficient enforcement mechanisms (CGAP and The World Bank Group 2010: 23-25). To address this problem “The Smart Campaign” was started in 2009 with a goal to implement a common code of conduct. Several “Client Protection Principles” were defined to ensure minimum client-service standards for MFI clients. The core principles are:

- Avoidance of Over-Indebtedness
- Transparent and Responsible Prizing
- Appropriate Collection Practices
- Ethical Staff Behaviour
- Mechanism to Redress of Grievances
- Privacy of Client Data

(for a more detailed overview see SMART 2010)

By February 2011 more than 1.600 MFIs, microfinance support organizations, investors, donors, and individual industry professionals had endorsed the Smart Campaign and adopted the Client Protection Principles. The next initiative, currently underway, will be to launch a certification process for third party verification of MFI compliance these principles. The program is scheduled to be completed and implemented by the end of 2011 (Smart 2011). Guidelines similar to the Client Protection Principles but focusing on the investor level have been launched by the United Nations. They are called “Principles for Investors in Inclusive Finance” (PIIF) and consist of six self-commitments to promote certain environmental, social and corporate governance issues (see UNPRI 2010).

Transparent pricing

A survey of microcredit lenders in India revealed that 90 percent knew the size and duration of their loan, but only 15 to 20 percent were aware of the actual interest rate they are charged (CGAP 2009b: 33-34). Aside from the fact that many borrowers lack the education to deal with interest rates, the pricing calculations of MFIs can be confusing and the terms may not have been clearly or completely disclosed. Standards for calculating interest rates are virtually non-existent in most countries. Thus, some MFIs may use declining balance rates (basis of calculation is the amount which the borrower actually owes) while others charge flat interest rates (the interest rate is charged on the initial loan amount, not on the declining balance). In addition to interest rates, many MFIs charge fees for administration or insurances. These inconsistencies make it difficult to isolate the various costs for borrowers and create an ideal environment for fraud (Waterfield 2010). To address this problem “Microfinance Transparency” (MFT) was launched in July 2008. Its mission is to improve the microfinance industry by encouraging transparent pricing methods. MFT promotes the pricing calculation model “Annual Percentage Rate” (APR) which includes all costs an MFI charges its borrowers on an annual basis. MFT provides a calculation tool to convert loan costs into APR and trains MFI staff how to use this tool. MFT also collects data on MFI loan products and publishes MFI APRs and other pertinent information, country by country, on its website. This makes the terms of MFI services more transparent and easier to compare, giving stakeholders like regulators or investors a more reliable data base for their decision-making (MFT 2010).

Poverty Indicators

From the foundation of Grameen Bank’s method for measuring a client’s progress out of poverty (see chapter 5.2.1.), in 2005 Grameen Foundation began developing a

“Progress out of Poverty Index” (PPI) in partnership with CGAP and the Ford Foundation. The PPI is a tool for measuring the initial poverty level of MFI clients and tracking their situation over time. It consists of a questionnaire with ten country-specific indicators which can be completed by loan officers when they visit their customers. The questionnaire is easy to handle and helps to create a profile about the living conditions of clients, using indicators like access to clean water, the possession of livestock and education levels of their children. The data gives MFIs valuable information from which they can customize their services to fit the needs of their clients. Over time it can also be used as a tool to measure their clients’ progress out of poverty. By the end of 2010 the PPI was available in 37 countries (PPI 2010). Another method with similar objectives and procedures is the “Poverty Assessment Tool” (PAT) developed by USAID. PAT is currently available in 33 countries and USAID requires its MFI partners to report on the indicators (PAT 2010).

Social audits

The French organization CERISE (Comité d’Echanges de Réflexion et d’Information sur les Systèmes d’Epargne-crédit) provides a very popular social audit tool for MFIs called “Social Performance Indicators” (SPI). SPI evaluates the social aspects of an MFIs’ activities through audits of four areas of operation: outreach, products and services, benefits to clients and social responsibility. Audit results are rated, counted and transferred onto a graph which shows strengths and weaknesses of the MFI. CERISE will either conduct the evaluations, or provide the SPI tool free of charge to the MFI to do a self-assessment. SPI adapts easily to local conditions and is standardized to allow users to compare results of different MFIs. There are over 250 MFIs currently using the SPI. Table 3 summarizes the results of 204 assessments in various categories and provides insight into MFI social performance priority settings in different areas. Recently CERISE also developed an SPI for investors which is being tested by Oikocredit (CERISE 2010).

Social ratings

Other tools for external assessments of MFI social performance are social ratings. Similar to financial ratings, specialized services like M-CRIL, Microfinanza Rating, MicroRate or PlaNet Rating collect data about MFIs, prepare reports and classify them. Socially-oriented investors can use these ratings to supplement their due diligence process before making an investment decision. M-CRIL also piloted a social rating for MIVs which has been tested by Incofin, Blue Orchard and Oikocredit (SPFT 2010).

Table 3: Social performance scores according to MFI peer groups

	Tous (N=204)	Africa (60)	Asia (14)	ECA (4)	LAC (116)	MENA (10)	Mixed (N=79)	Rural (N=62)	Urban (N=55)	Mature (N=134)	New (N=23)	Young (N=33)	Large (N=48)	Medium (N=49)	Small (N=75)	For Profit (N=44)	Not For Profit (N=141)	Bank (N=7)	Credit Union (N=54)	NBFI (N=33)	NGO (N=87)
Total SPI score	**58**	**54**	**66**	**47**	**59**	**54**	**57**	**62**	**53**	**58**	**54**	**56**	**60**	**61**	**54**	**54**	**59**	**59**	**56**	**53**	**60**
Dim1-Targeting	**63**	**53**	**77**	**48**	**67**	**70**	**61**	**73**	**54**	**61**	**66**	**65**	**57**	**67**	**62**	**57**	**65**	**59**	**53**	**56**	**72**
C1-1 Geog targeting	**55**	48	66	52	57	66	54	72	39	53	57	57	49	62	52	47	57	48	48	44	63
C1-2 Indiv targeting	**52**	40	67	30	58	49	50	56	51	52	58	49	50	53	51	53	52	60	37	51	62
C1-3 Methodol targeting	**57**	51	67	44	58	68	56	63	52	55	57	65	50	60	59	50	59	44	53	52	62
Dim2-Services	**62**	**55**	**68**	**51**	**65**	**55**	**63**	**62**	**60**	**63**	**56**	**59**	**69**	**65**	**56**	**63**	**61**	**70**	**59**	**60**	**63**
C2-1 Range of services	**62**	58	67	51	65	40	63	61	62	64	55	56	67	70	56	62	62	77	68	57	58
C2-2 Quality of services	**71**	62	76	56	75	70	73	68	71	72	65	67	80	76	62	72	70	78	65	72	73
C2-3 Innovative non fin services	**54**	46	62	47	57	53	53	57	49	54	50	53	60	51	50	54	53	57	47	53	56
Dim3-Benefits	**49**	**54**	**55**	**38**	**48**	**35**	**47**	**59**	**42**	**50**	**44**	**48**	**52**	**49**	**47**	**41**	**52**	**39**	**60**	**42**	**47**
C3-1 Eco Benefits for clients	**50**	48	56	34	52	34	47	55	47	51	48	46	53	52	46	50	49	63	54	48	46
C3-2 Participation	**48**	64	50	33	42	31	44	65	37	49	43	48	50	46	49	34	53	16	71	37	42
C3-3 Empowerment	**50**	50	60	47	51	40	50	56	44	52	42	49	52	48	47	41	53	43	53	42	53
Dim4-Responsibility	**56**	**52**	**62**	**50**	**58**	**57**	**57**	**55**	**56**	**58**	**51**	**52**	**63**	**62**	**51**	**57**	**56**	**67**	**53**	**55**	**59**
C4-1 SR to staff	**64**	60	67	65	65	65	66	59	66	66	65	59	71	72	57	67	64	76	59	65	68
C4-2 Client protection	**64**	59	71	61	65	73	66	60	65	67	55	61	72	72	58	66	64	85	59	62	67
C4-3 SR to community environ	**40**	33	49	23	44	32	37	45	37	41	34	36	44	41	36	37	40	43	38	37	42

Source: Bédécarrats *et al.* 2010

5.2.3. Synergies and trade-offs

The mission of most MFIs is to help poor people work their way out of poverty by offering them financial services adapted to their needs. However, any MFI which does not want to remain dependent on donor subsidies needs to earn profits or at least be able to cover its costs. Customer services are related to expenses which limit an MFI's flexibility. Likewise, social performance activities are often viewed as nothing more than additional costs. For instance, targeting clients in remote areas with very small loans is more expensive than lending larger amounts in cities with much better infrastructures. Furthermore, client consultations require additional resources, although over time, social activities can improve financial performance as better educated clients are more likely to use a loan efficiently and fulfill their obligations to the MFI.

Campion and Linder, who work for the Imp-Act Consortium which specializes in capacity building to support SPM, stress the advantages of SPM, to not only achieve an MFI's social mission but also improve its financial performance. Their experiences show that improving social performance can lead to more appropriate products and services; better client retention rates; lower operational costs; enhanced reputation and brand value; better trained and motivated staff; stronger policies and human resource procedures; improved risk management; and more efficient operations. They also found that financially sound MFIs can use profits to improve their social performance by cross-subsidies, for example by initiating special programs which target very poor with smaller loans or clients living in remote areas (Campion and Linder 2008: 12).

A more critical view of synergies between financial and social performance is published by Cull *et al.* (2009). In a study named "Microfinance tradeoffs" they searched a MIX data set of 346 MFIs for statistically significant correlations between financial and social performance indicators. Their key findings were:

- While high microcredit interest rates can increase MFI profits, when rates surpass a certain level, repayment rates and, consequently, profits decrease.
- Although serving the poorer clients is more costly, MFIs which target this more disadvantaged group can still be self-sustainable, but rarely earn enough profits to attract commercial investors.
- Although most non-profit MFIs earn at least a small profit, banks outperform them financially.

- As non-profit organizations issue much smaller loans and serve a higher proportion of women than commercially oriented MFIs, they do not compete for the same clients.
- On average, NGO operational costs are no less than 26 percent of loan value compared with banks at 12 percent, which requires NGOs to charge much higher interest rates.
- Even though becoming a regulated institution entitles an MFI to use deposits as a source of funding, the expense of “regulating” induces many MFIs to increase their income by targeting customers who are relatively better off.
- Competition from the formal banking sector drives MFIs to poorer customers.

Cull *et al.* claim the fact that regulated MFIs serve better-off clients with higher loans and a smaller proportion of women does not necessarily mean they neglect the poorest: „Moving „upmarket“ to serve more profitable customers may ultimately allow an institution to reach a larger absolute number of poorer customers and/or women through cross-subsidization, scale economies or both” (Cull *et al.* 2009: 13). On the subject of commercialization they conclude that this can have positive as well as negative effects. On one hand, increasing competition forces MFIs to develop more cost-effective practices and techniques which leads to lower interest rates. On the other, MFIs are pressured to serve clients who are better off with higher loans to save expenses (Cull *et al.* 2009: 16).

