EMN European Microcredit Research Awards 2011

EUROPEAN MICROFINANCE network

Nantik Lum
MICROCRÉDITOS PARA EL DESARROLLO

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EUROPEAN MICROCREDIT RESEARCH AWARDS 2011

Within the framework of the **2011 EMN Annual Conference on June 9-10 in Amsterdam**, the fourth edition of **The European Research Award** has been launched, as a joint initiative of EMN and its Spanish member **Fundación Nantik Lum (FNL).**

The European Microcredit Research Award was initially created in 2008 at the 5th EMN Annual Conference in Nice and it is endowed with a prize of €1,000, sponsored by FNL, leader and coordinator of the EMN Research Working Group (RWG).

The Award is granted to research papers that present ongoing or finalized practitioner-oriented research on issues related to microfinance in the European Union (the 27 Member States) and EFTA (including Norway and Switzerland) countries, with special focus on one of the topics of the EMN Working Groups: Legal Environment and Regulation; Growth; Information Technology; Social Performance; or Asset Building. Additionally, papers presented by young researchers are especially valued in the selection process.

Based on pre-determined criteria such as innovativeness, link to EMN working groups, methodology, structure, literature used and replicability, representatives of the Fundación Nantik Lum, RWG Core Members and the EMN have chosen the four best papers to distribute at the EMN Conference.

The four selected papers for the European Microcredit Research Awards 2011 are:

- **"Informal Saving-, Lending and Insuring Arrangements (ISLIA's) among ethnic minorities in The Netherlands"** - Sophieke Kappers & Julie-Marthe Lehmann, Research Associates of the Centre of Microfinance, Inholland University of Applied Sciences. Holland.

- **"Blended Values & Social Return on Lending (SROL) - Innovative Methodologies and Measures"** - Jim McLoughlin, Head of Cubist Research Group. UK.

- **"Can we translate microfinance gender targeting features to migrants' targeting in Europe?"** - Teodora CHIFOR, consultant ROMCOM. Romania.

- **"Profitable alternative investment: The microfinance investment vehicles"** - Ana Irimia Dieguez, University of Seville. Spain.

The Awards Ceremony is going to take place in the frame of the EMN Annual Conference 2011 in Amsterdam, Holland, on June 9 at 17:00 pm.

RESEARCH WORKING GROUP

The **EMN Research Working Group** was founded in January 2007, when several EMN members met and formed a group **to foster synergy in the research field of microfinance in Europe.** The RWG is comprised of individuals, academics and representatives wanting to collaborate on joint research projects within the European microfinance sector. It aims at (1) conducting research and fostering exchange of knowledge, experiences and good practices in the research field of microfinance in Europe; (2) promoting pan-European research projects by linking universities, researchers, practitioners, regulators, and clients; and, (3) improving the visibility and public awareness of the microfinance sector in Europe.

The European Microcredit Research Award, linked to a research strand at the EMN Annual Conferences, is one of the main activities carried out by the RWG besides its biennial pan-European survey of the microcredit sector, the web-based Electronic Research Bulletin (eRB), joint publications and updates of publications.

You may find updated information on the Awards and the EMN Research Working Group on the RWG website: http://www.european-microfinance.org/rwg/home.php

Can we translate microfinance gender targeting features to migrants' targeting?

Case study:
Senegalese migrants in Europe (Italy)

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Abbreviations

CePSI	Centro Studi di Politica Internazionale
EUR /	Euro
GDP	Gross Domestic Product
IOM	International Organization for Migration
MTO	Money Transfer Operator
MFI	Microfinance Institution
NGO	Non-governmental organization
ROSCA	Rotating Savings and Credit Associations
USD	United States dollar
UNESCO	United Nations Educational, Scientific and Cultural Organization

ABSTRACT

In the last decade, migration and remittances increased massively and became a central issue on the European agenda. Literature shows that remittances exclude people from classical banking in developing countries; these people are also the targeted population of microfinance. Thus, lately remittances have become a central issue on the microfinance stage, seen as a possible solution for the better integration of migrants in European countries and also for preparing migrants to return back home.

However, as Orozco and Hamilton (2005) conclude, "MFIs are in the process of achieving substantial success at offering remittance transfers, but they experience difficulty in providing tailored financial products" [for migrants]. The objective of this inductive and exploratory study is to analyse microfinance migrants targeting (in European host countries) from the new, unexplored perspective of gender targeting features, while trying to introduce several reflections on the research question: Can we translate the features of microfinance gender targeting to migrant targeting? The research variables (remitting behaviour being the explained variable) tested on our case study, of Senegalese migrants from Italy, are based on the literature review. We use exploratory methodology, by conducting 35 interviews with Senegalese migrants in Italy, MFI's and Italian associations' staff, involved in remittances projects.

We have found that there are several differences between women targeting and remitters' targeting; nevertheless, there are some common features between women microfinance clients and remitters. It seems that MFIs could use their know-how in serving women clients to address remitters as well, but still it is essential to understand that by definition, targeting means understanding the beneficiaries and tailoring adequate products to them.

I. INTRODUCTION

Extensive literature reports that one of the main reasons for targeting women with microfinance is the fact that, compared to men, microfinance products offered to women prove to have more direct impact on households' expenditures. Pitt and Khandket (1998) reveal that when receiving the same size loan, women allocate two times as much for household expenditures than men. Women (especially mothers) are among the most poor and vulnerable and have proved to have strong commitments to family well-being, thus, many microfinance actors have targeted women in order to have positive social impacts via their investments or sponsorships.

Literature shows that remittances[3] reach excluded people from the classical banking and poor segments of population in the developing countries in a direct way, representing an essential portion of the receiving households' revenues. Meanwhile, 'sociological theory' on migrants' remitting behaviour shows that remittances are often a sign of "financial success" and even of dignity for many migrants, who make immense efforts to save and send money back home, according to Kankonde Bukasa (2008). Similar to women microfinance clients, over 200 million international labour migrants (mainly men) prove strong commitments to their families in their home countries by sending over 375 billion USD of remittances worldwide (only in official records of the World Bank 2008). Therefore, it is no surprise that remittances have become a central issue on the microfinance agenda, with an increasing number of MFIs being interested in the prospect of targeting migrants with remittance-linked microfinance products.

However, as Orozco and Hamilton (2005) conclude, "MFIs are in the process of achieving substantial success at offering remittance transfers, but they experience difficulty in providing tailored financial products" [for migrants][4] and thus probably because of the lack of structured analysis of the migrants typology, specificity."

Considering these factors, the objective of this inductive and exploratory study is to contribute to the existing literature on migrants' remitting behaviour and on microfinance migrants targeting. The process of targeting implies significant resources and energy spent by the MFIs in order to effectively identify the targeted group and to tailor the adequate products to them. We propose to analyse this topic from a new, unexplored perspective of gender targeting features, while introducing several reflections

3 In this paper we focus on transnational remittances sent by migrants from developed economies to developing countries.
4 Orozco, M., Hamilton, E. (2005). Remittances and MFI intermediation: issues and lessons, Sector Development Conference, New Partnerships for Innovation in Microfinance, June 23rd, 2005, Frankfurt, p. 14.

on the research question: Can we translate the features of microfinance gender targeting to migrants targeting? What can be learned from microfinance women targeting in addressing migrants with tailored remittance-linked products?

To help address the research question in a concrete way, we intentionally delimit the scope of the study to the African migrants in European host countries (Senegalese in Italy). We decided to analyse this community by considering the lack of literature on the sub-Saharan Africa, as most of the studies are focused on Latin America. Moreover, an essential element for our case study choice was the access to concrete information within the pioneering project developed by a Senegalese MFI in Italy, addressing the Senegalese migrants in Italy.

We propose this empirical comparative research, starting from the assumption that women microfinance clients and Senegalese remitters in Europe have common features; thus, we assume that MFIs could use their know-how and experience of gender targeting in tailoring remittance-linked adequate products for remitters in the host countries.

We use the exploratory method, using qualitative and quantitative information taken from 35 interviews that we conducted in Italy. Our sample of participants include Senegalese migrants living in Italy, staff of the Senegalese MFI running the pilot project targeting Senegalese migrants in Italy, Italian institutions involved in Senegalese migrants' programs, and researchers. We had also access to quantitative and qualitative information provided by CePSI, an Italian institution analyzing the profile of the African migrants living in Italy.

The results of our study show that women microfinance clients have some common features with remitters and not with migrants in general. The empirical study reveals that Senegalese remitters from Italy are 'regular and intensive' remitters and have some common features with women microfinance clients, which could help MFIs to develop adequate remittance-linked products for remitters. Nevertheless, the study underlined several different features of remitters compared to women microfinance clients. Thus, it seems that MFIs could use their know-how of serving clients with strong commitments to their family, as women, in addressing remitters too. Still it is essential to realise that by definition, targeting means understanding the targeted group and tailoring adequate products to them.

The main strength of this empirical study is the new and unexplored approach of analyzing remitter targeting from a women-targeting perspective, considering simultaneously a large range of variables analysing the typology of sub-Saharan African migrants (Senegalese) from Europe, based on a concrete project of targeting remitters in host country. The main limit of our analysis was time, not being able to pursue a deeper and more complex analysis that could strengthen our research study. Moreover, information was not always easily accessible and we observed inconsistencies within data on the same issues, raising the issue of data reliability.

We start the exploratory study by examining the existing literature focussing on gender targeting features and migrants' targeting characteristics. This helped us to draw the comparative analysis of gender and migrants targeting features, which allow us to formulate the research question and to draw the theoretical synthesis on which we build our study. Next, we describe the research methodology used in order to identify the characteristics of the Senegalese migrants targeting in Italy, helping us answer our question. Then, we draw the results and the analysis of the research, followed by the last section, which highlights the main conclusions.

II. LITERATURE REVIEW

In the last decade, migration and remittances increased massively and have become a central issue on the European agenda. Considering both social and economic advantages of remittance business, remittances have recently attracted microfinance actors too, seen as a possible solution for migrants' better integration into European countries and also for preparing their return home. To respond to microfinance actors' interest in remittances, numerous studies analyze the possible links between remittances and microfinance. However, as Orozco and Hamilton (2005) conclude, "MFIs are in the process of achieving substantial success at offering remittance transfers, but they experience difficulty in providing tailored financial products".[5] Thus, it is essential to understand the typology of targeted group, the migrants, in order to tailor adequate and efficient products for them. While there is a lack of experience and empirical studies in analysing the way MFIs could better target migrants with remittance-linked services, there is extensive literature analyzing the way MFIs provide "tailored products" for women worldwide.

In this section we attempt to review the literature in order to draw the theoretical synthesis that analyzes gender targeting features compared to migrant targeting characteristics. Thus, we begin by reviewing existing literature on gender targeting with microfinance products, followed by literature on microfinance and remittances, highlighting the advantages and shortcomings of migrants' targeting characteristics. Based on literature findings, we draw two comparative syntheses.

When talking about targeting, microfinance most often refers to women and the poorest categories. Literature evidences reveal that targeting still remains a spread practice in microfinance, despite the fact that many MFIs advocate for programs that are not differentiated among their clients. In its attempt to reduce poverty, microfinance is associated frequently with "the banking for women" statement, considering that women represent the majority of the poorest living with less than one USD per day, according to Microcredit Summit 2005. The literature reveals that vulnerability and poverty are not the only reasons for intense women-targeted programs in microfinance.[6] Thus, what are the main reasons for the MFIs to give priority to women, often in an exclusivist way?

From a social perspective, women have stronger commitments to their families (especially mothers), which lead to positive impacts on the households' life conditions (through increasing investments in households' expenditures). Pitt and Khandker's empirical study (1998) showed that if 100 taka are lend to a men, he would give 11 taka for household expenditures, while a women would allocate 18 taka to household, out of the 100 taka loan, and this due to women higher commitments to their family well-being. This helps to raise women's revenues and create a safety-net for their families; also women-targeting practices lead to self-esteem, increased decision power, personal and professional development, less discrimination, and thus women's empowerment. From an economic perspective, women targeting practices lead to good repayment rates and less risky investments, reducing the moral hazard and thus the defaults, according to Khandker et al (1995), Gibbons and Kasim in Malaysia, Hossain (1998) in Bangladesh. Rahman (1999) argues that women are more reliable clients, due to their higher risk aversion and their sensitivity to "verbal hostility" of credit officers and seem to be more affected by social exclusion in case of default since they have less access to alternative sources of borrowing and are easier to be found in case of payment delays, since they spend most of their time close to their homes. These practices could help MFIs reach new markets, an additional advantage in an increasing competitive environment. Women targeting has been a spread practice in many MFIs worldwide, which have learned to successfully identify women's specificity and have developed know-how in designing customized programs, as an important asset.

However, targeting also implies several shortcomings that could countervail the positive aspects. The financial products tailored to women involve often smaller size loans and more flexible financial products, implying higher costs for the MFIs, and thus subsidies often have negative effects on the

5 Orozco, M., Hamilton, E. (2005). mentioned study, p. 14.
6 Armendáriz, Beatriz, Roome, Nigel. (2008). Gender empowerment in microfinance.

MFIs struggling for sustainability. Moreover, higher subsidies could lead to increased dependency on donors funding which could influence MFIs' internal policies, away from its initial mission. "Mission creep" is another limit of targeting practices, empirical studies revealing that often loans end in husbands' hands, or to better-off clients. Exclusive targeting often leads to information asymmetries between spouses, which increasing tensions between them. These conflicts have negative effects on loan repayment rates (even though there is need for further studies to verify this assumption).
Women still represent the main targeted clientele for most MFIs around the world; nevertheless, new target groups, especially migrants, have attracted MFIs' interest in a context of increasing migration and remittances sent worldwide.

In the 2000s, the number of the transnational migrants increased tremendously worldwide and implicitly, the amounts of migrant money transfers to their countries of origins have followed an ascendant trend, being estimated worldwide to be 375 billion USD in 2008 (only in official records of the World Bank 2008).[7] Within this paper, remittances are considered to be more than simple 'money transfers', but rather a form of savings able to respond to different short and long term needs. Moreover, the term remitter refers to the migrants in the host countries sending money back to remittance' receivers, the family members in the home country.

Remittance "industry" has proven economic and social advantages, attracting both for-profit and social motivated actors; Wucker (2004) mentioned high margins within the remittance industry, with double digits billions USD of revenue estimated in the last years.[8] Remittances reach poor segments of population in the developing countries in a direct way, and represent an essential portion of the receiving households' revenues, while having positive social impacts. Microfinance also aims to alleviate poverty, by reaching poor and excluded segments more directly, through financial products adapted to them.[9] According to Orozco (2007) this is the main link between the microfinance and remittances; many of the MFIs' clients in developing countries are also the beneficiaries of the remittances. Considering both social and economic advantages of remittance business, it is no surprise that recently, remittances have become a central issue on the microfinance agenda, with an increasing number of MFIs interested by the prospect of entering this market.

Hasting (2006) reveals that the main social drivers for MFIs entering the remittance market are the prospect of offering quality and lower-costs remittance services to poor and excluded populations, and to create safety-net for them.[10] Orozco reports that proximity is MFIs' main advantage, as well as their infrastructure and experience in serving low-income populations, which could reduce the transactional costs for the clients. The essential advantage is probably MFIs' capacity to offer additional financial products and services to both remitters and receivers.

Nevertheless, literature does not offer clear information on how exactly MFIs could offer lower-cost services to poor clients in remote areas, which normally implies higher transactional costs. Does that imply subsidies, and what would the trade-offs be? Orozco also reveals that tailoring adequate products is one of the main challenges for the MFIs entering the remittance market. Literature analysing migrants' needs in terms of money transfers highlights several criteria, like speed, safety, accessibility and proximity, financial costs, and transactional costs (Isern et al., 2004; Sander, 2003, Sukadi Mata, 2009).

7 Suro, Roberto. (2003). Remittance Senders and Receivers: Tracking the Transnational Channels, Multilateral Investment Fund (MIF) of the Inter-American Development Bank and Pew Hispanic Centre, Washington, D.C., November 24, p. 3.
Observation: these amounts refer to the official remittances, sent through official channels, and do not include the informal money transfers, which experts predict to largely overpass the official remittances.

8 Deshpande, Isern, Rani, van Doorn, Judith. (2005). Crafting a Money Transfers Strategy: Guidance For Pro-Poor Financial Service Providers, Occasional Paper No. 10 (Washington, DC, Consultative Group to Assist the Poor (CGAP), March, p. 3.

9 Microfinance is widely considered an efficient tool for poverty alleviation. Extensive literature showed microfinance's positive impacts on the poor clients, even though there is still need for additional empirical studies to confirm this. Still, recently questions have been raised regarding the microfinance's success to alleviate poverty and to really reach the poorest. Even though an interesting and passionate issue to address, it is beyond the focus of the present study.

10 Hastings, Anne H. (2006). Entry of MFIs into the Remittance Market: Opportunities and Challenges, prepared for the Global Microcredit Summit Halifax, Nova Scotia, Canada.

In the short run, remittances substitute the absence of the formal financial opportunities, but in the long term, transfers alone are not able to financially secure poor households. Recent literature claims that in addition to money transfers, migrants need financial services, especially savings, but also loans and more complex products like insurance and pension schemes, according to Shaw and Eversole (2007).[11]

Most of the remittances are used for domestic consumption. Still, portions of the transfers are allocated for investments and savings; but literature offers varying evidence on the percentages of remittances used for savings and investments, from 10 percent according to Orozco and Fedewa (2006)[12] to 45 percent according to Shaw and Eversole (2007). Channelled through MFIs, remittances could constitute the necessary base to facilitate the access to additional financial services for remitters (but also for the receivers). Effective identification of the targeted group is essential for the success of the microfinance programs. Thus, it is fundamental to understand what type of migrants could actually be targeted by MFIs', considering that migrants remit in different ways, according to several characteristics.

Despite the impressive amounts of remittances sent at global level, not all migrants remit, and those who do remit do not follow the same patterns and rhythm. Literature draws two main theories analysing remitters' features and motivations for sending money home, the altruist theory and the self-interest theory (Lukas & Stark, 1985). Furthermore, literature highlights a mutual beneficiary arrangement, perceived obligation and prestige as important remittances drivers (de Bruyn and Kuddus, 2005).

The altruistic theory refers "to increasing the income, consumption, or standard of living of someone else, even to the detriment of one's own standard of living" (Vanwey, 2004). The theory considers that the main driver for migrant's remitting behaviour is their strong bonds to their family back home, leading to selfless care for those "left behind." Still, this theory does not explain why some migrants remit more regularly, while others do not remit at all.

The self-interest theory follows Becker's family theory idea of "maximization of the stable utility". According to self-interest theory, migrants' remitting behaviour is based on family arrangements between migrant and their family remaining at home. It implies several elements, like a migrant's aspiration to inherit their parents' goods, for which he remits "in advance". Another element could be migrant's willingness to invest and to return home, thus, assure the safeguarding of their goods back home, and of social relationships back home (Lukas & Stark,1985). If the element of investment is introduced, in the sense of the parents' investment in raising and educating the migrant before leaving, then remittances could be seen as a "repayment" for a family's initial investment, a kind of "moral duty" towards their parents. Lukas & Stark's main conclusion is that remittances are a mutual benefit, based on altruism, as a "family specific assert", but also on self-interest, as a driver for the family arrangements. "Decisions about where to seek income and how to spend funds are often the results of consultation. Even an individual's decision to migrate frequently emerges from a family consensus about the need to develop a source of remittance income."[13]

Less explored is the 'sociological theories' analysis of migrants' remitting behaviour considering cultural and sociological perspectives. In his empirical study, Kankonde Bukasa (2008) focuses on the Congolese remitters' side and reveals the cultural context that explains migrants remitting behaviour. He highlights the main elements of remitting drivers: the need of familial belonging while being abroad and thus fear of being marginalised; social pressure of being perceived as 'financially successful' in their home communities and also among other migrants; as portraying false images of migrants' life in host countries and hiding their sacrifices is often a symbol of dignity, in line with the idea of prestige mentioned above.[14] He also sustains that these can explain why African migrants often deprive themselves and continue to send money, even when money is "misused" by their families. Migration is prepared for for months or

11 Shaw, J., Eversole, R. (2007). Leveraging Remittances with Microfinance: Synthesis Report and Country Studies, Monash Asia Institute for Regional Development, University of Tasmania.

12 Orozco, M, Fedewa, R. (2006). Leveraging Efforts on Remittances and Financial Intermediation, INTAL – ITD, Working Paper 24, p. 3.

13 Suro, Roberto, mentioned study, p. 4.

14 Kankonde Bukasa, Peter. (2008). Transnational Family Ties, Remittance Motives and Social Death among Congolese Migrants: A Socio-Anthropological Analysis, Journal of Comparative Family Studies.

even years by a family, and remittances symbolise the success of these efforts. African households sent the first-born or the most courageous and skilled member into migration, preparing his initiation to becoming a responsible adult; thus the failure of migration is perceived as a household's failure. Strong African family solidarity and family values are important elements for understanding African family ties (Mungazin, 1996); nevertheless, social pressure for migrants' and their families' social inclusion, or exclusions in the home communities seems to be an essential driver for African remitting behaviour.

Derived from these theories DeSipio (2002) drew a set of criteria, characterising the migrants and their remitting motivations, especially Latin Americans living in the USA. He refers to demographics (age, gender, education, occupation, income, etc.), status and length of migration, "acculturation" in the hosting country, "family circumstances", and ownership of land or real estate in the home country.[15] His main conclusion is that family circumstances are the main indicator of the remitting behaviour, as those with a family at home (having strong commitments toward their family) remit on a regular base. In terms of demographic patterns, the younger and less educated are more likely to remit; those spending fewer years in the host country, and those who are "less rooted" in the culture of the host country and those having stronger social ties to other hometowns migrants are more likely to remit.

Cortina and dela Garza (2004) reveal the same elements of characterising migrants' motivations, putting special emphasis on the chosen host country and the duration of the migration and plans to return home. They analyse the Latin American typology of remitters, revealing that they are relatively young, with an average age of 38 years old, have migrated for less than 22 years, with a secondary school degree, or less. They often have unskilled and low-income jobs, not having obtained legal residency (they have other forms of documents, or are in the process of obtaining the legal residency in the host country). Their families, spouses and children are usually in the home country and they envision returning, even in an unpredictable future.

15 DeSipio, L. (2000). Sending money home... for now : remittances and Immigrants Adaptation in The United States, Inter-American Dialogue and the Tomás Rivera Policy Institute (TRPI), Working Paper, p. 5.
http://www.thedialogue.org/PublicationFiles/Desipio.pdf

Starting from the literature review we have structured the comparative analysis of women and remitters characteristics below, in Table 1.

Women microfinance clients' characteristics	Remitters' characteristics (remitting on 'regular base')
1) Demographics - in general young women, having dependant, smaller children; - lower levels of education;	1) Demographics - quite young, average age 38; - lower levels of education (medium school); - majority men;
2) "family circumstances" - married, with children ¤high commitments to family well-being;	2) "family circumstances" - married, having primary family (spouse and children) in the home country ¤ high commitments to family well-being;
3) "socio-economic circumstances" - small businesses, less skilled (or unskilled) jobs; - lower incomes; - less alternative sources of financing; - more conservative investors, good reimburse rate; - rely on social ties ¤ more affected by social exclusion; - low business management and level of financial "alphabetization"; - need more flexible financial products;	3) "socio-economic circumstances" - less skilled (or unskilled) jobs in host countries; - low-income jobs; - lack of information on migrants' alternative sources of financing and banking penetration in host county; - lack on information on migrants risk-aversion behaviour and on reimburse rate (lack of sufficient loan-products for migrants); - rely on social networks of migrants from the hometowns; - lack of literature on the level of business management and financial "alphabetization"; - need more flexible financial products;
	4) "migration situation" - the average sending reach USD 221 monthly, with no information on the amounts of savings; - no legal residency; - length of migration: less than 22 years; - low levels of cultural "embeddness" in the host country (keep connections with hometowns migrants, low levels of host country' language knowledge); - envisage returning home;
	5) 'situation in the home country' - own land and / or real estate in the home country;
	6) 'Socio-cultural circumstances' - high social pressure and strong tradition of remitting as a sign of "financial success" and dignity;

Table 1 Synthesis: Women microfinance clients' and remitters' characteristics

Previous studies highlighted the significant resources and energy spent by MFIs to efficiently target women and develop products tailored to them. Thus, it is essential for MFIs to analyze the typology of the migrants in the host countries, in order to effectively identify the remitters group that could actually be targeted with remittance-linked microfinance products. The literature focuses mainly on the typology of the Latin American remitters, with significant gaps on the sub-Saharan remitters. Thus, in considering this gap, our aim is to analyse the sub-Saharan African remitters from gender targeting perspective, starting from the assumption that women microfinance clients and (African) remitters have common features. Thus, we assume that MFIs could use their know-how and experience in gender targeting to tailor effective remittance-linked products for remitters in the host countries. In the next section we describe the methodology used in order to analyse the typology of the Senegalese migrants from Italy, our case study for the research analysis.

III. RESEARCH METHODS

In this section we explain the methodology used in order to analyse Senegalese migrant typology and to which extent gender-targeting characteristics are transferable to migrant targeting. There are not other studies containing such a large range of variables in analysing migrants' targeting simultaneously; secondly, as far as we know, there are no other studies analysing the typology of sub-Saharan African migrants from Europe (Senegalese in Italy) from the perspective of women-targeting features. Thirdly, the data is collected from diverse perspectives, of different participants, both migrants and microfinance actors.

Remitting phenomenon Italy - Senegal

In the last two decades Italy became the second most popular European destination for Senegalese migrants (Migration in Senegal, National Profile 2009' IOM). The formal statistics estimate the total number of Senegalese in Italy to 77 000 adults (unconfirmed by official data), even though the informal number of Senegalese living in Italy has risen to about 200 000. Important amounts of remittances are sent yearly to Senegal (over 1200 million USD sent in 2008), representing ten percent of the GDP (World Bank 2008), with high average levels of remittances per person registered in Senegal (75 USD remittances per person, compared with 26 USD average for Sub-Saharan Africa, FIM 2008).