A second study by Adrian Gonzalez (2010) based on MIX data and indicators defined by the SPTF, confirmed the findings of Cull *et al* and others that there are trade-offs and synergies between social and financial performance. He especially emphasized the positive effects of staff training on productivity and portfolio quality. However, Gonzalez states that several correlations are not as evident as many think, and he questions the common belief that MFIs working in rural areas are less efficient than those working in cities. He argues that in markets like India or Cambodia rural borrowers may actually live closer to each other than their urban counterparts, so issue of higher costs for travelling is invalid. These observations alert one to the dangers of accepting that correlations found by other researchers are applicable in other contexts without first subjecting them to one’s own thorough vetting process. Gonzalez further concludes that available data are insufficient to allow deeper understanding of some aspects, either because the sample is too small or because the quality of information is limited. For example, the SPTF social performance indicators ask if an MFI offers non-financial services, but fails to define the nature of these services (Gonzalez 2010).

A different source of data for analyzing the relationship between social and financial performance of MFIs was used by Bédécarrats *et al.* (2010). They investigated 287 SPI audits collected by CERISE. Since these social audits evaluate MFIs in detail according to various categories, the problem of limited data quality mentioned by Gonzalez was avoided. Bédécarrats *et al.* established that MFIs which target very poor clients face higher operational costs. This represents a very significant trade-off. Consistent with Gonzalez's findings the CERISE data also indicated that loan officers in rural areas are more productive. The authors see participatory lending methods and grass root commitments as a reason. These group targeting strategies allow one staff member to serve more clients than the individual targeting strategies more common in urban areas. In conclusion, Bédécarrats *et al.* state that better economies of scale go hand in hand with improved social performance: "MFIs with the largest loan portfolios score highest in range and quality of services and social responsibility" (Bédécarrats *et al.* 2010: 6)

5.3. Limits of social performance

When working with the current methods of social performance measurement described in this chapter, three things must be kept in mind: (1) unlike impact assessments, social performance indicators do not give information on the true impact of microfinance services on the living conditions of the poor; (2) the social performance approach leaves much room for different interpretations and conclusions, and; (3) most social performance tools are still in an early stage of development.

(1) Although social performance assessments are being employed increasingly by MFIs, donors and investors to prove their actions help reduce poverty, the various indicators do not provide an answer to the fundamental question: does microfinance really help the poor? In fact, there may be no universal answer to this question. Impact studies provide some hints by investigating the effects of microfinance on the lives of people within a select study group. For example, Ranjula Bali Swain (2007) investigated the effects of microcredit on women's empowerment within an Indian self-help group. However, researchers are challenged in correlating effects with specific microfinance activities, and extensive impact assessment requires much time and money. In contrast, social performance measurement takes a different approach by evaluating MFI activities rather than client impacts. For instance, a high ratio of female

customers is regarded as socially beneficial per se. Although the indicators used for evaluating social performance were derived from several impact studies and practical experience, they are in fact quite abstract. Important criteria for the development of assessment tools are not only the validity of results suggesting a positive social impact on clients, but also practicality, cost of implementation and usefulness as an MFI management aid. Social performance measurement is closely related to operational strategies so data need to provide specific, statistically verifiable inputs to an MFI's practice.

(2) The discussion about synergies and trade-offs between social and financial performance provides examples of various interpretations of social performance indicators in the context of a MFI's financial framework. As cost efficiency is fundamental to management decisions, investments for improving social performance must be justified. A good example of this is the discovery that staff training improves productivity and portfolio quality. On the other hand, highlighting certain social performance indicators can be used to justify strategies which are primarily profit-driven. For instance, although commercially oriented MFIs tend to serve a lower ratio of women and issue higher loans on average, they can point to the larger number of people they reach to enhance their scores on social performance assessments. The private microfinance investment company, Incofin, evaluated its MFI partners in 2007. They used their own social performance criteria similar to those defined by CERISE, but the indicators were not as diverse and were rated differently. Out of five categories the scoring system identified "scale and outreach" as most important and assigned to it 30 percent of the MFI's total score. Overall the social performance score of Incofin's partners was very good, with 74.2 percent on average (Dewez 2008). The average score of 204 MFIs investigated by CERISE was 58 percent. Thus, while in many cases it can be useful to adapt social performance tools to an institution's specific circumstances, it can also hinder comparability of institutions and may lead to distorted results which are biased in favour an institution's public image.

(3) For using social performance data in practical decision making processes it is important to have access to comparative values. Currently, many measurement tools are in early stages of development, data bases are limited (especially regarding historical reference values) and MFIs are unsure about how to make reasonable use of the data. A lot of capacity building on this is needed in the coming years.

6. Private foreign investors and social performance

"I think that time has gone
when investing in microfinance was
automatically associated with being social."
(Ledesma 2010)

The leading specialized microfinance investors pave the way for succeeding companies and demonstrate a specific business model. In many respects they pioneer new territory as the whole industry is in a stage of fundamental and rapid developments. One consequence of this evolution is that SPM has emerged as an increasingly powerful influence that motivates companies to adopt solid business practices and improve their public images. In this chapter I discuss the involvement of private foreign investors in shaping a social performance discourse, referencing as examples, five organizations that define themselves as social investors: BlueOrchard, responsAbility, Oikocredit, Triodos and Triple Jump.

I begin with an introduction to the five organizations, highlighting their core investment activities and their social performance engagement. This is followed by a comparative analysis of their respective investment activities, public image (websites and reports) and representatives' opinions. This exercise reveals key factors that differentiate various approaches to social performance evaluation. I conclude this chapter with suggestions about how these strategies influence the discourse of social performance.

6.1. Five private foreign investors at a glance

The five selected enterprises rank among the most influential private foreign investors. Not only are they among the largest in terms of assets under management, they are also experienced and actively involved at the international level. The sample set includes institutions with different operating structures: BlueOrchard, responsAbility and Triple Jump are specialized asset management companies each of them offering several MIVs adapted to specific target groups. Triodos is an ethical bank which promotes microfinance funds along with sustainable investments such as renewable energy and organic agriculture. Oikocredit is not a fully licensed bank but a cooperative society with limited operations dependent upon the commitment and support of several thousand retail investors.

All members of our sample group belong to SPTF, participated at the SPTF Annual Meeting 2010, and publish reports of their social performance. While other enterprises meet the criteria for the sample group, within the context of this thesis there was a need to limit the sample size to those organizations I believe best represent the cross-section of various types of private foreign investors currently active in microfinance.

6.1.1. BlueOrchard

BlueOrchard is one of the world's leading MIV managers in terms of total assets under management. By the end of 2009 the Swiss company administered $895 million of which 86 percent or $714 million was invested in microfinance (+6 percent compared to 2008). Its MFI partners are located in 39 countries. BlueOrchard consists of two enterprises: BlueOrchard Finance S.A. has offered debt products to MFIs since 2001, while BlueOrchard Investments Sàrl, founded in 2007, specializes in equity investments. BlueOrchard is headquartered in Geneva with offices in New York, Lima and Bishkek. In addition to financing, the company also offers advisory services to MFIs (BlueOrchard 2010a).

BlueOrchard's investment activities

BlueOrchard's flagship MIV is the Dexia Micro-Credit Fund (DMCF), launched in 1998 as one of the world's first commercial investment funds for refinancing MFIs with loans. With a net asset value of $524 million as of 6 January 2010 it represented more than half of BlueOrchard's portfolio. Minimum investment in the fund is $10,000 and investors can expect an annual return of between 2 percent and 10 percent. BlueOrchard also manages or co-manages three more debt products with net asset values between $7 and $31 million (BlueOrchard 2010b). One of these, the Microfinance Enhancement Facility, was created by the International Finance Corporation (IFC) and Kreditanstalt für Wiederaufbau (KfW) in 2009 to prevent a credit crunch during the global financial crisis. A fourth debt product, the Microfinance Growth Facility, was recently developed following a commitment by U.S. president Obama to support microfinance programs, and is backed by several public and private international investors. It will provide up to $250 million to MFIs in Latin America and the Caribbean, starting in mid-2010 (BlueOrchard 2010). In addition to its debt products BlueOrchard also manages three structured funds and one private equity fund. The structured funds are modeled on Collateralized Debt Obligations (CDO), which means that debt is structured in tranches (pools) with different risk/return profiles. The BlueOrchard Private Equity Fund was launched in December 2007 and held nine investments worth $148.3 million as of December 2009. It is limited to a 10 year holding period and targets fast growing regulated microfinance banks (BlueOrchard 2010b).

BlueOrchard's mission is...

> "[...] to empower the poor world-wide and improve their quality of life by promoting income-generating activities through private investments in microfinance. We are convinced that microfinance investments can simultaneously produce social progress and financial returns. We generate profitable returns on investments while supporting the development of millions of promising small enterprises" (BlueOrchard 2010a).

The company focuses on the world's leading MFIs, which need to be at least 3 years in existence, have minimum total assets of $10 million, be externally audited and rated and have sound corporate governance. Loans provided by BlueOrchard have a maturity of 6 months to 7 years, fixed or floating interest rates and a minimum volume of $50.000 or a maximum of 20 percent of MFI total assets. The average loan size is $2.1 million and transactions are processed in U.S. dollars, Euros or local currencies where hedging mechanisms are available. The exact share of local currency loans is not published (BlueOrchard 2010). Most debt investments go to Latin America and the Caribbean (46 percent), followed by Eastern Europe and Central Asia (each 18 percent), while Africa (4 percent) and South Asia (3 percent) are under-represented (BlueOrchard 2010a). The equity investments are meant to provide MFIs with urgently needed risk capital through direct participation in their capital or through the creation of holding companies. They also contribute to the development of fast growing microfinance banks by sharing financial and operational expertise with investors, microfinance networks and technical assistance providers (BlueOrchard 2010).

BlueOrchard recommends microfinance to its investors because of its low correlation with other asset classes and its focus on leading MFIs with a strong track record of stable returns. BlueOrchard conducts rigorous due-diligence and ongoing monitoring to ensure its partners fulfill their financial and social commitments. Its relationships with MFIs are structured as long-term, co-operative ventures with a common objective to bring sustainable economic development of the microfinance sector to emerging and recovering economies (BlueOrchard 2010).