The importance of the remittances sent by Senegalese in Italy (over € 250 millions sent in 2008 only from Italy to Senegal) and their close bonds to Senegal confirms the necessity of developing financial tools and conditions in order to give value to their savings (IOM 'Migration in Senegal, National Profile 2009'). The remittance market is dominated by the major MTOs (Western Union and Money Gram); still, MFIs have increased their market share in a short period of time, managing to channel approximately ten percent of the money transfers. The level of banking penetration in Senegal is low; in 2007, it was just above 5 percent for commercial banking and 19 percent including the microfinance sector. There is only one project aiming to target Senegalese remitters in Italy with remittance-linked microfinance products despite the strong need for these products. We had access to this project through the four-month internship I completed with this Senegalese MFI, which has a subsidy in Italy.

The explained variable of the research is the remitting behaviour of the Senegalese migrants (answering the question in the survey: "do you send money back to Senegal? if so: what is the frequency of your remittances?").

We designed six explanatory variables. The the first explanatory variable is the demographic circumstances, referring to age, gender, education; we expected that Senegalese migrants in Italy are relatively young, a majority being men (as literature suggests), having lower levels of education. The second explanatory variable refers to the "socio-economic circumstances"; considering remitters' banking penetration and business management and the level of "financial alphabetisation." We expected that Senegalese migrants from Italy would have less skilled, low-income jobs, have less access to alternative financial products, which is also due to their low levels of financial alphabetisation and business managing knowledge, similar to women microfinance clients. The third explanatory variable is the “family circumstances”; we expected that most of the Senegalese migrants would have their primary family in Senegal and thus have strong commitments to their family’s well-being in Senegal, like women. ‘Migration circumstances’ is the fourth explanatory variable (referring to reasons for choosing the host country, status, length of migration, “acculturation” in the host country and plans to return home). We expected that Senegalese migrants had chosen Italy for labour reasons, a majority of them not having obtained legal status, having immigrated for less than 20 years and being less “embedded” in Italian culture. The fifth explanatory variable is the ‘situation in the home country’, expecting that most of Senegalese from Italy have a house or land in Senegal and invest mainly in Senegal. The sixth explanatory variable is the ‘socio-cultural and historical circumstances’. We expected that Senegalese context implies significant “tacit socio-cultural codes of conduct”, exerting control regardless of geographical distance, with strong social pressure, and remittances being a tool of ‘social and financial success’ of the migrant and of his family.

We have collected both quantitative and qualitative information through semi-structured interviews among the members and non-members of the Senegalese MFI, and unstructured interviews and discussions with staff members of the Senegalese MFI and partners. Between May 17th and July 9th 2010, we conducted 25 semi-structured interviews, 10 with members of the Senegalese MFI and 15 with non-members of the MFI. We interviewed various persons, including women and men (74 percentages of interviewers were men), migrants living in South and in the North of Italy, young and medium age. The participants were spread in different Italian cities – Bergamo, Milano, Lecco, Arona, Genova, Ciserano, Brescia, Verona, Ravenna, Roma, Ladispoli, Napoli. The in-person interviews of the non-members were conducted within Senegalese associations meetings across the country. We had direct communication with the participants, since all of them spoke French or Italian.

We also conducted 10 unstructured interviews with staff members of the MFI. Between May 12th and July 2nd 2010, we spoke with microfinance actors and between June 2nd and June 10th 2010, we had in-person discussions with directors of the MFI, who were on a mission in Italy. We conducted three Skype interviews to Senegal with staff members of the MFI. We also had in-person discussions with the director of MTO, the MFI’s partner for remittances services. We also spoke with two representatives of international microfinance actors involved in the project. We contacted an Italian researcher from CePSI, working on the Senegalese remitters living in Italy.

For confidentiality reasons, the identity of all participants, both persons and institutions, remained anonymous.

The semi-structured interviews consisted of 21 questions for quantitative comparison purpose, focusing on demographics, “socio-economic circumstances”, “family circumstances” (having the primary family in Senegal), and ‘migration situation, situation in the home country’. The open questions referred to the ‘migration circumstances’, professional and personal satisfaction derived from their migration in Italy and historical circumstances (in appendix 1, we describe the questions of the first type interview). The second type of survey, a modified version of the first survey, was tailored to the specific background and experience of the interviewed participants (in appendix 2 we describe the questioner).

These exploratory surveys helped us to draw the general profile of the Senegalese migrants living in Italy and to analyse to which extent women-targeting characteristics are applicable to our case study, aspects described and analysed in the next section.

IV. RESULTS AND ANALYSIS

Profile of the Senegalese migrants living in Italy "My destiny is linked to that of my parents", Senegalese say

This section presents the quantitative and qualitative results of our empirical research and the main analysis derived from the evaluation of the research variables. We use quotations for the actual responses of the participants, in order to distinguish our analysis or synthesis of multiple responses.

As expected, our main result is that most of Senegalese migrants in Italy are actually 'regular and intensive' remitters, as 92 percent of interviewed migrants remit on regular bases. The case study revealed that women microfinance clients have common features with remitters but not with migrants in general. There are also some advantages and shortcomings of gender targeting that are transferable to remitter targeting. The main common feature of women clients and Senegalese remitters living in Italy is a strong commitments to family based on "moral duty" – women due to their maternal sentiment, and remitters due to their strong connections back in Senegal and socio-cultural influences.

In terms of remitting behaviour, our research reveals that on average, Senegalese workers in Italy send about 100 – 250 € every month for domestic consumption, mainly through large MTOs. As for the third or fourth year of stay in Italy, most Senegalese, and especially those with families in Senegal, save 50 to 400 € per month. We could not obtain more information regarding the modalities and forms of savings. IOM reveals that every year, more then 250 € millions are sent to Senegal (only in official statistics, at least other 70 percentages being send by informal channels), with an estimated saving capacity of 4000 € per person. Only one-third of these savings remain in Italy, while two-thirds are sent to Senegal, then partly invested in real estate and small businesses; mainly in the urban areas, less in the rural areas.

2001 is a reference year for migrants living in Italy. Before 2001, the supply on the Italian labour market exceeded the demand, leading to a more flexible Italian labour migration policy, and the Senegalese could easily obtain working papers. After 2001, there was an immigration boom in Italy, leading to labour market saturation and thus a move to more rigidity in its migration policy. Thus, many of the Senegalese migrants arriving after 2001 had difficulties in finding a job and obtaining working documents.

Regarding the first explanatory variable, the 'demographic circumstances', we found that most Senegalese remitters are men, with an average age of 38 years old. In line with literature findings, those arriving before 2001 were on average 30 years old and less educated, similar to women microfinance clients. After 2001 and especially in the last five years, the average age of those arriving was 22 years old, most of them having an increasing number of school years in Senegal ("Baccalauréat" and even university degrees).

Regarding the second variable, the "socio-economic circumstances", Senegalese migrants from Italy work mainly in manufacturing, food industry, housekeeping, vendors, or little businesses, in general less skilled and low-income jobs, similar to women microfinance clients. Our exploratory study shows that most interviewed migrants declared that they do not have personal satisfaction, mainly due to the fact that they feel like 'foreigners' in Italy, and they make sacrifices by being apart from their families. "We are foreigners even after 20 years, we are not home," said a subject in an interview in Verona, on May 30, 2010. In terms of socio-professional satisfaction, the majority shows low levels of satisfaction; "here we have a hard life, we have only the jobs they refuse." "It is hard to have your degrees recognized here in Italy" said a young Senegalese, who holds a post-secondary degree in economics in Senegal (respondent from Arona, June 10, 2010). Since these findings are

diffused and we cannot formulate a conclusion regarding such a complex issue as empowerment, further studies should be done in this sense.
Regarding the "family circumstances," our findings confirm the assumption that most Senegalese migrants to Italy are married (90 percent of those interviewed) and a large majority, 72 percent, have families back in Senegal. They maintain close bonds with Senegal, and most of them try to return back to Senegal one time per year. Thus, Senegalese remitters prove strong commitments to their families, as women clients do.

In line with these strong commitments to their families back in Senegal, the analysis reveals that in terms of 'migration circumstances,' a veritable majority of the Senegalese migrants envision returning back to Senegal (95 percent of interviewed persons). "Migration for us is only temporary," said an MFI member in an interview (Bergamo, June, 24, 2010) and "the return to Senegal must be prepared well in advance" (interview May 29th, 2010, Ciserano, Italy). Migrants left home mainly for francophone destinations, especially France, but they finally arrived in Italy because of the more flexible migration policy. Thus, Italy was initially perceived as "a transitory country", able to respond to their first need: finding a job quickly and earning money. In comparison, France is perceived as an "intellectual destination", mainly for pursuing university studies helping them to build a future in France (in 2006, 80 percentages of total Senegalese studying abroad were in France (UNESCO 2008).

Regarding the 'socio-economic and historical circumstances', our findings suggest that the Senegalese context is characterised by strong "tacit socio-cultural codes of conduct" transmitted through generations, in line with 'sociological theories' described above in the literature review. The open questions on the socio-cultural and historical circumstances reveal a Senegalese "moral duty" towards their parents, most of them declaring a remittance to their parents, too; "my destiny is linked to that of my parents" is a saying in Senegal. This social pressure has proven to be a strong driver for Senegalese remitting behaviour and is exercised regardless of the distance. A few migrants remembered that their parents had sent money to their grand-parents – within rural-urban migration; but, these are only few opinions, and without further studies these are not sufficient to formulate a conclusion.

Resulting from their desire to returning back home, most Senegalese investments are concentrated in Senegal, both in real estates and in business activities, and our findings confirmed the expectations based on the literature review. "Having a house in Senegal is the sign of success, a sign that you realised something in your life, which is the main motivation for most of us" (interview of a migrant, Bergamo, June 25th, 2010).

Many Senegalese remitters from Italy have legal status and regular jobs, especially those who arrived before 2001, while those who have arrived in the last three years have no legal status, with no regular jobs. The average length of migration is 11 years and most Senegalese speak Italian relatively shortly after their arrival in Italy (over 80 percent of interviewed migrants).
Thus, if we consider the literature review evidence, our empirical findings reveal that Senegalese migrants in Italy are regular remitters, that practically all Senegalese from Italy send money back home to Senegal (proving strong commitments to their families, as they are the "bread winner" of the transnational family). Most Senegalese living in Italy plan to return to Senegal, and thus prepare for their future in Senegal by investing there.

This analysis is synthesised below, in table 2, where we present comparatively the features of women microfinance clients and those of the remitters revealed by literature; drawn from our research, we introduce the portrait of the Senegalese remitters from Europe, followed by conclusions drawn, in the next section.

V. CONCLUSIONS

Labour migration has become a central issue on the European agenda and also on the microfinance stage, where MFIs started to offer remittance transfers, but have experienced difficulty in providing tailored financial products" to migrants. Thus, because of the lack of structured analysis of the migrants typology, MFIs have difficultly providing specificity in financial products. Remittance-linked microfinance products could be one solution for the better integration of migrants in European countries, and also a tool that could help them to prepare their return home. The literature review of this study has shown us that while there is extensive literature analysing the way that MFIs provide "tailored products" to women, there is a lack of experience and empirical studies analysing the way that MFIs could better target remitters. The objective of this exploratory study was to contribute to the literature on migrants' remitting behaviour and on microfinance migrants targeting. We aimed to analyse this topic from this new, unexplored perspective of gender targeting in order to see to what extent women-targeting features could be translated to migrants targeting, with special focus on the remitters' side in Europe (Italy).

The results of our study showed that women microfinance clients have some features in common with remitters and not with migrants in general. The empirical study reveals that Senegalese remitters from Italy are regular remitters and have some features in common with women microfinance clients. The main common feature between women clients and the Senegalese remitters living in Italy is their strong commitments to family – women due to their maternal sentiment, and remitters due to their strong connections with their home country and the socio-cultural influences. They also have some socio-economic features in common, on which MFIs could capitalize their experience of targeting women.

By definition, targeting implies a deeper understanding of the specificity of the targeted group. Our study shows that remitters have different features compared with women microfinance clients – resulting from their particular status of living in a European country (facing another culture) and from the financial point of view having substantial savings. Thus, MFIs need to understand their typology in order to be able to tailor adequate products to them, in accordance with their particular status.

One lesson that could be learned from targeting women, is that remitters, like women clients, have strong family commitments. Having primary family in their home country, and being the family' bread-winner', remitters have more responsibility, transforming them into more responsible clients - for loans or saving services. Moreover, in socio-cultural contexts that emphasise the tacit codes of conducts and social pressure associated with remittances, the role of the migrants becomes essential not only for economic reasons, but also for socio-cultural ones. Then, like women microfinance clients, most remitters have low-income jobs, lower levels of education and limited "financial alphabetization and business management" skills, which implies that need for simple and flexible products, including financial training services (adapted to their situation of "cultural conflict" between African mentality and the host European culture).

It is most likely that the main difference in women- and remitter-targeting is the microfinance approach: while in the first phase, women are mainly offered loans, migrants are offered savings first, due to their specific capacity to save. There are interesting debates on the microfinance agenda regarding the credits and savings approach and which should be offered first to microfinance clients, even though this complex debate is not considered by the present study.

Regarding the main strengths of this empirical study, we should first notice the new and unexplored approach of analyzing remitter targeting from a women-targeting perspective. Secondly, there are not other studies containing such a large range of variables in analysing remitting behaviour of the migrants from Europe simultaneously; thirdly, as far as we know there are not other studies analysing the typology of sub-Saharan African remitters from Europe.

Table 2 Comparative analysis of the women microfinance clients, literature review profile of remitters and Senegalese remitters from Italy (drawn from our findings) - Consistency of the literature and the study' findings:

Women microfinance borrowers' characteristics ***based on literature review***	**Remitters' characteristics** ***based on literature review***	**Characteristics of the Senegalese remitters in Italy** ***based on our research***
	I. 1. explained variable : remitting behaviour - the average sending reached USD 221 monthly, no information on the amounts of savings;	**I.1. explained variable : remitting behaviour** - Senegalese sent about 100 – 250 € every month for family consumption; - Senegalese remitters save on a monthly base, (about 50 to 400 € per month);
II. 1) Demographics - in general young women, having dependant/ small children; - lower levels of education;	**II. 1) Demographics** - majority men - quite young, average age: 38,5 years old - literature does not considers the age at the arrival in the host country - lower levels of education (medium degrees);	**II. 1) Demographics** - majority men: 80 % of interviews - 38 years old – age at the moment of study - arriving age : 30 years old – arriving before 2001 - arriving age: 21 years old, arriving in the last 5 years - arriving before 2001: on average six years of school attended in Senegal - arriving after 2001: have Baccalaureate degree and even university degree (two interviews);
2) "family circumstances" - married, with children ¤high commitments to family well-being;	**II. 2) "family circumstances"** - married and family (spouse and children) in the home country	**II. 2) "family circumstances"** - 70 percentages of Senegalese from Italy are married and have their primary family in Senegal ¤ high commitments to family well-being

3) “socio-economic circumstances” - small businesses, less skilled (or unskilled) jobs;	**II. 3) “socio-economic circumstances”** - less skilled (or unskilled) jobs	**II. 3) “socio-economic circumstances”** - 80 % less skilled jobs (manufacturing, food industry, housekeeping, vendors, or little businesses);
- low-income jobs; - rely on social ties ▫ more affected by social exclusion;	- low-income jobs; - rely on social networks and mainly on the hometowns migrants;	- low-income jobs; - “secrecy cult”, rely on social networks at the arrival in Italy, but less close relations once gaining some independency;
- less alternative sources of financing; - low business management and level of financial “alphabetization”;	- lack of literature on banking penetration and business management and level of financial “alphabetization”	- banking penetration: among the interviewers living in the North part of Italy, majority declared to have a bank account mainly in Senegal, and less in Italy; among those living in South, majority don’t have a bank account; - findings reveal that “financial alphabetization” is low among Senegalese migrants in Italy; - for new projects Senegalese remitters often demand additional training services; - not relevant findings, it needs further and deeper studies;
- need more flexible financial products;	- lack of literature on the migrants empowerment through microfinance products;	
- microfinance products boost women empowerment;		

	II. 4) “migration situation” - reason for choosing destination country: not clear information given by literature -moreover cultural and economic reasons; - no legal residency - length of migration: less than 22 years - low levels of “embeddness” in the hosting country culture (speaking the host country language, keep connections with hometown migrants living also in the host country); - lack of information on the frequency of trips back home; - envisage returning home;	**II. 4) “migration situation”** - reasons for choosing Italia as destination: economic reasons - labour destination - and Italian flexible migration policy: - Senegalese arriving before 2001: all have legal residency and regular job - most of those arriving after 2001 and in the last five years, have illegal status, no regular jobs; - length of migration: on average 11 years, with none of the interviewers being migrated for more than 20 years; - majority of the Senegalese from Italy speak Italian; - after 2 / 3 years of migration more “formal contacts” with hometowns migrants - for cultural reasons (secrecy cult and superstitions culture); - frequency of the trips back to Senegal: the average of interviewed migrants is every 2 years, with many of those having primary family in Senegal, yearly trips for at least one month stay in Senegal; - 95 % of interviewed Senegalese want to return back home to Senegal;
	II. 5) ‘situation in the home country’ - own land and / or real estate in the home country	**II. 5) ‘situation in the home country’** - 80 % of Senegalese own land or real estate in Senegal; objective in near future to buy/ build a house; - among Senegalese arriving before 2001: majority own a real estate in Senegal; - among those arriving after 2001: majority own only land in Senegal (due to real estate price boom in the last decade; many came in Italy for attaining this objective);

	II. 6) 'historical circumstances' - strong "tacit socio-cultural codes of conduct" and social pressure; - lack of information on the tradition of inter-generation remittances in their family;	**II. 6) 'historical circumstances'** - Senegalese context characterized by strong "tacit socio-cultural codes of conduct" – remittances: a sign of "financial success", a tool for social inclusion / or exclusion in Senegalese communities; - "moral duty" : 65% declared to remit for their parents, too; - few migrants declared to know that their parents had sent money to their grand-parents - within rural-urban migration;

Another strength of this paper is its data collection from diverse sources, both migrants and microfinance actors, based on the only concrete project of targeting remitters in Europe.

The main limit of our analysis was the time constraint, and not being able to pursue a deeper and more complex analysis that could strengthen our research study. Moreover, information was not always easily accessible and we observed inconsistencies within data on the same issue, which raised the issue of data reliability.

As was aforementioned, migrants' social and economic integration is a central issue on the European agenda, and microfinance has already proven a possible solution for excluded persons from the banking system and poor people like migrants. Nevertheless, effective targeting with microfinance remittance-linked products is conditioned by a thorough understanding of the remitters' specificity. We think that is it important to further study the research question of this study, and that this could facilitate a better understanding of the remitters' profile and thus a better 'tailoring' of the products in accordance with their specific needs. Could microfinance really be an alternative for better integration of migrants in Europe and a tool for preparing their return home? We believe it could be, but there is need for more concrete projects to develop remittance-linked products, since there are very few projects in Europe at the moment.

We are aware that these findings contribute only modestly to a better understanding of the remitters' profile and thus a better 'tailoring' of the products in accordance with their specific needs. Nevertheless, this study was not intended to emit recommendations, but to start from something known, the well-known practice of gender targeting, and explore a relatively new one, remitter targeting, in order to facilitate more a efficient development of the latter.

Considering the time constraint and the complexity of the topic, we have modestly begun to reflect upon the state of remittances in microfinance, but hope to initiate future research that could contribute to the efficiency of remitter targeting with respect to microfinance in Europe.

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APENDIX I

Semi-structured Questioner for migrants

1. How old were you when you left Senegal for Italy?
2. For how many years have you migrated in Italy?
3. Have you done all your studies in Senegal before coming to Italy? What type / major of studies have you fulfilled?
4. Why did you choose Italy? Why not another destination?
5. What is the activity sector you work in here in Italy? Is it similar to the sector you worked in / prepare for in Senegal (previous your arriving in Italy)?
6. Are you married?
7. Do you live with your primary family (spouse and children) in Italy?
8. If no, do you plan to bring them in Italy? If no, why?
9. What is the frequency of your trips back to Senegal?
10. Do you intend to return back to Senegal?
11. If yes, do you have a clear date / period for your return?
12. Do you send money back to Senegal?
13. If yes, what is the frequency of your remittances?
14. What is the aim of your remittances?
15. - family needs and consumption / savings for your return / housing plans
16. Do you have a house / land in Senegal?
17. Do you intend to buy / build one?
18. Do you hold a bank account in Italy / Senegal?
19. Do you meet regularly with hometown Senegalese living in Italy? Are you a member of Senegalese diasporas associations?
20. What type of professional and personal satisfactions do you have you're your migration in Italy? Why?
21. What were your objectives when you left Senegal? Have you reached them? Why / why not?
22. Did your parents leave their hometowns? Did they help their parents (your grandparents) by sending money back home? If yes, why?

APENDIX 2

Unstructured questioners for Pamecas staff - involved in the remittances-linked project developed for Senegalese living in Italy

- What are the characteristics of saving behaviour of the Senegalese remitters (frequency, picks in the year, destinations)?
- What are the statistics of the project: how many remitters opened saving accounts and how many loans have been disbursed within the project?
- What are the most demanded products – savings, credits?
- What impacts have you observed on the migrants?
- What are the main problems faced by the clients?
- What are the main problems faced by the staff involved in the “transfrontalier” project?

Unstructured interviews with project partners and microfinance actors

- What are your reasons for choosing to focus on the Senegalese migrants living in Italy?
- What were the initial assumptions and hypothesis you had when started the project?
- What were the main barriers you have in approaching Senegalese migrants living in Italy?
- What are the external factors influencing Senegalese remitting behaviour? (Italian legislation and the financial crisis)
- What do you think that are the main elements of the Senegalese socio-cultural context linked to migration?
- What is the Senegalese migrants’ level of business management and level of financial “alphabetization”?

Blended Values & Social Return on Lending (SROL)

Innovative Methodologies and Measures

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Abstract

This paper presents an impact measurement methodology for Community Development Finance Institutions (CDFIs), called SIMPLE (**S**ocial **Im**pact for **L**ocal **E**conomies) which was applied and tested at the organizational level in the UK through an in depth test case study.

The SIMPLE method adopts a 5 step measurement approach: Scope It, Map It, Track It, Tell It & Embed It. Key impact measures, emerging from an interative and highly participatory measurement development process, will be discussed. In particular a blended values approach to CDFI impact measurement will be explained and evaluated and also a proposed holistic monetized impact measure, called Social Return on Lending (SROL). The learning and results from this research has recently been transferred to the national level through the authors' membership of the UK Community Development Finance Association's social impact working group, and has influenced the creation of common core impact indicators and an impact framework indicating a phased approach to future measurement steps. Through the authors' participation on the EMN Social Performance Working Group, results and learning have been communicated in supporting the formulation of common core indicators for microfinance organisations across the European network.

Introduction and Objectives

The UK Community Development Finance Institution (CDFI) sector, which is strongly dependent on public funding to maintain operations and for capital funds, is facing significant threats to their traditional funding streams because of the recent severe public expenditure cuts. If the UK CDFIs are to continue to secure government funding, through new channels (eg Big Society Bank or Regional Growth Funds) over the short to medium term it is imperative that they demonstrate their social value to the UK government (local and national) through robust and transparent reporting of their economic and social impacts and show progress in achieving financial sustainability.

This paper presents an impact measurement methodology for CDFIs, called SIMPLE (**S**ocial **Im**pact for **L**ocal **E**conomies) which was applied and tested at the organizational level in the UK with the learning being transferred to the national CDFI sector. Key impact measures, emerging from an interative and highly participatory development process, will be discussed in detail. In particular there will be an explanation and evaluation of the blended value approach to CDFI impact measurement and also a proposed holistic monetized impact measure, called Social Return on Lending (SROL).

The measures emerged from a social impact measurement and embedding project, funded by the UK's Community Development Finance Association (CDFA), the UK CDFI industry representative body, University of Brighton Commercial Activation fund .The project's primary goals were the development of relevant, practical and robust economic and social impact measures for CDFIs and the creation of an accompanying impact management and data capture system for organizational impact reporting.

The project's results drew from one in-depth CDFI test case study, Capitalise Business Support (CBS), as a representative example of a UK based enterprise lending CDFI, with subsequent testing of outcomes with key CDFI stakeholders, experts on impact measurement, the UK's CDFA and international Microfinance organisations. Although this paper is largely conceptual, the process was strongly practitioner focused, and the results are intended as a basis for practical application to support the sector in demonstrating social added value to potential future funders and other interested stakeholders.

UK CDFI impact measurement

Rationale for socio-economic impact measurement

Start ups, small and medium sized businesses, especially from disadvantaged groups and areas face many barriers to access to finance from external mainstream financial sector (HM Treasury (2004), Cosh et al (2008). Economists characterize these barriers as market failures, suggesting that more economic activity would result if market failures were corrected.

Two core market failures are commonly identified. Firstly, there is information failure, where mainstream commercial banks lack the information to properly assess the viability of the loans and face excessive transaction costs to appraise loan applications. These are potentially bankable but unviable banking propositions when judged in purely commercial terms. CDFIs can help correct this by working with SMEs to refine their business proposition and business planning as stepping stone to accessing mainstream finance. The second market failure results from externality effects, where the net social benefits (return to society) exceed the private returns to the commercial lenders. Demonstrating the externality benefits (ie the wider benefits to society) by CDFI intervention becomes central to supporting the claim on public finance support.

The influential GHK report [3](2010) stressed the need for prioritising improved CDFI impact measurement:

"Previous evaluations have noted that whilst there has been progress in the quality of the evidence base as to the impact of CDFIs, there is still room for considerable improvement (and as regards the measurement of both economic and social impacts of CDFIs). From a public policy perspective, the ability of CDFIs to demonstrate the full range of their impacts is crucial if the value and cost-effectiveness of the sector is to be understood and compared against other interventions in order to identify the areas in which CDFIs are best placed to deliver" (GHK 2010)

Measurement Challenges at the Organisational level

Many CDFIs have typically recruited former commercial bankers who are skilled and accustomed to evaluating loan applications, business plans and evaluating risks etc. Therefore CDFIs have been relatively adept at collecting and reporting on traditional financial lending measures. However, CDFIs are not focused on the single bottom line and commercial lending criteria as they are social mission driven organizations and have received funding to deliver on socio-economic policy goals such as regeneration /reduced financial exclusion etc. The need to demonstrate the socio-economic impact has become a high priority both at the organizational level (for supporting bidding for funds/reporting to stakeholders) and at the sectoral level to demonstrate the social worth of CDFIs and to raise the profile. The quality of impact reporting lags behind the financial reporting which is evidenced by the latest CDFA Outside In report – mostly financial measures/ or output measures – very few impact measures. The CDFA's recent initiative, the Change matters programme has prioritized robust impact reporting as a priority. This project, partly funded by the CDFA's Step Change programme, was supported to help build capacity in the sector to demonstrate wider impacts. Of course the problem CDFIs face, is the burden of proof - it is much more complex and costly to measure social impacts than number and value of loans/ write offs etc. This project was also designed to reduce that burden while achieving robust measures of proof that are cost effective.