BlueOrchard's social performance results

BlueOrchard collects data on social performance using several indicators defined by the SPTF. These data are published on their homepage, newsletters and annual reports along with financial information. Since 2009, BlueOrchard has published a special social performance report. Their Social Performance Report 2010 presented the following statistics:

- the average loan size issued by MFI partners is $1,718
- 58 percent of the end clients are women, 39 percent men and 3 percent legal entities
- 45 percent of the clients are located in rural areas, 11 percent in semi-urban and 44 percent in urban areas
- 76 percent of MFI loans are allocated to micro-entrepreneurs
- most clients are active in trade (42 percent), agriculture (21 percent), services (17 percent) and manufacture (7 percent)
- 77 percent of loans are issued to individuals, 23 percent to groups
- from inception BlueOrchard has loaned over $1 billion to MFIs and thus provided about 700.000 low-income borrowers access to microcredits

In the report's editorial, Sarah Leshner, a Senior Investment Analyst responsible for social performance issues at BlueOrchard states that, up to now, the company has focused mainly on these outreach indicators for assessing its social performance. However, in 2009 a new social performance due diligence tool was developed and pilot tested with 10 MFIs. This tool collects information about the MFI's target group, including prevention of over-indebtedness, interest rates, client poverty levels, the treatment of MFI employees and others. In future it will be incorporated into the credit committee's decision making process. The Social Performance Report 2010 also contains detailed information about PlaNet Rating, the MIX Social Performance Reporting Initiative and the Cerise SPI audit tool. BlueOrchard supports these organizations by encouraging its partner MFIs to participate in surveys and assessments. In addition the company is involved with the following social performance initiatives:

- SPTF: BlueOrchard is an active member
- PRI: BlueOrchard is a signatory
- The Smart Campaign: BlueOrchard is a signatory
- The Rating Initiative: BlueOrchard is a member of the Steering Committee
- M-CRIL: external evaluation of the Dexia Micro-Credit Fund

(BlueOrchard 2010b)

6.1.2. responsAbility

Next to BlueOrchard, responsAbility is another Swiss MIV manager with total assets close to $ 1 billion. Its microfinance portfolio grew rapidly in 2009, from $549 million to $840 million (+53 percent). Another $38.9 million was invested in small and medium-sized enterprises, fair trade cooperatives and enterprises dedicated to independent media in low-income countries. About 230 MFIs in 52 countries receive funding from responsAbility either directly or through investments in microfinance portfolios (responsAbility 2010a). Headquarters are based in Zurich with branch offices in Paris, Lima and Nairobi (responsAbility 2009).

responsAbility's investment activities

responsAbility's biggest MIV is the responsAbility Global Microfinance Fund (rAGMF) which was incepted in 2003 and dispensed over $490 million to clients by the end of December 2009, of which $345 million was invested in microfinance or fair trade. The rAGMF is open for institutional as well as private investors with a low minimum subscription of $1,000 (responsAbility 2009). Three more MIVs investing in MFIs are available to institutional investors only. Most investment products are managed in close cooperation with Credit Suisse, which is one of the founding members of responsAbility (responsAbility 2010).

responsAbility reports there are four billion people worldwide living at the "base of the global income pyramid", because they lack development opportunities such as access to financial markets and services. Therefore the company aims to:

> "[...] use investments to empower people at the base of the global income pyramid. We help them realize their economic potential by giving them access to markets, information and other services important for their development from which they were previously excluded" (responsibility 2010).

Clients of responsAbility must meet five parameters established by the MIV for financially and socially responsible investments. MFI applicants involved in businesses which responsAbility considers incompatible with its mandate will be added to an exclusion list. Its services include loans and debt securities, as well as equity investments in some cases. Clients are required to follow a social mission, be fully transparent and report financial statements on a monthly basis. They must have a track record of at least three years, total assets must exceed $1 million with minimum transactions of $150,000 (responsAbility 2010). Three quarters of them are processed in U.S. dollars and the remainder in Euros (12 percent) and about 50 different local currencies (14 percent). Similar to BlueOrchard, responsAbility's preferred regions for investment are Eastern Europe and Central Asia which, combined, receive 47 percent of the investment volume, and Latin America and the Caribbean with 39 percent. Only 12 percent goes to South Asia and 2 percent to Africa (responsAbility 2010a).

responsAbility's social performance results

responsAbility published its first social performance report in 2006. At the time its activities were concentrated on establishing the rAGMF, which had already been investing in 80 MFIs. The report explains the issue and necessity of social performance measurement and already shows some results on indicators such as number of clients reached, the ratio of women and the proportion of clients living in rural areas (responsAbility 2006). These data had been included in the monthly fund performance reports since January 2004. The most recent social performance report reveals the following data provided by 156 MFIs of responsAbility's microfinance portfolio at the end of 2009:

- the partnering MFIs reached 11.4 million borrowers and 6.3 million savers
- the average loan size issued by MFI partners was $2,083 and average savings $1,360
- 54 percent of the clients were women, 41 percent men and 5 percent legal entities
- 48 percent of the clients lived in rural areas, 52 percent in urban areas
- 64 percent of the MFIs' loans were dedicated to micro-entrepreneurs
- most clients were active in trade (42 percent), agriculture (22 percent), services (17 percent) and manufacturing (6 percent)
- 75 percent of the loans were granted to individuals, 25 percent to groups
- the MFIs employed 85.976 people (by the end of 2008)

In addition to reporting on these social performance indicators, responsAbility developed its own assessment tool called "responsAbility Development Effectiveness Rating" (rADER). With rADER, responsAbility wants to add social performance criteria systematically to the due diligence process by grading MFIs on 19 indicators, divided into five categories: mission and objectives, products and services, operational systems and processes, access to financial services and contributions to local economic development. The first results of rADER analysis are to be published in the social performance report 2010. Furthermore, responsAbility is involved with the following social performance initiatives:

- SPTF: responsAbility is an active member
- PRI: responsAbility is a signatory
- Smart Campaign: responsAbility is a signatory
- The Rating Initiative: responsAbility is on the advisory board

(responsAbility 2010a)

6.1.3. Oikocredit

Oikocredit, a Dutch based cooperative society with ecumenical roots, was probably the first international private enterprise to invest in microfinance. It is owned by its members: church related institutions, project members and support associations established by individuals. Founded in 1975, the non-profit organization initially financed various development projects but soon after shifted its focus to MFIs. By June 2010, Oikocredit managed outstanding capital of €430 million of which 80 percent was invested in 579 MFIs. The remaining 20 percent went to small and medium-sized enterprises, cooperatives and fair trade. Oikocredit relies on a worldwide network of 31 support associations, the headquarters in Amersfoort, Netherlands, and 35 regional and country offices which look after 842 project partners. In total the organization operates in 71 countries (Oikocredit 2010).

Oikocredit's investment activities

Most of Oikocredit's capital comes from over 36.000 individual retail investors in various countries. Subject to country-specific terms they can participate in the cooperative society through support associations with a minimum investment of around €200. Shareholders receive a relatively steady annual dividend, typically the 2% maximum imposed by Oikocredit's statutes, which is determined every year at the general assembly. Relative to institutional fund investors, its return on investment, while limited, is largely unaffected by market volatility as Oikocredit subsidizes losses to some extent. Since its inception 35 years ago, no investor has lost money. In addition to the cooperative society comprised of individual shareholders, Oikocredit offers institutional investors a selection of specialized investment products, but these play a secondary role (Oikocredit 2010).

Oikocredit's mission statement declares that in addition to providing microfinance services, the organization strives to promote justice throughout the world by raising awareness and support of socially responsible investing:

> “Oikocredit, as a worldwide cooperative society, promotes global justice by challenging people, churches and others to share their resources through socially responsible investments and by empowering disadvantaged people with credit” (Oikocredit 2010).

Oikocredit uses six criteria for selecting project partners which include, suitable management, financial sustainability, social indicators and a preference for participatory structures. Their broad network of 35 offices in recipient countries are run by local staff which fosters close relationships with MFIs. Loans range from €50.000 to €4 million for terms of up to 8 years (Oikocredit 2010). Most MFIs funded by Oikocredit are categorized as tier 2 or 3 organizations, which indicates they are less established. Nearly half of all project partners are either cooperatives or NGOs, 30 percent are NBFIs and only 20 percent are companies or banks (Oikocredit 2010b). In 2009, the average loan amount was €659.000 and nearly half of them (46 percent) were issued in local currencies. About €26 million, or seven percent, of the funding capital was invested in MFI’s equity, whereas Oikocredit’s share participation was no more than one third of an MFI’s net assets. By region, Latin America was the preferred continent with 42 percent of outstanding invested capital invested, but Asia was catching up, largely due to the high growth rates in India. Overall, 28 percent of Oikocredit’s outstanding capital is invested in Asia, 15 percent in Africa, 14 percent in Central Asia and Eastern Europe and one percent in other regions. The regional focus for the next few years will be Africa, where Oikocredit intends to expand investments and open additional offices in Mozambique and Nigeria (Oikocredit 2010a).

Oikocredit’s social performance results

In 2009, Oikocredit established a department for social performance and financial analysis at its headquarters in Amersfoort which “[...] strengthened our capacity to ensure both social and financial returns” (Oikocredit 2010a). In 2010, its first social performance report was published and a separate website was launched to keep information up to date. According to SPTF social performance indicators, Oikocredit’s Social Performance Report 2009 (2010b) includes the following information:

- 367 partnering MFIs reach more than 17 million borrowers in over 70 countries
- 20 percent of the portfolio is invested in 18 low-income countries (World Bank definition)
- the average loans size issued by MFIs is €930
- 85 percent of the clients are women
- 53 percent of the microfinance investments reach clients living in rural areas

In addition to tracking this information, Oikocredit developed an Environmental, Social and Governance (ESG) scorecard to use for screening potential partners which focuses on criteria for client protection. Oikocredit also requires MFIs to disclose interest rate schedules for their financial products which are then compared with regional standards. Since 2008, partnering MFIs are systematically audited by Cerise and some have been encouraged to implement the PPI. To support MFIs working on social performance issues, Oikocredit uses its own capacity building fund for grants and co-operates with other institutions to provide training (Oikocredit 2010). In order to promote social performance at an international level, the cooperative society is involved with:

- SPTF: Oikocredit is a member of the steering committee
- PRI: Oikocredit is a signatory
- Smart Campaign: Oikocredit is a member of the steering committee
- PPI: Oikocredit worked closely together with the Grameen Foundation to implement the "Progress out of Poverty Index"
- MFT: Oikocredit was one initiator of Microfinance Transparency and actively promotes transparent pricing
- SPI: Oikocredit works closely together with Cerise and is the first investor to undergo a social audit itself
- Social Microfinance Foundation: Oikocredit is a board member (the foundation provides technical assistance to MFIs)
- Imp-Act: Oikocredit is a member of the consortium
- CGAP: Oikocredit has been honoured with the MIV ESG Award 2009 to be one of three best in class for integrating environmental, social and governance factors into investment decisions

(Oikocredit 2010)

6.1.4. Triodos

Triodos Bank is one of the world's leading sustainable banks. It is based in the Netherlands but also has branches in Belgium, the United Kingdom, Spain and Germany. In addition to its wide range of bank services, the bank's subsidiary, Triodos Investment Management, operates several microfinance funds. Since opening for business in 1994 it has been a pioneering private foreign microfinance investor, and supported 81 MFIs in 40 countries with total assets under management of €236 million by the end of 2009 (Triodos 2010).