The GHK 2010 research study of the UK CDFI sector concluded:

"There exists strong and robust evidence for continued public sector support to CDFIs"

However the report identified the need for further research into and development of methodologies to assess the scale of different underserved markets and the extent of latent and existing demand (GHK, 2010).

The GHK report also remarked that sectoral evaluation is difficult due to:

"a lack of comprehensive data and agreed reporting frameworks on CDFI income, expenditure, by activity, outputs, outcomes and impacts."

This work was being carried out concurrently with the GHK national sectoral study which has led to helpful cross fertilisation of ideas. A distinguishing feature of this case approach is that it delivers a bottom up, organisational mission and stakeholder driven path to impact measurement which is in contrast to the GHK study which was effectively a top down sectoral study for government policy evaluation.

About Capitalise Business Support (CBS) - A CDFI Case Study in organizational development of impact measures[4]

CBS, the CDFI used for testing and embedding impact, is based in Hastings (UK), an area of high unemployment, and high on the index of multiple deprivation (IMD). Following recent expansion and takeovers, it now serves 3 major counties in the south of England, Sussex (East & West), Hampshire and Kent. It focuses on small and micro enterprise lending with a strong emphasis on start up loans (over 70%) with mentor support provided throughout the lifetime of the loan to help businesses develop the skills (in finance, marketing, business planning, operations etc) to start , build and sustain the business.

3 GHK, a consultancy company, was hired by the Department of Business to evaluate the CDFI sector – reported in March 2010

4 The project in partnership with CBS involved developing and designing social as well as economic impact measures, and developing and embedding management systems. The software development side is still work in progress.

Methodology

There were two core methodological considerations; firstly the selection and application of the impact measurement tool to guide the process; and secondly the design of the specific facilitation process.

Applying the SIMPLE Impact Measurement Methodology

The Cubist Research & Consultancy group was invited to test and apply the SIMPLE (**S**ocial **Imp**act for **L**ocal **E**conomies) methodology to the CDFI sector (McLoughlin et al 2009). The SIMPLE impact measurement method was specifically designed, for social enterprises (not for profit organizations) as a conceptual and practical tool for helping organizations identify, prioritise and measure their social impacts. SIMPLE has been tested and refined through training over 50 diverse social enterprises in impact measurement and subsequently used as a consultancy tool for in-house impact measurement and embedding impact systems.

The SIMPLE impact model (see figure 1) offers a five step approach to impact measurement called Scope it; Map it; Track it; Tell it & Embed it.

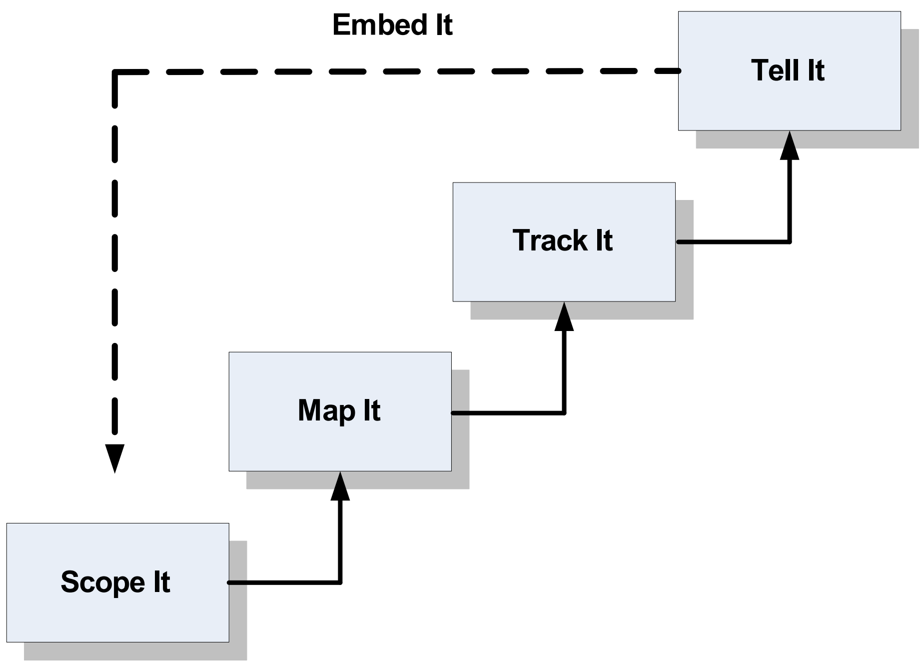


Figure 1: The SIMPLE model's five stage approach to impact measurement

These steps help to conceptualise the impact problem (SCOPE IT); identify and prioritise impacts for measurement (MAP IT); develop appropriate impact measures (TRACK IT); report impacts (TELL IT) and to integrate the results in management decision making and the culture of the organization (EMBED IT). The SIMPLE model's five stage method is designed to break down the complexity of impact measurement into easily accessible parts for training and management purposes. It is useful to view all stages as a fully integrated management tool which is best expressed holistically as shown below. The model features a quadruple bottom line approach (abbreviated to 4BL below) to impact categorization, embracing financial, economic, social and environmental impacts (see figure 2).

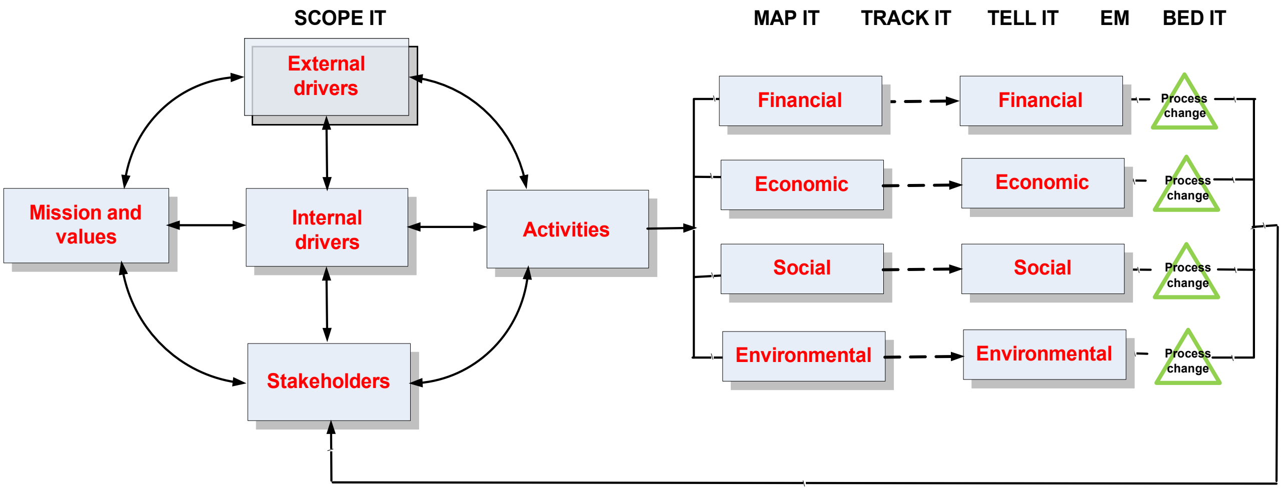


Figure 2: The SIMPE holistic quadruple bottom line (4BL) impact model - summary version

CBS Case Study - Measurement Development and Embedding process

Adopting an action research approach, working in close partnership with the CBS management and operations team, the Cubist Research Group's focus was problem centred (to develop relevant, robust and practical impact measures), client centred (tailored to CBS needs and priorities) and action oriented (interactive and interative process) (Lewin, K. (1946) Bryman, A. and Bell, E. (2007), Argyris, C., (1985).

The development team of Cubist Research Group and CBS, effectively formed an academic-practitioner partnership engaging in experiential learning and reflective review processes that led to a number of refinements and amendments in measures and data capture procedures (Kolb, D.A. 1984).

The process is summarised below

- Detailed planning, briefing and scheduling with CBS
- Understanding CBS context and CDFI sectoral needs
- In-house facilitated workshops with CBS staff team by Cubist Group
  - Workshop 1 - Scope It – Review of mission, stakeholder analysis, external drivers and also to establish why it is being done.
  - Workshop 2 - Map It – impact map constructed to identify activities, outputs and outcomes/impacts
  - Workshop 3 - Track It – developed indicators that measured the outcomes/impacts
- Stakeholder engagement – external and internal – testing and reviewing against impacts
- Development of range of impact measures (Quantitative and qualitative) – 4BL blended value approach
- Development of new monetised measure resulting from mapping process and stakeholder demand
- Ongoing testing, learning, review and amendments
- Follow up testing of measures with key stakeholders/experts

While the core measurement steps were Scope It, Map It and Track It. In terms of the two other steps, Tell It and Embed It, the former is dependent on the final collection of data and the reporting, which takes time after the measures are decided. At the time of writing, CBS was implementing the data collection system. Embedding is not so much a distinct linear step but more of an ongoing process from the moment the organisation commences the measurement task. There is a management of change aspect of recognizing the need and ensuring the buy-in to deliver on impact measurement – the workshops were key to establishing that commitment. There is also the embedding of the actual data systems and assigning the roles and responsibilities. The focus for explanation below will be the Scope It , Map It & Track It stages of measurement

SCOPE IT Stage

Scoping the impact measurement problems, in the authors view, is an essential step in the process of measuring what matters in a cost effective manner.

It is necessary to understand why we measure impact. Clear answers to this question not only focus on priority areas but build motivation for engaging in the process, which often seems like a burden or an adds on activity rather than being central, as it should be, to creating a continuous improvement social performance organizational culture.

All impact measurement crucially starts from the mission (including the values and core strategic objectives) and eventual emerging measures must be checked to directly address the CDFI's fundamental mission. When missions differ between CDFIs, then strictly so, too should the impact measures.

In terms of the project's test case, CBS's mission is:

"To provide finance and advice to help start up or established micro, small or social enterprises in order to achieve positive social change and to bring increased prosperity to disadvantaged or under represented groups".

This was revised by the senior management team during the workshops to reflect the strategic priorities of the organization.

In identifying and prioritisng the appropriate measures it is essential to involve key stakeholders (eg beneficiaries, funders etc). One could say that impact is in the eye of the stakeholder – Impact on whom? Impact for whom? This research project engaged in an extensive stakeholder engagement to help form the measures and confirm validation of the measures. Without appropriate stakeholder engagement and validation, an organisation risks wasting resources on measuring the non priority areas or even the wrong things. An ongoing iterative and interactive process is recommended here to develop, prioritise and refine measures.

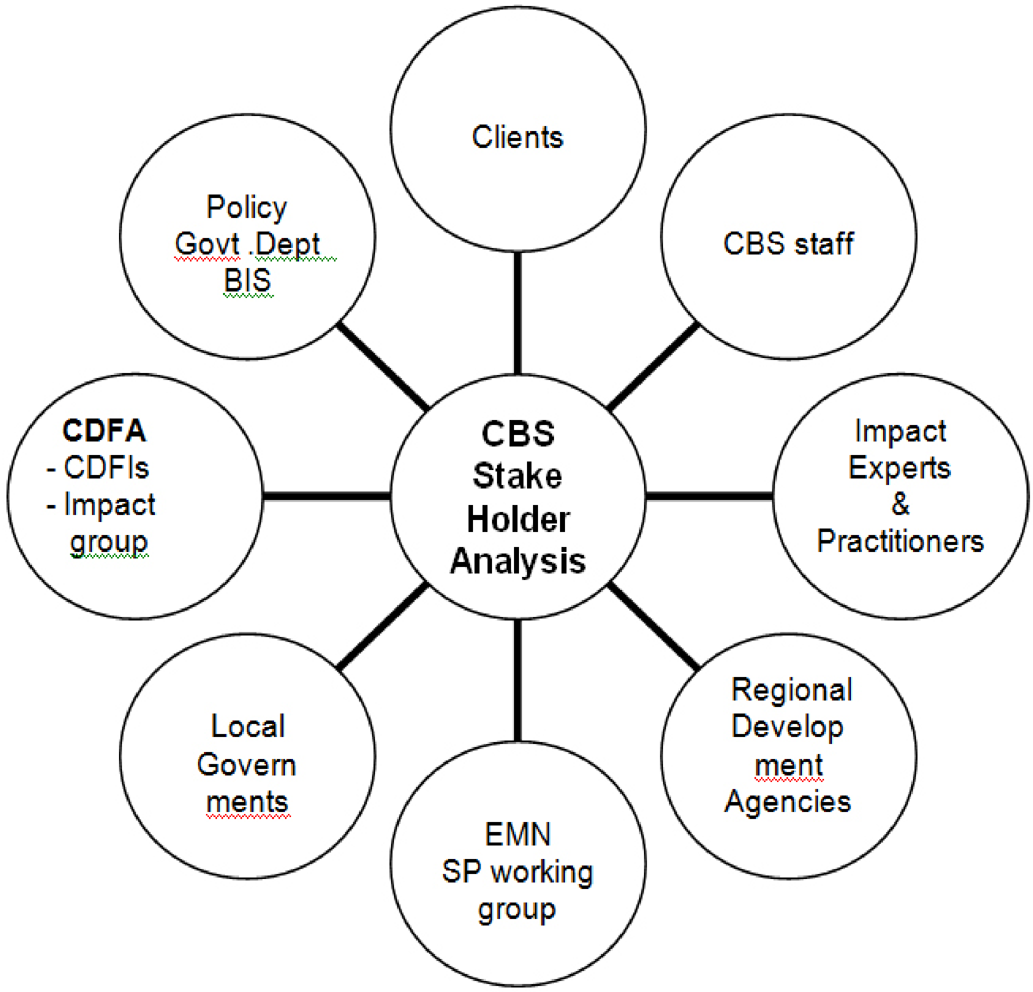


Figure 3 CBS Stakeholder engagement

The scoping stage will also help identify if there are, or likely to be, externally driven measures (eg from legal & regulatory sources, or industry benchmarks, national or international associations). Also certain measures may be chosen for internal management and evaluation purposes regarding social performance (internal drivers).