Triodos' investment activities

Triodos Investment Management manages four MIVs with "[...] similar objectives but different risk profiles and funding structures, which means we can support microfinance institutions at different stages of development" (Triodos 2010). Each of the four funds files a separate annual report disclosing its performance in great detail. Key figures as of calendar year-end 2009 are summarized in the following table:

Table 4: Triodos MIVs – key figures

Funds	Triodos-Doen	Triodos-Hivos Fund	Triodos Fair Share Fund	Triodos Microfinance Fund
Launched in	1994	1994	2002	2009
Microfinance Portfolio	€62.2 million	€42.6 million	€60.4 million	€22 million
Profit 2009	€9.5 million	€0.39 million	€7.9 million	€0.38 million
No. of MFIs	53	62	29	12
No. of big MFIs[1]	10	9	8	5
Local currency	42 percent	52 percent	28 percent	9 percent
Equity investments	45 percent	-	24 percent	5 percent
Regional allocation:				
Eastern Eur./Central Asia	33 percent	8 percent	22 percent	20 percent
Latin America	22 percent	34 percent	43 percent	56 percent
Southern Asia	31 percent	29 percent	27 percent	16 percent
Africa	12 percent	27 percent	8 percent	8 percent
Risky investments[2]	40 percent	75 percent	25 percent	No data

[1] MFIs with more than 100.000 borrowers

[2] Risk classes 3 and 4 out of 4, categorized by Triodos Investment Management

Source: own description based on Triodos 2010a, 2010b, 2010c, 2010d

Triodos-Doen and Triodos-Hivos Fund were already established in 1994. The close association with Doen Foundation, the "Human Institute for Development Cooperation" (Hivos), allows them to assume greater risk and to invest in smaller, less mature MFIs in underdeveloped markets. Both funds endeavour to add value to MFIs through active participation in their governance and transfer of knowledge. About half of their loans are issued in local currencies. Triodos-Doen has about 45 percent of its microfinance portfolio invested in equity which supplies important seed capital to small MFIs. While their direct participation is used by Triodos Asset Management to influence management decisions, equity investments are kept below 10 percent of the MFI's portfolio so that the ownership clearly remains with the institutions (Triodos 2010a). On the other hand, Triodos-Hivos Fund sometimes works in co-operation with the Hivos

Seed Capital program which awards grants to start-up MFIs. When these start-ups become commercially sustainable they may receive funding from Triodos-Hivos Fund. This more aggressive approach is reflected by the small number of large MFIs in its portfolio, its strong presence in Africa and its 75 percent weighting in relatively high-risk investments. Only 16 percent of the supported MFIs are registered banks and the rest are NGOs, cooperatives or NBFIs (Triodos 2010b).

In addition to these two funds with a clear social mission, Triodos Fair Share Fund was launched in 2002. This fund targets private individual investors. In the past five years the average return on investment has been seven percent. For investment partners the fund focuses on regulated MFIs and institutions that, while still in the development stage, have nevertheless achieved a certain level of maturity and professionalism (Triodos 2010c). In 2009 a fourth fund, the Triodos Microfinance Fund, was created to attract institutional investors and private banking clients. Up to the end of 2009 it had accumulated total assets of €39 million of which €22 million was invested in microfinance (Triodos 2010d). Triodos Microfinance Fund offers an annual return on investment of six to nine percent after expenses, low correlation with other asset classes, a diversified portfolio and effective hedges against currency fluctuations. The fund's objective is to have 80 percent of assets invested in MFIs with proven track records and 20 percent in start-up institutions. About one third of assets will be in equity investments, the balance in debt (Triodos 2010). The fund's mission statement follows:

> "Triodos Microfinance Fund has the prospect of an attractive financial return combined with the opportunity for the investors to make a proactive, measurable and sustainable contribution to the development of the microfinance sector into an inclusive financial sector in which the majority of people have access to financial services" (Triodos 2010d).

While this description suggests a more commercial approach than the Triodos-Doen and Triodos-Hivos Funds, the coming years will determine whether or not that is, in fact, the case.

Triodos' homepage lists its criteria for selecting MFI partners along with details of its funds. These criteria include financial preconditions such as an outstanding gross loan portfolio of at least €1 million, transparent reporting and a commitment to Client Protection Principles. Loans are offered in US dollars, Euros or local currencies, ranging from €500.000 to €5 million for terms of up to 5 years. As a condition of investing in an MFIs' equity, Triodos requires that one of its representatives be appointed to the MFI's board to have a say in the institution's governance. In 2009 investment activities were extended to Sri Lanka, Colombia and Malawi.

Triodos' social performance results

The fund's annual reports also include the issue of social performance. The necessity for reporting on social performance indicators in the face of commercialization of the global microfinance sector is discussed and corresponding MFI data are presented. The following table summarizes these data for the four funds:

Table 5: Triodos social performance data

Funds	Triodos-Doen	Triodos-Hivos Fund	Triodos Fair Share Fund	Triodos Microfinance Fund
No. of MFIs reporting	47	40	29	11
No. of borrowers	3.247 million	4.653 million	2.576 million	1.448 million
Average loan size	€854	€453	€1137	€1277
No. Of savers	4.314 million	2.570 million	3.396 million	1.763 million
Female Clients	67 percent	70 percent	58 percent	52 percent
Clients in rural areas	57 percent	66 percent	38 percent	20 percent

Source: own description based on Triodos 2010a, 2010b, 2010c, 2010d

In addition, the SPTF, Smart Campaign and MFT are discussed. The Principles for Responsible Investment were the subject of a press release on 27 January 2011 (Triodos 2011). Triodos is involved with the following initiatives:

- SPTF: Triodos is an active member
- PRI: Triodos is a signatory
- Smart Campaign: Triodos Triodos is a signatory
- MFT: Triodos actively supports Microfinance Transparency
- CGAP: Triodos has been honoured with the MIV ESG Award 2009 to be one of three best in class for integrating environmental, social and governance factors into investment decisions

(Triodos 2010)

6.1.5. Triple Jump

The Dutch microfinance investment manager Triple Jump B.V. was founded in 2006 as a limited company. Before becoming independent it was part of the development organization Oxfam Novib, which started to invest in microfinance in the 1990s and is still one of four shareholders. The other shareholders are ASN Bank, the largest sustainable bank in the Netherlands, the NOTS foundation and the management of Triple Jump. Triple jump is headquartered in Amsterdam with regional offices in Lima and Skopje. It currently manages or advises five microfinance funds with total invested capital of €146 million and has business relations with 132 MFIs. In addition the affiliate foundation, Triple Jump Advisory Services, has served 25 MFIs with capacity building in 2009. It is sponsored by Oxfam Novib, DOEN Foundation, Triple Jump B.V., ASN Bank Foundation and the Dutch bank-insurer SNS Reaal (Triple Jump 2010).

Triple Jump's investment activities

The leading MIV managed by Triple Jump in terms of capital invested is ASN-Novib Fund (ANF). Established in 1999 by ASN Bank and Oxfam Novib, it had invested €79 million in 54 MFIs by the end of 2009. The ANF primarily invests in developing and mature regulated MFIs and, in some cases, NGOs. Loans are mostly denominated in US dollars or Euros with only seven and a half percent in local currencies. In addition, the portfolio consists of four equity investments. The fund is open to private individuals and achieved a net return on investment of just over four percent in 2009, and since inception the fund has not had to deal with any write-offs. The SNS Institutional Microfinance Fund where Triple Jump acts as a sub-advisor follows a similar pattern. Capital of €27.4 million, provided by institutional investors such as pension funds, is delivered as loans to the same target group which is served by ANF (Triple Jump 2010a).

In contrast, the Oxfam Novib Fund finances mainly Tier 3 MFIs and follows a clear social policy. Preferred MFI partners are young but growing institutions which service low-income and marginalized groups, especially women and people living in rural areas, as well as minorities and refugees. By year-end 2009, the fund had granted loans and guarantees with a total volume of €31 million to 83 MFIs of which 60 percent was in local currencies. While ASN-Novib Fund and SNS Institutional Microfinance Fund had average exposures of €1.5 and €2 million, Oxfam Novib Fund 's average loan size was only €370,000. The NOTS Fund, launched in late 2009, follows the same pattern. In addition, Triple Jump is a sub-advisor to the Calvert Foundation and as such identifies, negotiates and monitors loans to MFIs which are promoted through the online platform microplace (Triple Jump 2010a).

The different funds, supplemented with advisory services, allow Triple Jump to partner with MFIs at different stages of development. Their goal is to support NGOs in the early stages of achieving financial sustainability in their development towards becoming a mature institution. The company's mission outlines the objective of this approach:

> “Triple Jump's mission is to contribute to the sustainable development of emerging market economies by facilitating investment in micro and small enterprises. Triple Jump seeks to support the expansion of viable microfinance institutions in all three stages of their development (emerging, expanding and mature) by providing capital and advisory services” (Triple Jump 2010).

Triple Jump operates “[...] at the interface of commercial and development work” as an entrepreneur in order to achieve results and solutions without losing sight of its social objectives and integrity (Triple Jump 2010a). To qualify as a partner of Triple Jump, an MFI must satisfy certain social, financial and governance criteria, such as a social commitment, operational sustainability or trend towards sustainability, external audits and regular financial reports. The preferred regions of operation for Triple Jump are Central and South America which together account for 43 percent of all loans, followed by 35 percent for Eastern Europe and Central Asia combined, and nine percent each for Southern Asia and Africa (Triple Jump 2010). If Triple Jump takes an equity position in an MFI through the ASN-Novib Fund or the NOTS Fund, either an experienced staff member or a consulted expert must be assigned a position on the MFI's board to add value and oversight. Long-term investments provide their partners with sufficient time to implement their strategies without being limited by strict exit deadlines (Triple Jump 2010a).

Triple Jump's social performance results

Triple Jump has published a comprehensive report on “Social Performance Assessment 2010” (Triple Jump 2010b). The report begins with an explanation of the necessity and potential of SPM with reference to definitions provided by the SPTF. All Triple Jump staff receive training on social performance by a social rating agency and in cooperation with Oxfam Novib a “Social Performance Assessment Questionnaire and Scoring Tool” (TJ SPA) has been developed. This tool is used systematically to collect data on the social performance of partners. It is based on a questionnaire which can be completed during the due diligence process and consists of a matrix with three stages - intent, implementation and results - and six categories: client protection, client satisfaction, social performance information, outreach, gender and human resources. An MFI must score above 40 percent to be eligible for financing.

From January 2009 to June 2010 Triple Jump collected TJ SPA data from 81 partners of which only 10 percent scored less than 50 percent. On average, MFIs in Asia had the highest scores and those in Sub-Saharan Africa, Eastern Europe and Central Asia the lowest, which is consistent with results from similar investigations conducted by Cerise. The data also showed that top tier MFIs serve comparatively fewer women and fewer clients in rural areas. In addition, their average loan size is more than $1,600 compared to about $900, $500 and $300 for tiers two, three and four, respectively. Subsequently, Triple Jump used this information to relate social performance to financial performance and look for potential trade-offs and synergies. While their study showed a positive association the result was not statistically significant, and their general conclusion was that financial performance does not come at the expense of social performance. Investigations of specific topics showed that a high ratio of women corresponded to higher productivity, well-trained staff reduced write-offs and that outreach was negatively correlated with operating expenses. This last statistic means that MFIs which were more active in rural areas and served poorer clients with very small loans had a lower operating expense ratio (Triple Jump 2010b). While this result may be surprising, it is consistent with the findings of a recent MIX study (see Gonzalez 2010).

Triple Jump is convinced the use of TJ SPA motivates its partner MFIs to pay attention to social performance and that it produces valuable information for improving both social and financial performance. The report on Social Performance Assessment 2010 also provides the following information on social performance indicators:

- 152 MFIs supported by Triple Jump reach about 7.8 million people
- 71 percent of the clients are women
- 52 percent live in rural areas

Worldwide, Triple Jump is involved with the following social performance initiatives:

- SPTF: Triple Jump is an active member
- PRI: Triple Jump is a signatory
- Smart Campaign: Triple Jump and all of its shareholders have endorsed the Client Protection Principles and integrated them into the TJ SPA
- MFT: Triple Jump promotes Microfinance Transparency

(Triple Jump 2010)

6.2. Comparing investors' performances

The forgoing discussion is a brief comparative summary of the main features of five private foreign investment enterprises. The discussion reveals several similarities and differences between these enterprises which I address in the following paragraph. I also broaden the comparison by adding two more perspectives: first, the way this information is publicly distributed; and second, the views of institutions' representatives on several related controversial topics. Conclusions drawn from these three research perspectives provide the foundation for my concluding assessment of the private foreign investors' role in shaping the social performance discourse in microfinance.

6.2.1. Investment activities and social performance information

An examination of the investment activities of BlueOrchard, responsAbility, Oikocredit, Triodos and Triple Jump reveals the uniqueness of Oikocredit's model. Whereas the other four members of our sample group channel capital towards the microfinance sector, Oikocredit uses its cooperative structure to collect money from shareholders and forward it to project partners. The main practical difference for investors besides the low minimum subscription of €200, is that Oikocredit intervenes to offset performance volatility and pays a stable dividend of two percent. In contrast, conventional institutional funds pass on profits as well as losses to their investors. Another difference is that Oikocredit investors become shareholders of the cooperative society and have defined rights of co-determination which can influence, among other things, the selection criteria for potential project partners. However, although it is not stated, in practice this is also applies to investment funds, especially when they are financed by a limited number of stakeholders, as in the case of Triodos Doen.

A comparison of these investment products reveals two different strategies employed by the funds' managers. First, they offer funds to attract institutional investors and wealthy individuals by offering worthwhile returns and high security. To achieve this, the funds invest first and foremost in the world's leading MFIs which serve several thousand clients and have proven track records. Among these funds are the Dexia Micro-Credit Fund, responsAbility Global Microfinance Fund, Triodos Fair Share Fund, Triodos Microfinance Fund, ASN-Novib Fund and SNS Institutional Microfinance Fund. These more commercially oriented funds are also the biggest MIVs in terms of assets under management.

Second, they have funds with a stronger social mission which follow a non-profit approach, take higher risks by investing in tier two and three MFIs and issue smaller loans to a broader range of MFIs. These funds are primarily financed by foundations and NPOs which may also provide technical assistance to young MFIs. Examples are the Microfinance Enhancement Facility, Triodos-Doen, Triodos-Hivos Fund, Oxfam Novib Fund and NOTS Fund.

BlueOrchard and responsAbility focus on funds belonging to the first, more commercially-oriented group. In contrast, Triodos started its microfinance activities with two funds with mandates to serve underdeveloped markets and only recently launched two more funds with a more commercial approach. Triple Jump manages and advises funds in both categories on a relatively equal basis. The investment activities of Oikocredit follow the second, predominantly socially-oriented strategy.

Debt products dominate the activities of the five enterprises whereas equity investments, although on the increase, in most cases still represent a small part of the portfolio. Only BlueOrchard manages a specialized private equity fund with the considerable volume of almost $150 million. Given the limited history of equity investments in microfinance, the BlueOrchard Private Equity Fund reduces risk by focusing on top tier MFIs. Thus, a substantial share of equity investments, 45 percent, has been allocated to Triodos-Doen. Apart from the fact that only registered MFIs can receive this kind of funding, Triodos-Doen targets relatively small MFIs. Triodos requires a company representative to be appointed to an MFI’s board whenever it takes an equity position so it can play an active role in and lend value and support to the MFI’s governance and operations. Equity investments may also be promoted with either a financial or a social bias, so that some funds highlight the growth potential and increasing financial value of private equity while others emphasize the importance of this kind of funding for the development of small MFIs.

Several investment characteristics reveal the differences between commercial and social orientation. One is regional spreading: Latin America as well as Eastern Europe and Central Asia are considered to be the most developed microfinance markets, whereas Southern Asia only recently achieved high growth rates while Africa still lags. Both BlueOrchard and responsAbility have allocated about 85 percent of their loans to MFIs in Latin America, Eastern Europe and Central Asia. Southern Asia and Africa are hardly served. Triple Jump has issued at least 20 percent of its loans to the latter two regions. Triodos Fair Share Fund and Triodos Microfinance Fund have a smaller

Eastern Europe/Central Asia portfolio with around 20 percent allocated to Southern Asia. At 31 percent allocation, Triodos-Doen is very active in this region, while Triodos-Hivos Fund's loan portfolio is 27 percent invested in African MFIs. Oikocredit has invested the bulk of its outstanding loans in Latin America and about 15 percent in Africa. Remarkably, Oikocredit's proportion of local currency loans is 46 percent despite its broad diversification over more than 70 countries. A higher percentage of local currency is held by Oxfam Novib Fund and Triodos-Hivos Fund but both are much smaller in terms of capital and global coverage. Most of the other funds still process around 90 percent of their loans in US dollars and/or Euros.

The focus of commercially oriented funds on large, mature MFIs is disclosed in publications to underscore their security and also is apparent from their high average loan sizes. The average exposure at BlueOrchard is $2.1 million and a little less at Triple Jump's ASN-Novib Fund and SNS Institutional Microfinance Fund, while the average loan size of Oxfam Novib Fund is only €370,000. Social performance indicators reveal that differences in average loan size follow the same pattern at the MFI level. The average microcredit issued by MFIs financed through responsAbility is $2,083 compared to $1,718 for BlueOrchard's partners. In contrast, MFIs financed by Oikocredit have average loans of €930. More socially oriented funds further serve a higher percentage of women and more clients in rural areas.

Various other indicators make the different management strategies between commercially-biased and socially-biased fund orientation more apparent. A comparison of the four funds managed by Triodos suggests that the respective management approaches do not necessarily mirror the enterprise's overall strategy. The fact that BlueOrchard manages the Microfinance Enhancement Facility and the Microfinance Growth Facility next to commercial Dexia Micro-Credit Fund, Collateralized Debt Obligations and a commercial private equity fund reinforces this observation. The features of different investment products seem to depend mainly on the types of financing: commercial funds are typically financed by institutional investors and wealthy individuals, funds with a clear social mission, foundations and NPOs. Oikocredit is a special case in many respects. Its capital sources are primarily individuals content with a limited return on investment and a strong emphasis on social performance. Oikocredit's social public image is rooted in its origins as an ecumenical cooperative society with Christian values, and true to this image it continues to be an active participant in international social performance initiatives today. All five of the sample group are members of the SPTF and endorsed the PRI and the SMART Campaign's client protection principles, and some also support MFT. Oikocredit also works cooperatively with Grameen Foundation to implement the PPI, has adopted the Cerise social audit tool and is involved in several other initiatives.

A common feature of all five enterprises is their use of certain criteria for identifying adequate MFIs as business partners. These criteria are very similar in each case and always include the necessity for a social mission. In addition, BlueOrchard, responsAbility, Oikocredit and Triple Jump have developed and are currently testing their own social performance assessment tools. To a great extent they follow the procedure of the Cerise social audit tool but weight criteria differently. All four enterprises promote their tools as proof they have policies in place to ensure their activities produce positive social impacts. By year-end 2010, only Triple Jump had published and analyzed their initial results so a comparison between the tools is not yet possible.

6.2.2. Information channels

Information provided on homepages and annual reports is always carefully selected and prepared so as to attract attention and highlight the institution's strengths without overwhelming the reader with details. Consequently, an enterprise's online appearance and publications showcase information directed to a target group. So far I have limited my description of the five selected microfinance investors to the contents of their respective information sources. I selected specific topics and indicators which provide the reader with a glimpse of the institutions' activities which is necessary to conduct a comparative performance analysis. This selection was made easier by the fact that each group member displayed very similar information. A reason for this may be that specific indicators are used by internationally recognized institutions like MIX. Furthermore, the number of international players in microfinance is limited and through initiatives like the SPTF somewhat of a standard of reporting on social performance has been established. A third reason may be that the enterprises learn from each other and use competitor's publications for reference.

The homepages of BlueOrchard, responsAbility and Triple Jump are structured very similar, but Oikocredit's website is somewhat different in that it is decentralized to accommodate its broad spectrum of retail investors. Their website is available in different languages and the content is country-specific. In contrast, Triodos has integrated its microfinance activities into the bank's website as one subject next to others like green energy and sustainable trade. The homepages of all five enterprises contain three categories of information:

1. A description of the institution which includes an introduction to microfinance and social performance, the enterprise's history and the mission, staff members and contact details.
2. Products and services offered by the institutions, in some cases sub-divided into individual and institutional investor categories plus investment criteria and additional advisory services.
3. News and publications offering information on current developments, factsheets, press releases, newsletters, annual reports, social performance reports and other relevant information.

Also very popular are quotes and success stories from microcredit clients testifying to the positive influence of microfinance on their lives. Typically, the stories will introduce a person who has used a microloan to start or expand a business and turn it into a successful enterprise, replete with photos of the borrower and his or her business. Oikocredit even provides short movies about some of its project partners and an online database with information about most of its partners. This information includes the organization's location, activities and amount of the loan received from Oikocredit and in some cases, photos, detailed portrayals and social performance data.

It seems like Oikocredit uses its website to attract potential investors, establish a personal relationship between investors and microfinance clients and keep its existing members apprised of the organization's current activities. BlueOrchard, responsAbility, Triodos and Triple Jump, which work mainly with a limited number of large investors like foundations and pension funds, place more emphasis on presenting a formal, businesslike front with a focus on their investment products. Oikocredit prioritizes the social potential of an investment, so that a visitor touring its website will learn much about microfinance and the social agenda of Oikocredit before getting to the investment details. The other four enterprises place more emphasis on their investment activities and financial incentives such as strong returns and stability in times of crisis. The homepages of BlueOrchard and Triple Jump also include a login-tool for MFIs which suggests their websites are used for investor contact as well as for communication with credit customers.

Besides websites, the five enterprises also use annual reports and social performance reports to convey information about their activities. Summaries of developments over the past year are reported in general information about the institution and its corporate agenda. These reports are peppered with client photos and success stories intended to “humanize” the content and improve readability. While the content and volume of these reports may vary, the overall concepts and objectives are quite similar. BlueOrchard, Oikocredit and Triple Jump’s annual reports provide overviews of the institutions’ activities, whereas Triodos publishes four separate annual reports for each one of its funds. These are very extensive documents and report details of financial indicators and social performance data. responsAbility limits its annual financial reporting on its investments but has been pioneering the creation of a separate social performance report. First published in 2006, it seems like the report has been used as a model by BlueOrchard, Oikocredit and Triple Jump which recently published its first corresponding report. In addition, they all produce newsletters on a monthly or quarterly basis.

The topic of social performance is an integral part of the public information provided by BlueOrchard, ResponsAbility, Oikocredit and Triple Jump, all of which subscribe to the SPTF definition of social performance and promote initiatives like the SMART Campaign and MFT and list their respective activities. In addition, BlueOrchard has dedicated a special edition of its newsletter to introduce social performance, responsAbility has published a discussion paper on how to measure the social impact of microfinance, and Oikocredit has launched a separate website about SPM. Only Triodos has not integrated the topic of social performance into its main communication media until now, although their funds’ annual reports contain information on several social performance indicators.