MAP IT stage

The mapping stage adopts the logic model (or theory of change model) methodology needed to distinguish between inputs, activities, outputs and outcomes (e.g. Wholey 1979).

The map below, figure 4, does not claim to be exhaustive of all outcomes but is illustrative of the process from the which the impact measures emerge, assuming that these are consistent with the measurement parameters developed from the scoping phase, especially in terms of being directly relevant to mission and key stakeholders.

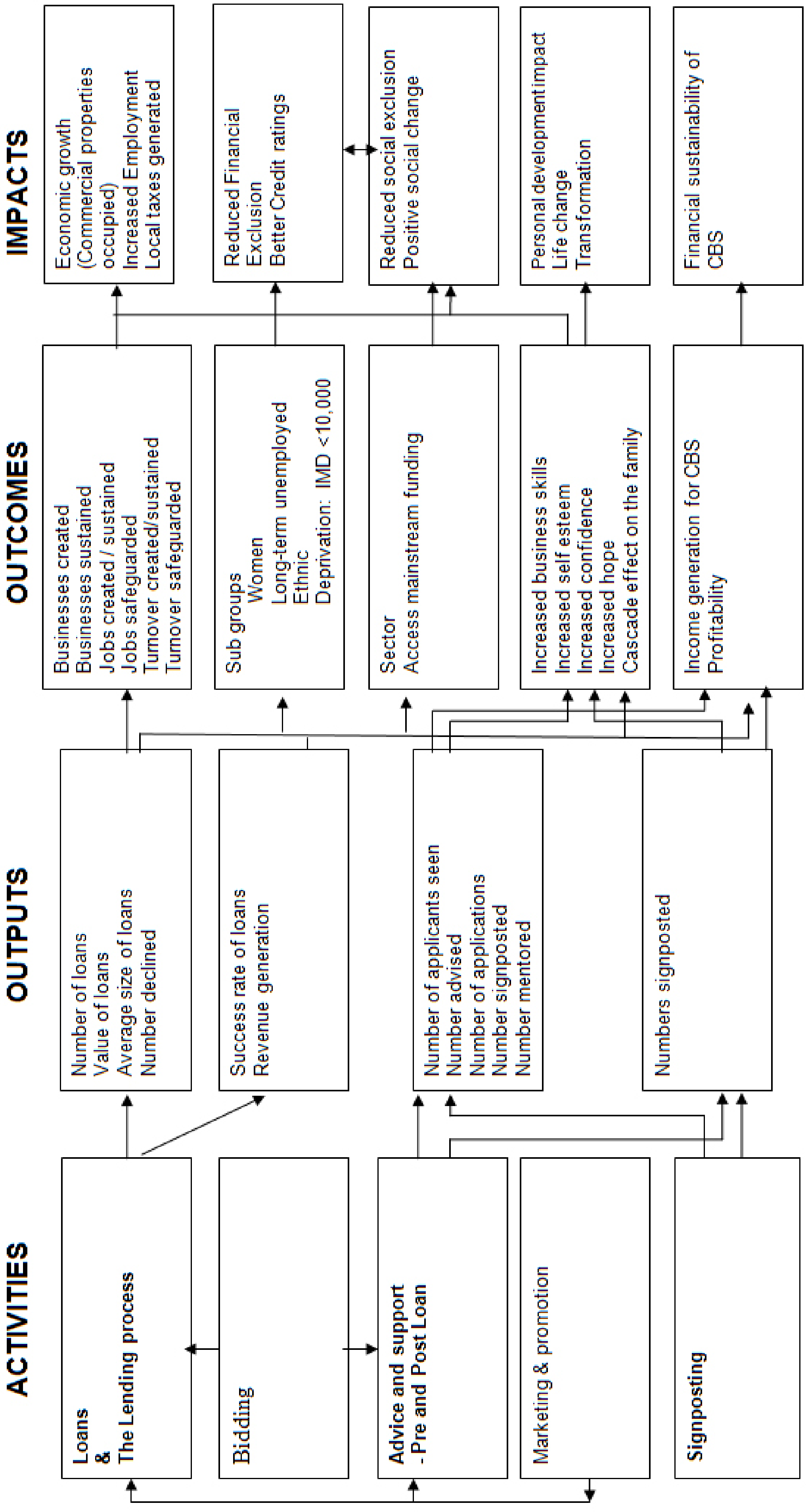


Figure 4 MAP IT - the case of CBS

- From the mapping process social, economic & financial measures were identified as priorities.
- These intended outcomes were also confirmed by the key external stakeholders.

Regarding figure 4's map it is important to note that inputs are not included in this version. It is important to insert inputs to identify the resource used to deliver on the eventual outcomes. Once these inputs are costed, assuming an agreed cost accounting measurement protocol, then the outcomes represent a "social return" on those inputs.

Also the specific meaning of impact used in the figure 4 map refers to the wider societal benefits (medium to longer term) to which the CDFI contributes from its own activities. This implies partial attribution - that is credit for the outcome is likely to be shared with other interventions and programmes. Technically, as mentioned earlier in this paper, one needs to adjust the gross measures for deadweight, displacement and multiplier effects.

TRACK IT stage - Quantitative and qualitative indicators developed

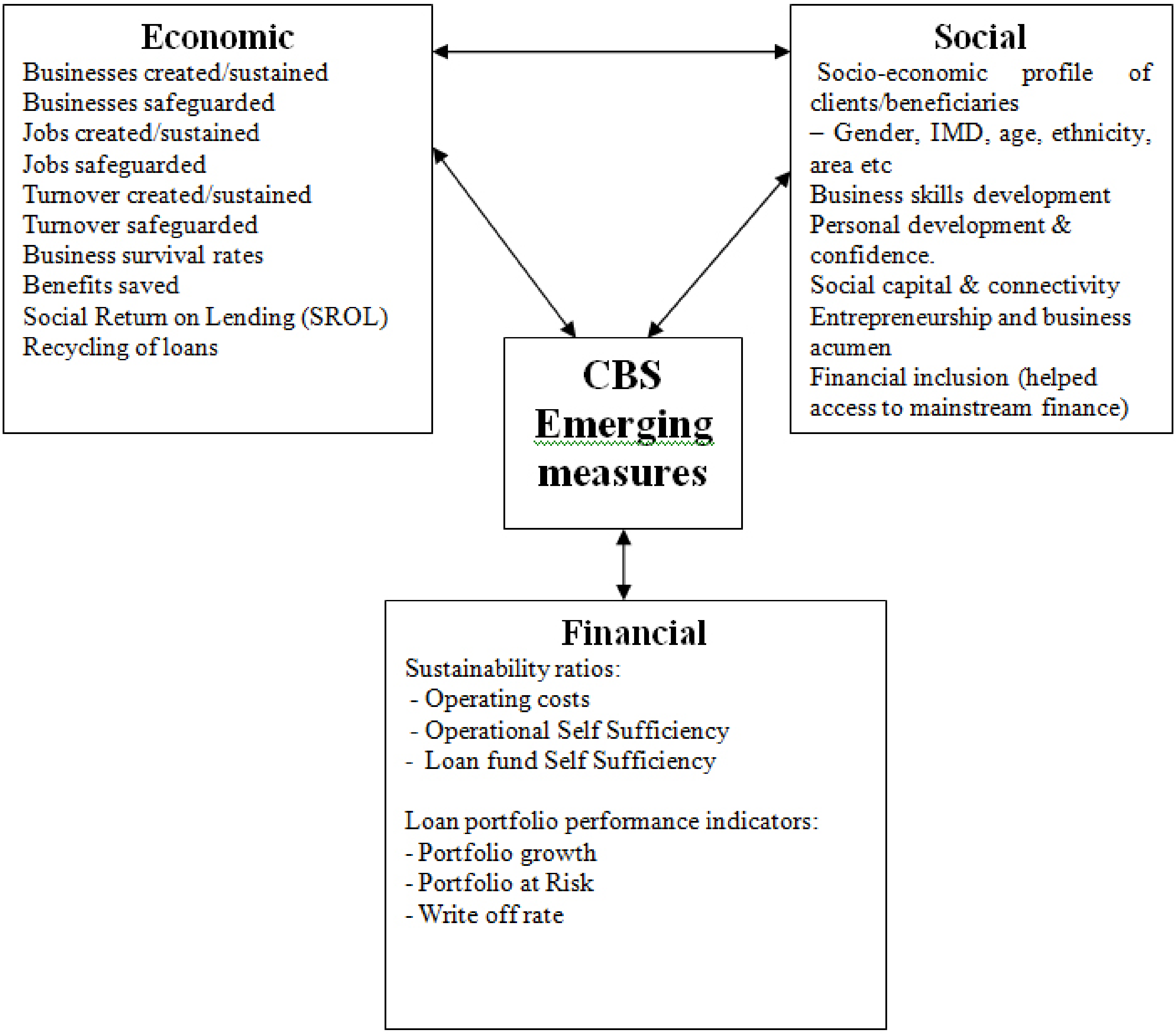


Figure 5 TRACK IT stage - Summary of emerging priority outcomes measures

Figure 5 above summarises the quantitative and qualitative indicators developed in the Track It stage of the SIMPLE process:
It is important to note that a distinction is made here between economic measures, which relate

to the local economy effects (eg Businesses created, jobs created), and financial, which refer to the actual performance of the loan book for the relevant CDFI. Social impacts are considered to be the more qualitative outcomes in terms of both personal development and local community (social capital enhancement). Hence in this case, triple bottom line effects were identified as priorities to report on. The above measures emerged directly from the impact mapping, the workshops and the stakeholder engagement. For consistent data collection and potential sectoral aggregation common accounting protocols needs to be agreed and supporting management systems implemented.

Common core Economic outcomes measures:

From the above range of measures identified in figure 5, six core economic impact measures were agreed for early adoption and reporting by the UK's CDFA.[5]

Core measures collectable in the short to medium term

- Businesses created & sustained (from start ups)
- Businesses safeguarded (from existing businesses)
- Jobs created & sustained (from start ups)
- Jobs safeguarded (from existing businesses)
- Turnover created & sustained (from start ups)
- Turnover safeguarded (from existing businesses)

When these measures are cross referenced with key target social groups they become socio-economic indicators.

The six core measures above have now been adopted, following by the national CDFA UK impact group and are consistent with the GHK report's (2010) aggregated sectoral evaluation. The SROL measure identified in figure 5 will be discussed later.

Social outcomes measures

Besides the socio-economic measures identified above a more holistic approach to measuring impacts would include the more intangible and qualitative dimensions of social impact as these are directly relevant to the social mission pursued by the CDFIs.

The core social impacts identified for measurement from the CBS case study were (as listed in figure 5)

- Business skills development
- Personal development & confidence.
- Social capital & connectivity
- Entrepreneurship and business acumen
- Financial inclusion (helped access to mainstream finance)

A questionnaire using for clients/beneficiaries, using a likert scale for rating the extent of impact, was designed and is currently being implemented. These deeper social effects are often more subjective and more problematic for aggregation.

In terms of the UK's CDFA agreeing to a national standard for measurement with supporting accounting protocols, this will take time to develop and will be a future phase for implementation after more testing.

5 The GHK Report (2010) on the CDFI sector recently did sectoral estimates for the UK also using these impact categorisations.

Further methodological considerations - moving from gross to net impact

From a strict impact methodological perspective when the economic and social measures measures are collected, they are in gross form and should be converted to net which estimates the attribution and additionality effects of the CDFI intervention.

Key adjustments to be made which converts raw data collected into net impacts are as follows:

1. **Deadweight effects** – the outcomes that would have happened anyway should be deducted However, since CDFIs only lend if clients have been rejected by mainstream finance, which if fully evidenced, there is likely to be a low deadweight effect which translates into a high attribution effect.
   In the case of CBS 92.3% said they would **not have started** their business without a CDFI loan.
2. **Displacement effects-** economic impacts gained at the expense of others (eg competitors). These are difficult to capture but are theoretically desirable to technically satisfy additionality is being achieved by an intervention.
3. **Multiplier effects -** refer to additional economic value generated through employee and supply chain spending, which are effectively second and third round additional spending effects.

Towards a blended values approach to impact measurement

When the total return is considered on an investment in a CDFI, in the authors view, it is useful to adopt a blended values approach. That is, to present for a given investment (or resource cost) the range of social, economic (local economy) and financial (direct from loans) returns generated either for a year or over the cycle of a loan as represented in figure 6. The blended approach could also be represented as a dashboard of indicators. This recognises that multiple outcomes arise from a given investment and effectively an investor is "buying" these outcomes. Naturally performances will differ between organisations and with different missions there should be different impact maps driving different impact measures. There is a need to balance the sectoral wish (for example from the UK CDFA) to aggregate impacts nationally with the specific organisational wish to report on their specific mission.

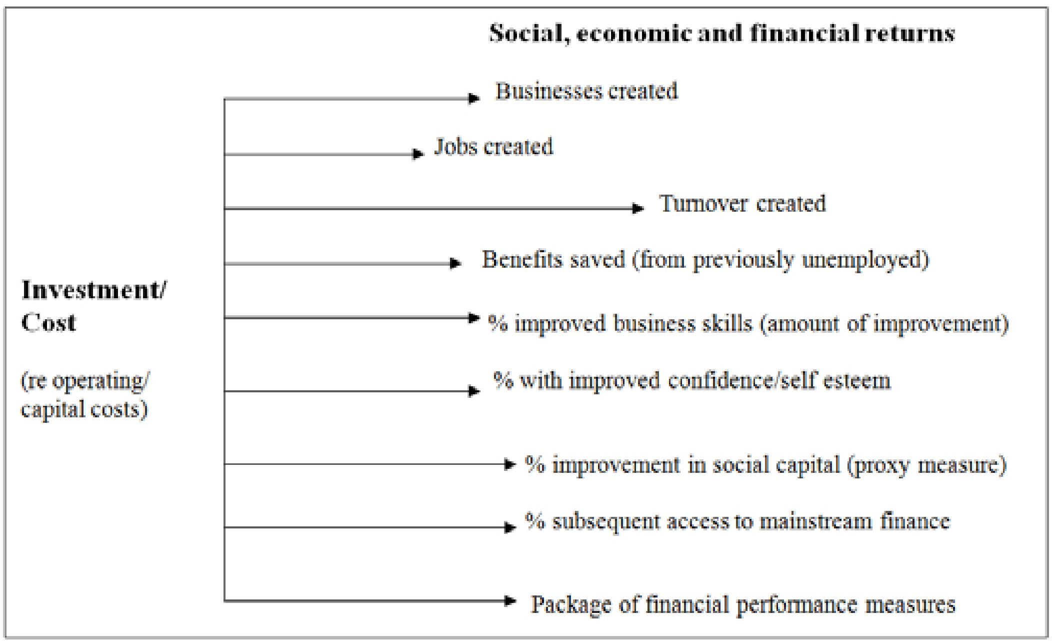


Figure 6 Blended values as a return on investment (selected examples)

Social Return On Lending (SROL) - a tailored measure for Microfinance

This blended values approach is in contrast to the Social Return on Investment (SROI) method which attempts to monetise all the priority social outcomes, including the intangibles to result a return solely presented in monetary terms. While the single monetary return measure is potentially attractive, and easily understood, by funders, the use of monetary proxy measures for social intangibles is a highly contested area (eg monetising confidence and empowerment).

However, the authors do advocate considering the use and development of a harder aggregated monetised return measure called Social Return on Lending (SROL) which could be included in the blended values reporting. A brief explanation of SROL is below.

Social Return On Lending (SROL)

A new measure, Social Return on Lending (SROL), was designed and initially tested, as a concept, first with CBS in a workshop for the CBS impact development team, and then with the wider stakeholders, and impact experts. This led to several refinements of the concept before further testing at the regional & national level with the CDFA Board, Regional economic development agency, the national CDFA conference, and more recently with a SME policy team from UK Government's Department of Business, Innovation & Skills.

The SROL measure was developed by firstly conceptualising the CDFI value creation chain (see figure below), which emerged from the workshops and stakeholder engagement process.

Three core elements are considered in the SROL measure, as figures summarises.

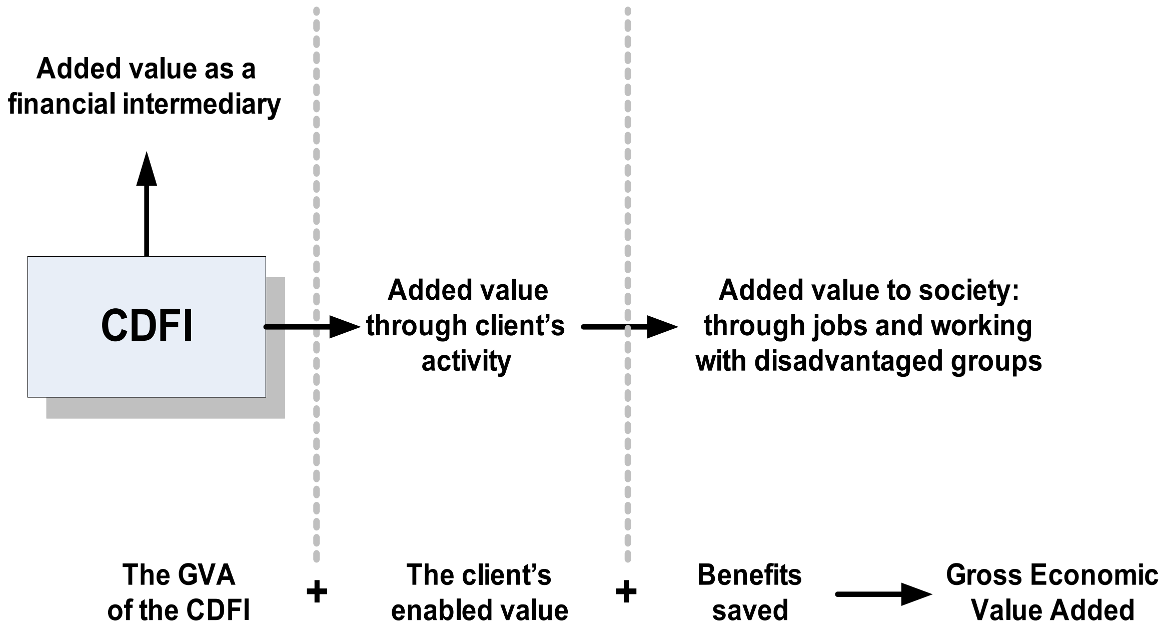
- **Added value through clients' economic activities**. Clients tend to come to CDFIs when they have exhausted all other possible avenues of finance. These organisations are often seen as the 'lender of last resort'. If the rejection by mainstream finance is robustly proven then the attribution of the impact to the intervention from the CDFI can be directly established.

- **Added value to society**. By helping to create jobs and businesses in deprived areas and with disadvantaged or underrepresented groups, the CDFIs add value to society, contributing to local economic regeneration, with hopefully deeper benefits regarding less financial exclusion. Not all of these impacts are easily measured or attributable to one organization (as regeneration and financial exclusion is complex, and subject to multi faceted policy approach). However jobs created/sustained from formerly unemployed and economically inactive is a measurable added value to society which is potentially directly attributable to a CDFI intervention.

- **CDFI's own Gross Value Added (GVA)** [6]**-** the value added by the organization itself through its direct trading – since the CDFI is an economic entity in its own right then it should still figure in a wider monetized impact calculation but it will be a relatively small figure as they tend to be small organizations and may even have negative GVAs when they are heavily subsidized.

6 GVA is the value added by the direct activities of an organization. For the UK this is calculating by adding net profit , depreciation and employment costs. Alternatively for finance organizations the GVA can be calculated by the gross interest earned minus the coast of capital.

Figure 7: CDFI Value Creation Chain – SROL



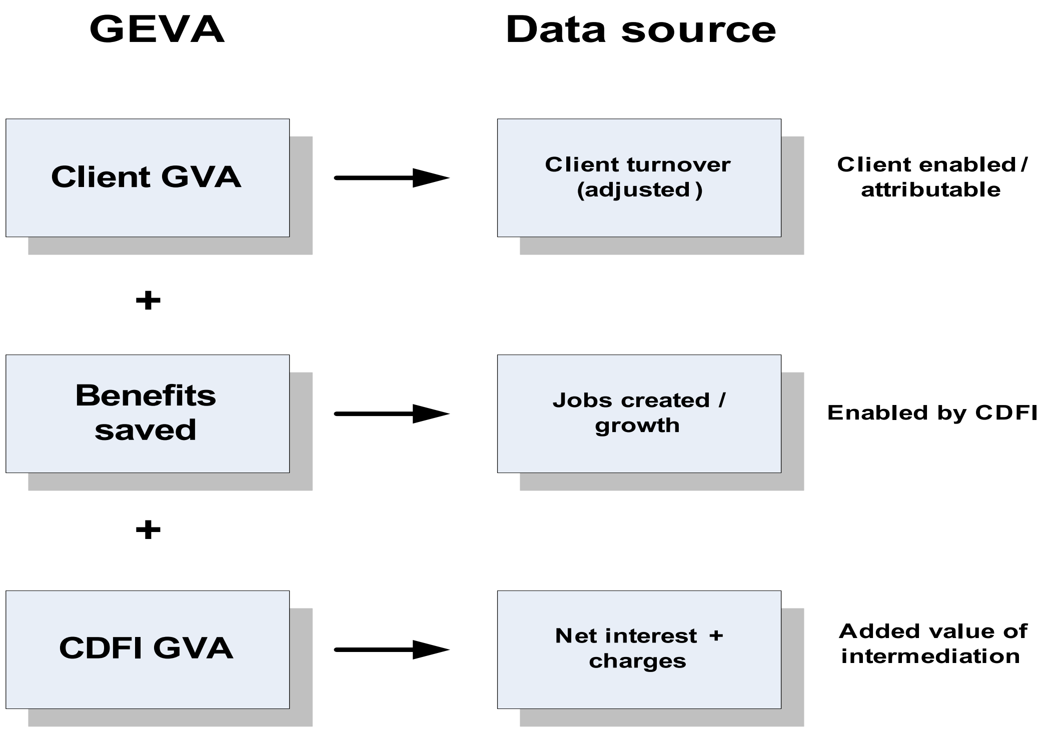
It must be emphasized that the SROL conceptualization of CDFI value creation does not claim to capture all impacts. The more intangible qualitative social outcomes such as improved personal business and entrepreneurial skills, and enhanced self-confidence, hope, self esteem are better captured via other measurement methods in a blended value approach. .

Furthermore, SROL does not attempt to measure the subsequent impact of the borrower organization on society (for example if it is a social enterprise that borrowed to deliver on local social impact). It is deliberately designed as a relatively direct socio-economic impact measure.

There were certain design principles in the new measure should be

- Able to capture the monetized impact of CDFIs as enablers of added value to society
- Robust measure
- Easily understood by stakeholders
- Practical - Relatively easy to collect data
- Cost effective – relatively low cost of data collection

Figure 8 : SROL Formula & Data Collection



Note on Figure 8 :
GEVA refers to gross economic value added of the total activities undertaken (effectively SROL)

Benefits Saved: from previously unemployed or economically inactive (others previously on welfare benefits)
– Government budgetary (and taxpayers) saving

In terms of traditional cost benefit analysis (and SROI accounting) benefits saved from employment created represents a legitimate factor in considering economic value added from an intervention by a CDFI.

Adjusted Turnover as economic impact value added measure - Client GVA

If it can be established that a CDFI business loan enabled additional economic activity by a client, and such activity would not otherwise have happened, then the client's turnover (adjusted) becomes potentially a core component measuring value added generated.

Two key elements must be established to employ the turnover concept as value added:

1. Attribution – to demonstrate that that a client's economic activity would not otherwise have occurred. This can done by firstly establishing that the client was rejected by mainstream financial institutions (normally bank rejection documentation is used as proof). Secondly, to determine the attribution of the role of a CDFI from the client themselves. The simplest way to determine this is through the use of a questionnaire. A question such as "Would you have started up /sustained your business without the loan/support?" can establish attribution. If this cannot be established it is not possible to proceed further with this measure.
2. Ascertaining the value added element in the turnover figure

Because of the risks of double counting when using turnover as a strictly value added measure for CDFIs, it is important to explore the nature of the adjustments that could be made to achieve a valid measure.

Demonstrating the SROL - based on real data from a CDFI case study

Table 1 below is an example of the SROL measure for a CDFI using only the direct monetized impacts but based on similar ratios generated from actual test data from the CDFI research case study.

This example assumes the following (based on the calculation/data collection discussion above:

- 3 start up organisations (named A, B & C) each with Loan period of 3 yrs
- Owners (and all jobs created) were previously unemployed.
- Standard business start up loans of 10K for 3 year Example shows one successful loan for 3 yrs, one fails after 2 yrs and one fails after one year.
- 2 Businesses in 2nd yr add one extra job reflecting expansion of the business (from 1 to 2)
- Benefits saved per job created from previously unemployed = £5000 per year per job created (unemployment benefits, housing benefits). This figure was recommended as a conservative amount by the UK Government's Department of Business, Innovation & Skills.
- Benefits saved counted for one year only as it is assumed that a person would have found another job by year 2.
- Jobs/ Turnover created were directly attributable to CDFI intervention (the business declared that it would not have started without the loan (100% attribution). This would be established by questionnaire
- Turnover is an adjusted figure = Turnover minus loan repayment and net interest
- CDFI value added = net interest + charges received.