6.2.3. Representatives’ opinions

In addition to my investigations of the five institutions’ methods of operation and of the content and methods of communicating investor and public information, I conducted interviews with their representatives as a third research strategy. My reasoning was that staff in charge of the institutions’ social performance agendas would have some influence in shaping the policy behind these agendas. Even if these individuals are not always qualified to make executive decisions on some issues, such as investment policy, I assume that their personal experiences and opinions have considerable influence on respective management decisions In consequence, I regard the enterprises’ social performance specialists as key resources for the purposes of my research.

At the SPTF Annual Meeting 2010 I consulted representatives of the five selected enterprises: Sarah Leshner from Blue Orchard, Cecile Koller from responsAbility, GingLedesma from Oikocredit, Joke van der Ven from Triodos and Jessie Greene from Triple Jump. While some of these representatives were not solely in charge of their organization's SPM program, their role as international spokesperson for their institution's SPM policy was a testament to their expertise on the subject.

The interviews took place either during the course of the five day SPTF Annual Meeting from June 28 to July 2, 2010, or shortly afterwards by telephone. I referred to Gläser and Laudel (2009) for methodology of guideline-oriented interviews and to Meuser and Nagel (1991) for evaluation methods. My interview-guideline presents questions from three categories: the institution's self-conception, experience with SPM and opinions on current, related topics. Following are a discussion and interpretive analysis of the interview results.

The institution's self-conception

All of the five consulted representatives describe their institutions as social investors which have recognized that just providing money to MFIs is not enough to achieve a positive social impact on poor people. They are active members of the SPTF and use best-practice indicators to measure social performance. When asked about their reasons for committing to social performance, they spontaneously listed three factors:

1. Ledesma and van der Ven emphasized that SPM is a logical result of their mission: "[...] we want to see our mission become reality. We don't want it to remain slogans or nice statements in our publications" (Ledesma 2010).
2. Coller and Greene also referred to their mission but added they also endeavoured to address the need of their financiers. While Coller identifies a big demand from socially motivated retail investors, Greene explains that one of Triple Jump's shareholders, Oxfam Novib, encouraged and assisted them to work on SPM.
3. Further and Leshner said their previous social performance assessments had been insufficient and they were now using new, internationally recognized methods to prevent dangerous situations in future: "[...] we discovered that when you are not as careful on the social side as you are on the financial side you can run into some dangerous situations" (Leshner 2010).

The representatives saw their institutions as industry leaders and were willing to act as role models for social microfinancing. While Ledesma was very confident about

Oikocredit's reputation as a leading private foreign investor in social performance activities – "[...] when SPTF members talk about social performance measurement and promotional social performance management, Oikocredit is almost mentioned in the same breath" - Leshner is more cautious: "[...] you know Oikocredit and Incofin have always had more social orientation I would say and so part of the reason that BlueOrchard has been so active and so visible is that we sort of view this as some of our responsibility as a leader in the industry." Greene points out, that Triple Jump shares its system openly and gives advice on SPM on request from other institutions.

Experience with SPM

For all five enterprises attracting investment capital is crucial for their business, so they must adapt to investors' needs. Each representative agreed that different types of investors weight social performance differently in their investment decisions:

> "[...] if it is a foundation or even if it is a high-net-worth individual they are much more likely to ask us questions on social performance criteria. So particularly foundations I think are very keen to prove that they are having the impact that they want, that they are reaching the population that they want, that they are helping to improve people's life, that they are lending in a financially responsible way" (Leshner 2010).

Institutional investors, on the other hand, have other priorities: "So if you're talking about a pension fund, they are interested in the return. Of course they think it is nice to invest in microfinance, but they are not looking for an elaborate in-depth social assessment" (Greene 2010). responsAbility published its first social performance report in 2006 and Coller also acknowledged their investors appreciate there is a report indicating positive social performance, although it's not their priority. She explains that retail investors do not have many options for investing in microfinance and that institutional investors, in contrast, look for a social aspect although financial factors like return or risk profile, ultimately determine investment policy. Regarding retail investors, Ledesma says that two or three years ago Oikocredit was confronted with many requests from its shareholders concerning their social impact on poor people's lives. Since increasing their social performance reporting the frequency of these questions has declined.

On the outflow side all representatives identified big differences in the perception of social performance. Leshner reported that BlueOrchard mainly worked with top level MFIs and most of them had access to global initiatives like MIX or the SMART Campaign. Nevertheless, she made reference to two MFIs in Bosnia financed by

BlueOrchard and belonging to the same MFI-network that weighted SPM very differently. One MFI tracked its clients' poverty levels and discussed the results at the board level while the other one had not established any such social performance protocol. responsAbility too, finances mostly well-established MFIs, and Coller agrees with Leshner: "In general MFIs have certain awareness for social performance management but how they put it into practice differs a lot". Oikocredit focuses more on small and young MFIs and Ledesma says many of them still lack information and awareness about SPM: "I think the interest is much greater today than it was two or three years ago. But it is certainly true that you still have to promote it". To facilitate this Oikocredit organizes training workshops for MFIs. The willingness of MFIs to take up SPM tools varies: "[...] for some it is almost like it goes without saying, it is an automatic thing and they raise it completely and totally. And for others it is still seen as a cost centre and therefore the business case of social performance needs to be proven". This experience is shared by Greene as well as van der Ven, who adds that an MFI which is weak in SPM can still be financed by Triodos if it shows the willingness to improve in this area.

Ledesma and Greene said they actively set incentives for MFIs to work on SPM. According to Ledesma, not only has Oikocredit always used defined social criteria for selecting partners. For several years MFIs that participate in socially relevant programs have been eligible for interest rate discounts of up to one percent. Greene reported that Triple Jump raises awareness of social performance and provides education through discussions with MFIs. It happens that they drop recommendations, for example to pay more attention on over-indebtedness in the course of the due diligence. They do not put these topics into loan agreements but tell the MFI that a good social performance is favourable for future negotiations. If an MFI is willing but technically incapable of implementing Triple Jump's recommendations, the latter will provide the necessary technical training and assistance. BlueOrchard, according to Leshner, had just begun to offer social performance training to MFIs while Coller reported that responsAbility focuses on financing MFIs and does not (want to) offer social performance training or consulting services. The opportunities for that would be limited anyway because responsAbility is mainly a debt investor which gives it very limited influence on MFIs. In cases where responsibility does take an equity position it will make recommendations to the MFI about how to improve social performance. While Ledesma does not identify any major difference in influence related to investment type, Triodos's van der Ven shares Coller's opinion that an equity position brings with it far more influence over the MFI's policies:

> "Because what we see is that in dept financing competition is growing so fast so that your influence is limited. There is a lot of prize competition which dominates the negotiations. But I think where you really impact clients is with the equity financing. And in that sense we only do equity... our strategy is to become a minority shareholder and we always want to have a seat on the board. So through our boards we really have an influence on the whole organisation and we try to protect the social performance of the organisation" (van der Ven 2010).

Asked for their opinions as to how MFIs can have a positive social impact on their clients, all five representatives immediately referred to the SMART Campaign's client protection principles. Leshner and Coller think all of these principles are important for protecting clients, assuring a sustainable business model and for future development of the industry. Van der Ven agreed, but clarified that Triodos focuses on the principle behind the phrase "do not do harm to your clients". She believed initiatives like measuring the poverty levels of clients introduces a risk that MFIs could become swamped by the process of gathering poverty related data. She recommended designing social performance tools so they can be used in a commercially viable way.

Similarly, Greene suggested the way to simultaneously achieve a positive social impact and commercial viability is to employ a three step approach, as follows: 1. define a mission, 2. examine the needs of the target group and supply them with suitable products, and 3. listen and respond to client feedback as a basis for improvement. "[...] That is just good business practice. It is not a different system that they should put in, to have good social impact". Ledesma also recommended these three steps, but instead of an emphasis on business principles she believed "a spirit of learning and a spirit of reflection within the organization" is imperative if the organization is to achieve its social performance objectives.

Opinions to related hot topics

Representatives' comments and opinions on microfinance-related issues are useful for gaining a better understanding of the discourse. The previous chapters already introduced discussions on impact studies, funding by local banks, subsidies and the trend towards commercialism. Leshner, Coller, Ledesma, van der Ven and Greene had similar opinions on these topics. Their view on impact studies was well stated by van der Ven:

> "Well, they are interesting to read. And it is something that the sector needs. But it is not the responsibility of the financial institutions themselves. Because in Holland, in Europe we

do not do impact studies. If somebody has a bank account it makes his life better" (van der Ven 2010).

The five representatives agreed that impact studies can contribute valuable input towards improvement but have the disadvantages of being expensive, time-consuming, and generally, inconclusive. They further agreed that impact studies should be conducted by universities or NGOs with donor funding, rather than by investors. As Coller put it, as impact assessments are case studies, it is highly impractical and cost-prohibitive to conduct qualitative investigations on a complete microfinance portfolio. Thus, investors must focus on activities that lead to a "maximum valued added". Ledesma illustrated this with an example showing that an approximate sum of €500.000 to fund one impact study could be more efficiently applied toprovide technical assistance to 20 or 30 MFIs. Oikocredit did conducd impact studies in the past before concluding that other applications of their resources produced a more practical, efficient delivery of positive benefits to their clients.

Subsidies are also considered to be important to the microfinance sector but only when applied to a limited extent in an appropriate way. Smaller, immature MFIs working in underdeveloped markets may not qualify for commercial funding from the beginning. Ledesma believed that "[...] most MFIs are able to reach break-even within 12 months, some even within eight months". Once the basic infrastructure is set up, subsidies should be removed. "It should not go on forever. At some time you have to decide, okay we can become sustainable and you do it. Or we can never become sustainable and then you should probably close the institution" (Greene 2010). Coller and van der Ven pointed out that subsidies should only be granted in the forms of technical assistance or equity investments, not as cheap loans: "Large subsidized loans at three or four percent are disturbing us a lot. I think the focus should be on financial sustainable products. [...] Let the money flow on the basis of a commercial price" (van der Ven 2010). What is needed by startup MFIs and cannot be offered by commercial investors is equity financing and technical assistance. It is only for these purposes that public funding is justifiable. Oikocredit uses surplus funds exclusively for supporting MFI capacity building, not for subsidizing favourable loan terms.

The interviewees recognized the potential high risk for subsidies to be a source of competitive distortion. On the contrary they welcomed the increasing involvement of local banks in microfinance activities. They considered local banks to be a valuable source of funding for MFIs as they offer a choice of terms that differ from those offered by private foreign investors. Although they acknowledged there will always be a certain amount of competition between local and foreign funding, this competition should be embraced, not feared. In fact, all five representatives said one of their ultimate objectives was to contribute to the development of local banking infrastructures, while recognizing the need for foreign investments was still very high: "I think there will always be demand. And I think the question is how do investors react to the changing landscape" (Leshner 2010). Currently, local bank infrastructures are woefully inadequate to meet the demands for microfinance services. However, as Greene stated, on occasion foreign investors will even assist MFIs in getting better funding from local markets:

> "We actually sometimes give a loan and then the MFI uses our loan as a deposit at a local bank so that the local bank gives them a local loan. Then we even go with the MFI and help them to get good terms from the local bank. So we are stimulating in fact our clients to get local sources of funding at good terms" (Greene 2010).

Finally, the five interviewees were asked to comment on the trend towards commercialism in the microfinance sector. Greene said she worked mainly with MFIs in Africa and saw very little commercialism there. She was aware of some newer, larger institutions which "[...] focus more on the upper segment of the market but I don't think it's at the cost of the other MFIs". Leshner, Coller and van der Ven clearly appreciated more commercialism as it corresponds with an extended outreach to the poor, better and cheaper products for clients, the establishment of needed business standards, such as more transparency, and a higher degree of professionalism. However, they also warned that commercial objectives can reduce social impact and even lead to harmful developments. They unanimously agreed that commercial players must act socially responsible and not neglect social goals in favour of stronger growth and higher investment returns for shareholders. As Leshner put it:

> "I think having more capital in the space is something that is terrific because it directs more resources towards clients who need it. But I think you need to do it in a responsible way so that there is not so much pressure to satisfy commercial objectives. Because then you end up growing too fast or lending irresponsibly, just to generate returns and at the end of the day the microfinance clients are the ones who suffer because they do not have suitable products, they do not have suitable prices or they are being over-indebted because the MFI itself has so much pressure to grow and is flooded with capital. So I think it can be tricky but ultimately I think we are all in agreement that this is a population of clients that we want to provide more capital to" (Leshner 2010).

Van der Ven seconded that with her own comment: "We believe that you should mainstream the whole idea of microfinance. It should be a commercially viable approach. The risk is to find the balance between profit and between impacts to society". Although Ledesma also identifies the benefits of commercialism, she emphasizes the risk of mission drift, fearing that profit-driven MFIs may take away "the spirit of microfinance" and fall back on traditional mainstream banking practices that do not reach so called "un-bankable" people:

> "One of the things that you see in commercialisation is, for the benefit of efficiency and for the benefit of profits, you have MFIs adapting commercial, traditional banking methodologies that were precisely the reason why microfinance was developed. Because these traditional commercial banking methodologies were not effective in reaching the poor. So it's a little bit ironic that with commercialisation you now see parts of the industry, or some within the industry, going to endorse methodologies that were precisely the reason why the industry was developed in the first place" (Ledesma 2010).

6.3. Inputs to the discourse of social performance

The case studies of BlueOrchard, responsAbility, Oikocredit, Triodos and Triple Jump show that among leading private foreign investors social performance is not only a known term but also a recognized policy. All of them expend considerable efforts to implement SPM tools and remain current on new developments in SPM. From the information they provided, their respective SPM indicator ratings and their representatives' opinions on several relevant topics, I can make the following statements about their roles in shaping social performance discourse in microfinance with confidence: (1) as leading representatives of the interest groups of private foreign investors they accept the necessity for and definition of social performance management, even assisting on occasion with development of SPMprocesses; (2) their transparent disclosure of information makes their agendas clear; and (3) they are willing to act as role models and promote SPM. Following is a more detailed discussion of each statement:

(1) Microfinance is a globalized business and private foreign investors are active in many countries. Unlike industries on a regional or national level there is no international authority to establish and enforce a regulatory framework. While some regulation of MFIs' can be found in some regions, foreign investors are flexible and can to some extent chose where and under what terms they offer their services to

MFIpartners. Despite the lack of regulators, industry leaders follow standard principles and business practices they have established on a cooperative, voluntary basis. The SPTF is a recognized forum where organizations' representatives meet, discuss and contribute to their industry. The outcomes – definitions, guidelines and tools – are generally accepted and put into practice. Few other business sectors or development programs work as hard to evaluate their results concerning their social impacts on their clients or target groups. One could assume, as van der Ven said, that having access to formal financial services improves people's living conditions. Nevertheless, private enterprises that are not even subsidized with donations or public money are endeavour to achieve a double bottom line.

This may be rooted in the high expectations that were initially set when microfinance was promoted on a global scale, although evidence suggests it is not the retail or institutional investors who ask management enterprises to do SPM. Only in the case of Triple Jump did one of its shareholders request the company to engage SPM policies. Typically, it is the investment enterprises that initiate SPM implementation, probably as a proactive way to ward off critics. Advantages of SPM tools are that they are not that costly and may even improve financial returns. But there is also a strong awareness that rapid commercialization without social considerations can have undesirable results.

(2) All five enterprises reported on social performance indicators like outreach, average loan size, percentage of female borrowers and clients living in rural areas. The results, as well as the representatives' comments, show different approaches and they stand firm on their alignment. The more commercially oriented players target the world's leading MFIs. They extend a broad outreach to serve a huge unsatisfied demand and favour market-based competition which leads to better services and lower costs. More socially oriented MIVs partner with smaller MFIs, often supporting them with local currency loans or additional technical assistance. They score better results when it comes to reaching more disadvantaged clients, such as women, the very poor and those living in rural areas. Ultimately, the investor decides which path to follow and, depending on the approach, a clear pattern emerges: institutional investors favour the more commercial approach which brings them a higher financial return, while foundations and retail investors are more interested in serving the needs of the most disadvantaged clients.

BlueOrchard and responsAbility are more commercially oriented compared to the more socially driven Oikocredit. Triodos and Triple Jump manage and promote MIVs of both types. The final goal of both approaches is to build up domestic, inclusive banking systems as foundations for sustainable economic development. Which strategy is more likely to achieve this goal? Using attractive rates and terms to attract large amounts of capital from investors, and fostering large MFIs using new technologies to optimize efficiencies? Or supporting the laborious development of small MFIs that reach only a limited number of potential clients but probably have a better qualitative social impact on their lives? The five sample enterprises respect both strategies and offer products that reflect their preferences or the preferences of their financiers.

(3) Coller stated that responsAbility is, first and foremost, an investor with a focus on the task of financing MFIs. Nevertheless, the company is a pioneer in terms of reporting on social performance indicators. Leshner admitted that BlueOrchard has not been so active in the area of reporting up to now, but considered it the responsibility of an industry leader to participate. Oikocredit, which created a separate department for social performance issues, is fully engaged in developing SPM tools and perceives itself as the leading private foreign investor in the field of SPM. All five enterprises are members of the SPTF, support the Smart Campaign and other initiatives like MFT and social ratings. In addition, they take into account SPM issues when dealing with MFIpartners. They have created their own social performance assessment tools for evaluating MFIs and conduct awareness campaigns during the due diligence process, sometimes offering consulting or co-financing technical assistance training. They commit themselves to SPM and serve as active role models for other institutions, both investors and MFIs. This united commitment gives them a strong collective voice in the discourse of social performance and contributes significantly to its promotion.

7. Conclusion

"To properly appreciate the great achievements of the microcredit movement, one has to be more skeptical of its self-image than is normally considered polite or respectful."
(Jain and Moore 2003: 29)

Proving a double bottom line – that is the motivation for private foreign investors to participate in social performance initiatives, implement standards and inform the public about SPM. They want to reassure all interested parties that their investments are not only financially profitable, but also have positive social impacts on the lives of the poor. The means of proving this is not predefined, but rather the underlying question in an ongoing discourse. This thesis analyzes private foreign investors' roles in shaping the discourse of social performance in microfinance. I first presented a brief introduction to the methods of discourse analysis and the topic of microfinance. Next, I presented the interest group of private foreign investors as well as current points of discussion concerning SPM. Finally, as case studies I conducted a detailed investigation of five private investment enterprises in the context of their involvement with social performance discourse. Following this procedure, I identified answers to the questions: Which strategies do private foreign microfinance investors follow with regard to the discourse of social performance in microfinance? What influence might their participation have on the development of the entire microfinance sector given the trend towards increasing commercializing of the industry?

In this final chapter I discuss my main findings. I select various topics and for each one dedicate a paragraph to summarize my empirical findings and a second paragraph to interpret these findings according to Keller's theoretical background of discourse analysis based on the sociology of knowledge. I close with a self-reflection about the scientific validity of this thesis.

What people think about microfinance

The beginning of my investigations was the observation that there are a number of articles, books, studies and other publications in circulation that suggest microfinance represents – a little overdrawn - either a panacea for eliminating poverty or a direct route to hopeless indebtedness of poor households. Between these two extremes many of those involved with the microfinance sector endeavour to define the proper role and limitations of microfinance, and to establish realistic guidelines for a sustainable, socially favorable and commercially viable business approach. This can be accomplished in many different ways. One method is impact assessments: a number of case studies have been published which reveal the complexity of the financial situations of the poor and the possible consequences of offering them microfinance services. However, for various reasons another approach called “Social Performance Management” (SPM) is gaining in popularity and acceptance throughout the sector.

With reference to Foucault’s view of discourse analysis a discussion of the potential of microfinance to reduce poverty can be interpreted as one expression of today’s global awareness for social justice. The MDGs mark one important step towards a broad agreement that in today’s world, in contrast to earlier historical periods, poverty is no longer predetermined nor justifiable. Development cooperation is dedicated to poverty reduction and various instruments are rated according to their social impacts. Like any initiative, the microfinance concept is carried and discussed by specific social actors. Some support and others criticize the sector depending on their role, be it practitioner, scientist, client, investor, journalist or one of many others. They all battle for recognition, but in the end power relationships influence which statements prevail and become accepted by society as credible (see Berger and Luckmann). Currently, a broad alliance of actors advocate for SPM while other methods for “proving” the social impact of microfinance, such as case studies, are falling out of favour. Increasingly, SPM initiatives become institutionalized and thereby gain legitimization and the perception of objectivity.

The social performance discourse

SPM is an open concept which defines a certain framework while remaining fluid enough to allow for discussion and adoption of new policies and activities. Some initiatives which are already broadly recognized like the Smart Campaign or MFT are currently entering a stage of institutionalization. Others are at early stages of development and some may not prevail. The agreement of different microfinance stakeholders with the SPM framework makes the social performance discourse vital and successful. For example, the SPTF is accepted throughout the sector as the central platform for SPM. Its members have defined indicators rated on the basis of their experiences and independent institutions like CGAP and MIX promote them. Finally, MFIs as well as investment companies like BlueOrchard report on these indicators. It is not certain for example, that a high ratio of female microcredit clients is always socially beneficial as impact studies have shown that possible outcomes like women-empowerment can backfire and produce negative side effects. However, statistically the higher ratio tends to correlate with a positive impact which is relatively easy to monitor. The fact that different institutions rely on these indicators convinces people they are a reliable measures of social impact.

Based on Foucault's definition I identify "social performance in microfinance" as a discourse. Various actors around the world refer to this term when discussing the social character of microfinance. This discourse has a very short history and while its hour of birth cannot be determined, an important baby step was the creation of the SPTF in 2005. However, the first editions of investors' social performance reports in 2010 suggest the topic has only recently attracted broad public attention. Today, a number of microfinance practitioners are working to establish SPM as a credible policy worthy of universal acceptance by the microfinance industry and related participants. Obviously the characteristics of SPM serve a wide range of interests. For instance, researchers may place value on the ease of data gathering methods and potential for statistical evaluation, while donors can use an index like the PPI to confirm their money really does reach poor people. Practitioners no doubt appreciate the low cost of implementing SPM tools and the meaningful results which can be used to improve business practices. Admittedly, SPM has its limits and disadvantages, but the fact that statements of different participants follow the same guidelines that constitute the social performance discourse, leads to the formation of corresponding knowledge and social practices.

The importance of private foreign investments

As the current trend towards commercialism suggests, private foreign investment enterprises are already powerful players and will wield even more power in the future. The high demand for microfinance services and poorly developed domestic banking systems guarantee an ongoing need for foreign investments. The objective of public institutions is to hand over this task to private enterprises. The latter provide MFIs much needed funding for expansion, not only through loans but increasingly through equity investments. In addition, they transfer know-how and foster the implementation of more efficient business practices and technologies. These private enterprises also support MFIs directly (i.e., among other things with funding) or indirectly (i.e., by setting incentives) to facilitate expansion of their business activities and make the gradual transition from small, dependent NGOs to self-sustaining, registered entities. Although MIVs only finance a limited number of several thousand MFIs worldwide, they help establish best practice models for others to follow. Moreover, private foreign investment enterprises represent a direct interface between MFIs and institutional and individual investors. Additional to capital transfers they also exchange knowledge and distribute information about microfinance. For example, apart from advertising and media attention, Oikocredit alone has 36,000 retail investors who are regularly serviced with updates on sector developments.

The standing of private foreign investors suggests a powerful status of this interest group in the sector. They have several avenues for expressing their opinions and exerting their considerable influence. Their actions and statements are closely monitored by others whose interests may be directly or indirectly linked to the MIV. For instance, the funding of MFIs may rely on the fulfillment of an MIV's criteria, or the investment decision of a wealthy individual may be based on the public image of an investment enterprise.

The danger of high growth rates

Private foreign investment enterprises finance MFIs once they have reached a certain point of financial sustainability and professionalism. Some MIVs nurture already young but growing MFIs while others focus on top tier institutions. For upcoming MFIs it is important to get, or at least give the perception of receiving, MIV support because expanding outreach to more clients automatically leads to a need for additional capital. Top tier MFIs are established banks which serve several hundred thousand clients. They use MIV funding with other capital sources like deposits and loans from domestic banks. Many private foreign investors prefer these institutions as partners because they are reliable and can be serviced with loans of several million US dollars. Ironically, because of the rapid growth of MIVs in recent years and the limited number of existing top tier MFIs, the demand for foreign investment is actually decreasing relative to the supply. As MIVs must achieve a certain minimum return on investment a high proportion of liquidity in their portfolios forces them to find investment opportunities. For top tier MFIs the upside of this is they gain a stronger bargaining position. The downside is they may be tempted to accept loans that are too large and eventually find themselves under pressure to find enough customers. The end result could be an overheated microcredit market, with negative effects on the end-clients. In the medium term many more top tier MFIs will appear and MIVs will likely downscale and serve more less established institutions bringing stability to the sector. Nonetheless, the risk is ever-present that microfinance clients, being the most vulnerable components in the system, will suffer the most from unbalanced market relations.

The risk of increasing commercialism of the microfinance sector is the main reason for initiation of the social performance discourse, and influences its terms and strategies. Protecting the end clients is the ultimate objective of various statements, initiatives and emerging institutions. Microfinance customers are commonly described as vulnerable, dependent and powerless, therefore the discourse suggests they need to be protected through regulations and standards. SPM is intended to distinguish socially motivated participants from others which follow only profit-maximizing policies, take advantage of the good image of microfinance and neglect the initial social mission. The latter not only harm the poor, they also damage the reputation of the whole sector. For this reason social performance discourse is shaped by arguments for differentiation. Looking at links and overlaps with other discourses, social performance is connected with topics like commercialism of microfinance, mission drift in microfinance, ethical investments, efficient development cooperation and inclusive financial systems. Although I have not investigated whether or not these examples actually form discourses, the apparent correlations with these issues demonstrates that discussion about social performance in mircofinance is not isolated and may be observed from different perspectives.

Private foreign investors and SPM

Most of the leading private investment enterprises define themselves as social investors. Many also include social performance issues in their communication channels and contribute to the ongoing discourse. This is not a matter of course. Unlike public institutions, private foreign investment enterprises must not only cover their operating costs, they must also offer investors favourable financial terms in order to attract capital. To keep their businesses alive and well they need to focus on optimizing financial efficiency. Their task is clear: they must direct capital from individual and institutional investors to profitable MFIs. They could concentrate on financial data like return on investment or low default rates and argue that market competition automatically leads to good conditions for clients, and many people would agree. The fact that they don’t take that position implies they see the SPM approach as necessary and useful to their business. Entry points for participation seem to be the SPTF, client protection principles (The Smart Campaign and PIIF) and reporting on social performance indicators. In addition, the five investigated enterprises are active in other initiatives to varying degrees. While impact studies are not so popular among private foreign investors, they do promote SPM. They agree on the framework, put recommendations into practice and invite others to join. They regard SPM as a good way to prove the double bottom line of their business, which is one of their central sales arguments. As the discussions about synergies and trade-offs between financial and social performance show, they also see SPM to some extent as financially worthwhile.

Social performance indicators do not tell much about the qualitative impact of microfinance services on the everyday life of a person living in poverty, nor is that its function. They are relatively superficial which has the benefit of making data collection and large-scale comparative analyses relatively easy. Private foreign investment enterprises prefer social performance assessments over impact studies. Interestingly, their main message to the public is: “our SPM report proves that our activities help poor people to escape from poverty”. For instance, they offer evidence favouring high ratios of female borrowers but they cannot prove that microcredits really help those women to improve their situation. Instead, private foreign investors use different methods to create a positive image of their activities. The qualitative social impact is often demonstrated by the success stories of MFI clients, for example a woman who builds up a shop, uses the profits to send her children to school and gains social recognition. Based on these anecdotes, a high percentage of female clients appears to be favourable. In fact, only the indicator “number of female borrowers” is scientifically valid and in very few cases are impact studies about women’s empowerment through microfinance cited. Even when they are, it is neither credible, nor scientifically valid to apply observed results from one location (with its specific socio-economic context) to another without conducting an empirical study. This example demonstrates that what is considered knowledge within a society is often a product of manipulated, truncated and biased information bytes, or as Keller might put it: the outcome of certain statements prevailing against others.

SPM strategies in the face of commercialization

As private foreign investors are main participants in the trend of commercialism in microfinance, it is not surprising that they welcome this development. However, the MIV representatives Leshner, Koller, Ledesma, van der Ven and Greene emphasized that while it is not easy, it is necessary to find the right balance between financially and socially motivated activities. All of the five investigated enterprises disclose information on social performance indicators. They are not averse to being compared to competitors and give explanations for their organizations' strengths and weaknesses. For this, MIVs follow two lines of argument: either they emphasize their capacity to serve a large number of clients or they highlight their success of reaching the most disadvantaged target group. The first strategy follows a more market-based approach, assuming that competition between MFIs will lead to lower costs and better products for clients. This implies the MIVs compete with other investment firms for large investors and need to offer favourable financial terms, such as high investment returns, in addition to a social bonus. The second possible strategy of MIVs adheres more to Yunus' mission of serving the "unbankable poor" with unconventional methods. These MIVs appeal mainly to the social consciences of financiers which are primarily foundations, NGOs and individuals. Most of the investment enterprises offer MIVs of both categories, although they may have a preference for one approach. For example, the core business of BlueOrchard and responsAbility is managing MIVs which invest in top tier MFIs, while Oikocredit's focusis on young and emerging institutions. Triodos and Triple Jump manage a relatively even balance of both types of MIVs. Nevertheless all five investigated enterprises agree on the importance of SPM. All of them participate in some initiatives but, unsurprisingly, the more socially oriented organizations are more active in this regard.

Microfinance is not charity. Most participants, including the sample group of private foreign investors, agree on that. This is one important feature that makes the concept so popular with the public. Many people no longer believe in donation based development programs and value microcredit as one way to help poor people help themselves. This attitude can be seen as one expression of today's ideological supremacy of capitalism and market based economic theories. In practice there is some scope for following either a radical free-market approach or taking certain kinds of regulation into consideration. The social performance discourse is one outcome of the latter, but even within the agreement of the framework the investment enterprises make their preference known. For example, the emphasis on serving a high number of poor people often follows the assumption that once people have access to the financial market they will be able to enhance their living standard. Others point out that initiatives like the PPI are necessary to evaluate whether or not borrowers' lives really do improve and that additional services like training are important for a client's success.

MIVs influence on the industry's future development

For investment enterprises, funding provides some opportunities to influence MFIs, especially in the case of equity investments. As a consequence, the MIVs' alignment towards commercial and social aspects can change the MFIs' business practices. For instance, formerly non-profit oriented NGOs which have transformed into registered institutions and now partner with MIVs, may be urged to put more weight on earning a surplus to satisfy investors' demands for profits. Also, foreign investors can call attention to the importance of SPM, demand the signing of the client protection principles or offer training on using the PPI. Beyond MFIs, which have a direct business relation with MIVs, other institutions may also be affected when they adopt best practices. Thus, if MIV funding allows an MFI to introduce new techniques like mobile banking, others may also work towards offering this service. Furthermore, when an investor encourages an MFI to introduce the PPI and this allows the management to adapt their business practices in an effective way, other MFIs may follow the example. So, the MIV manager can influence different aspects of MFIs' business practices, if it so chooses. Regarding social performance initiatives, they can forward information about new developments to MFIs, link their partners with research facilities and provide incentives to implement tools. Similarly, private foreign investors inform their audience about social performance issues and indicators. SPM gives them arguments for proving their social awareness among investors. They contribute to distribution of industry information and shaping the public image of microfinance.

What if private foreign investors would not support SPM? The discourse would definitely not be as vital and popular as it is today. As SPM is focused on business practices, the engagement of various participants is fundamental. It is questionable whether initiatives like client protection principles would make sense if leading foreign investors would not support them. Other stakeholders like NGOs and Foundations may encounter problems raising awareness of the benefits of certain tools among MFIs. This is certainly much more effective when it happens during the due diligence process for funding. Thus, the strong commitment of leading investment enterprises to support SPM offers hope for ongoing development of tools to protect the social character of microfinance in times of increasing commercialism. Although it certainly happens that some statistics and marketing techniques are used to present a microfinance fund as more social than it actually is, and financial indicators have more weight in investment decisions, the SPM discourse reminds the various players involved not to lose sight of the mandate to support the poor as they work themselves out of poverty.

Scientific self-reflection

As Kelles emphasizes that a discourse can never be captured exhaustively and its analyses only give some insight on certain aspects, I limited my investigations to a specific group of players and five case studies. But it appears the issue of social performance touches many aspects of microfinance, as well as other fields like development cooperation or ethical investments. I endeavored to maintain a balance act between showing the complexity of the discourse and keeping the focus on the specific issue of research. The final conclusions leave much room for interpretation, discussion and further research. This is not a shortcoming but, rather, the only logical outcome of the research program. Since discourse is vital and its character changes in an ongoing process, its analyses can not draw a static picture. The assessment itself is a statement and may contribute to further development of the discourse. In conclusion, my approach and findings are open for discussion and it is my hope that further contributions to the discourse of social performance in microfinance will be inspired by this work.

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