The following example highlights how the measure works and how important it is for emphasising the contribution of the CDFI sector.

		Turnover created (adjusted) A				Benefits saved (jobs created, etc) B				GVA (CDFI) C	CDFI SROL
					Sub	Year 1 1 job	Year 2 2 jobs	Year 3 2 jobs	Sub	total term	**Overall Total**
A			40K			5K	5K	0	10K	3K	138K
B			25K	0	50K	5K	5K	0	10K	1K	61K
C			0	0	25K	5K	0	0	5K	-6K	24K
Total					200				25	-2	**223K**

Note: £10K = £10,000

The above SROL concept has been presented and tested with CBS, the test case CDFI for the authors' research, the CDFA and other economic and social impact experts. The figures were considered as conservative, especially regarding client turnover (adjusted) which is likely, in most cases, to be more than 15K in year one and 20K for year two.

In the case of borrower organisation A, the £10K CDFI loan has generated £125k of added economic activity (measured by adjusted turnover) over three years which, assuming this activity would not otherwise have happened without the CDFI intervention, is a clear 12.5 times return on the original loan. It is this cumulative added value on the original loan that is powerful. Added to this is a cumulative direct saving on unemployment benefits of £10K that would otherwise have been paid out by the government) – this is added value provided by the CDFI intervention. While the CDFI own value creation (its own GVA) on this loan is £3k is also additional value added economic activity, it is clear that this is a relatively small part of the overall SROL enabled by the CDFI. In total, with a fully functioning loan, that enables a sustainable new business to emerge generated 138K of additional value (SROL) from an original £10k loan (borrower A).

However, CDFIs operate in the high risk end of the market, often people inexperienced in running businesses, often with high default rates.

Table 1 includes two failing loans to test the impact on value added outcomes (regarding borrowers B & C).

Perhaps surprisingly, both failed loans still generate positive value added outcomes

Even if the loan fails after two years, as in the case of borrower organisation B, it still delivers £61,000 of SROL for the original £10,000 loan. However, even if the loan were to fail after one year as in the case of borrower organisation C it would still contribute some positive enabled value added, £24K SROL on £10k, through turnover and saved benefits. Although, there is a loss on the loan to the CDFI with a negative GVA measure of minus £6k. In this example the CDFI experiences a net negative GVA of -£2k while generating a clear net positive for society.

The Social Return on Lending (SROL) in Ratio format

The power of the SROL measure is in aggregation and the cumulative impact through the time period of the loans at the organizational level. Table 1 demonstrated an aggregated SROL impact measure of £223K of added value on £30K of loans over the 3 year loan period, which is economic activity that would not otherwise happened without the CDFI intervention (assuming the attribution is confirmed).

The small step of converting SROL, a gross monetary added value measure, into a ratio which shows the value added return on loans awarded by CDFIs is a simple but very effective measure to demonstrate the contribution of CDFIs

$$\text{SROL} = \frac{\text{SROL (defined loan period)}}{\text{Loan Value (for that loan period)}} = \frac{223\text{K}}{30\text{K}} = \text{£ 7.4 for each £1 loaned}$$

The ability to demonstrate that each £1 CDFI loan (perhaps originally funded by public sector sources) generates around £7 in value added activity is potentially powerful both for internal purposes, and for persuading external funders of the worth of investing tin the sector.

Some methodological considerations

From a methodological perspective the SROL calculation, in certain circumstances, risks an element of double counting in treating turnover as a measure of CDFI enabled value added. By returning to the example in table 1 above one can observe the problem if certain assumptions are changed.

What if the CDFI also lends to the suppliers as well as the start up retailer? Clearly it would be double counting to add the turnovers in this case. So SROL requires counting turnover only once in any supply chain. Alternatively one could only count the CDFI's client GVA, which would be a conservative, but theoretically robust gross value added measure.

The benefits of the SROL measures for CDFI impact reporting

- Specific to the CDFI sector - enables a CDFI, and potentially CDFA sector, to demonstrate economic value added
- It is a cumulative impact measure directly attributable to CDFI intervention
- Stakeholder testing of concept (re UK Government Department) has received positive responses.
- Value added concept easily understood
- Speaks the language of key stakeholders (eg UK Government department, regional development agencies, CDFA) - based on GVA thinking
- Data relatively easy to capture (depending on version adopted)
- Relatively cost & complexity in producing measure
- Potential for software template to support calculations
- Can be converted to value added per £1 of loan or per employee
- Fits well with other blended values approach to total impact reporting (quantitative and qualitative)
- Potential for CDFA benchmarking
- Through representative sampling – could scale up impact as sectoral measure
- Can progress to Social Return On Investment (SROI) if desired by seeking proxies for the qualitative social benefits

Limitations of SROL

While one would welcome a CDFI reporting SROL as impacts which in themselves should be sufficient to persuade funders and other stakeholders of the positive economic impacts of CDFIs.

However, from an impact methodological perspective there is theoretical case to move from a gross measure SROL to a net impact calculation capturing the additonality contribution of a CDFI (that is to adjust fully for deadweight, displacement and multiplier effects). [7]

Some further key Considerations

- Not every CDFI has sufficient contact with their borrowers to obtain the turnover data to produce SROL
- Needs commitment to systematic data collection systems from a CDFI
- Transparency is key regarding values attributed and data collected
- One should consider sensitivity analysis regarding values.
- There is a case for applying discounting techniques as the SROL calculation covers a maximum of three years.
- The authors are working on a software calculator to ease the data collection and reporting of the measures

From SROL to Social Return On Investment (SROI)

A CDFI may decide that SROI is the desired measure which, although more costly and complex, is a process leading to monetization of some of the more intangible social impacts resulting from CDFI intervention. The SROL calculation would still fit well when added to the additional monetised proxy measures that a full SROI calculation might require.

7 See guidelines on impact study methodologies from the UK Government : BERR(2008), English Patnership (2008) and the HM Treasury's Green book (undated).

A full SROI calculation would involve the following:

- The design and use of proxy monetized measures for the qualitative benefits provided by the CDFI (training/mentoring and improved personal development).
- To be clear on deadweight and attribution regarding the qualitative outcomes
- Identifying displacement effects
- Discounting the returns
- Agreeing on the “investment” costs (more difficult than identifying return on loans as multi activity/service organizations can attribute costs in different ways.

Conclusion

Virtually all UK CDFIs depend on public sector finance to sustain their operations. This has been justified on the policy intervention grounds of correcting market failures and delivering on central government policy goals concerned with enterprise growth, regeneration and reducing financial and social exclusion.

As the UK is entering a period of severe fiscal austerity, with substantial cuts earmarked for the Department of Business, Innovation & Skills (BIS), the main public funding source for CDFIs, there is an urgent need for the sector to robustly evidence and communicate their social and economic benefits, if they are to continue to secure short to medium term public funding to sustain current levels of operations[8].

This paper presented an in-depth case study, representative of a UK based enterprise-lending CDFI, to develop impact measures. By applying 5 step SIMPLE impact measurement methodology of SCOPE IT, MAP IT, TRACK IT, TELL IT & EMBEDD IT, a range of social and economic impact measures were developed which emerged from a series of workshops and stakeholder engagement. A blended values approach to impact reporting is advocated which captures the multi-dimensional outcomes of a CDFI and enables outcomes measured to be checked against the mission and key stakeholders

A CDFI specific prototype economic impact measure, called SROL, was developed directly to meet public funding stakeholders’ needs to demonstrate added value in monetary terms. The SROL concept has been subsequently tested with the CDFA, Dept of BIS, and a Government Regional Development Agency and the annual national CDFI conference. SROL is potentially a robust and practical economic impact added value measure. It is a direct monetized measure, not relying on contested proxies or questionable imputed values, which captures the “lifetime” impact of the loan and includes failed as well as successful loans.

However, one should also appreciate the limitations of the SROL measure as ideally impacts should be net rather gross but such adjustments are difficult to capture at organizational level. While 100% attribution was assumed (through evidenced rejection by mainstream financiers), in reality, one might need to deduct a deadweight percentage. Also estimated displacement effects would further reduce the reported impact figure, while an estimated local multiplier effect would increase the final impact figure. The SROL measure does not capture the recycling of the loan into the capital pot, which would further increase the impact figure. Moreover the SROL figure is best used for start ups as the turnover created is easier to capture and attribute than for an existing business, where turnover safeguarded is a more appropriate measure. It is important to view SROL as one of a range of measures that might be used and that it should be combined with qualitative social impact and other economic impacts (examples being business created & safeguarded, jobs created and safeguarded, and the turnover created and safeguarded).

It is hoped that the SIMPLE impact methodology provides a useful holistic impact measurement approach at the organizational reporting level, tailored to each CDFI’s mission and relevant

8 The public funding constraints may force CDFIs to seek alternative funding and business strategies.

stakeholders; and that the prototype SROL measures that emerged are robust, practical and cost effective way to express economic impacts, and useful a addition to the impact indicators already in use. A major challenge with regard to a bottom up impact methodology such as the SIMPLE method advocated in this paper, is to reach an agreement sectorally about some common core reporting measures that will help both benchmarking and the ability to aggregate. With heterogeneous missions and resulting strategies and activities among the various CDFIs, there will be inevitable tensions between attempts at standardisation of measures and more targeted tailored measures. So far CDFA has tended to promote a pluralist approach but central government pressures are pushing for standardization. Next possible steps are to phase in more social impact qualitative measures, refine and develop attribution aspects, consider further monetisation of social impacts, refine SROL and extend to life cycle of loan effects and to build the SROL software calculator and an integrated impact management system.

In summary, it is hoped that this paper makes a contribution to progressing microfinance impact knowledge, both conceptually and practically, through the use of an innovative impact measurement methodology, SIMPLE; through the proposed use of blended value approach and, finally, through the potential use and Social Return on Lending (SROL) as a tailored made measure for the Microfinance sector.

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Profitable Alternative Investment: Microfinance Investment Vehicle[9]

9 This study has been performed in the research group "New Developments in Finance" of the University of Seville (Spain) with the collaboration of Maria Cristina de Lorenzo from the University of Bologna (Italy).

Profitable Alternative Investment: Microfinance Investment Vehicle[10]

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ABSTRACT

The economic and financial performance of a financial product called a Microfinance Investment Vehicle (MIV) is analysed in this paper. These investments spend at least 50% of their capital on granting loans, generally at fixed interest rates, or on buying shares of Microfinance Institutions (MFIs), with the remainder of the capital going to other financial investments. Therefore, MIVs are classified as "socially responsible investments" or "ethical investments". Traditionally, MFIs were financed mainly by donations and public and/or private subsidies. Recently, international commercial and investment banks, development agencies, and private donors have started investing in the microfinance sector, by creating MIVs in order to enable MFIs to access capital markets for their financial resources. Over the last decade, MIVs have become a crucial tool for the development and growth of MFIs, and, in the future, MIVs will play an ever-greater role in this sector.

This paper investigates whether adding microfinance investments to a portfolio of risky international assets yields gains through diversification. To this end, a comparative analysis of six MIVs with three benchmarks by using RAP (risk-adjusted performance) methodology is performed. We analyse the results of different ratios; on one hand, the volatility of MIVs with respect to benchmarks is analysed by using beta and determination coefficients. On the other hand, the risk-adjusted return, commonly used to compare mutual funds, is measured by using the following indices: Jensen´s alpha, the Sharpe ratio and, the Treynor ratio.

The results of the analysis indicate that investing in MIVs may be attractive for investors seeking a better risk-return profile. Reasons to invest in MIVs include: (a) their systematic risk is near to zero; (b) their risk-adjusted returns are similar to those of other financial products; and (c) the legal security of the investment is high, since they are mutual funds registered in developed countries (especially in Luxembourg and Holland) with professional management teams. Our research is part of some recent literature which deals with the evaluation of Microfinance Institutions (MFIs) as an investment opportunity.

10 This study has been performed in the research group "New Developments in Finance" of the University of Seville (Spain) with the collaboration of Maria Cristina de Lorenzo from the University of Bologna (Italy).

INTRODUCTION

Socially responsible investment and ethical investment funds are the result of a gradual evolution of attitudes toward investment by investors who are more ethically and socially responsible since they boost an economic vision that incorporates ethical and social values.

The *United Kingdom Social Investment Forum* (UKSIF) defines socially responsible investments as investments that allow investors to combine financial objectives and social values, linked to areas of social justice, economic development, peace and the environment. Additionally, Camino (1993) defines ethical funds as those funds whose investment policy is determined by prioritizing social values (environment, health, justice, etc.) over strictly financial values, as a result of the decisions of their members.

The purpose of this type of investment is that it becomes an effective tool for improving the living conditions in society, through the activity of companies and organizations motivated to behave in a socially responsible manner, thereby meeting the interests of their investors and creating value from a social point of view.

Furthermore, from an investor's perspective, the current economic and financial crisis provides two lessons for the future; on one hand and from a financial point of view, it is necessary to minimize the systematic risk of the investments, and, on the other hand, from the standpoint of legal ethics, it is necessary to analyse whether their money will materialize into real projects or false financial packages.

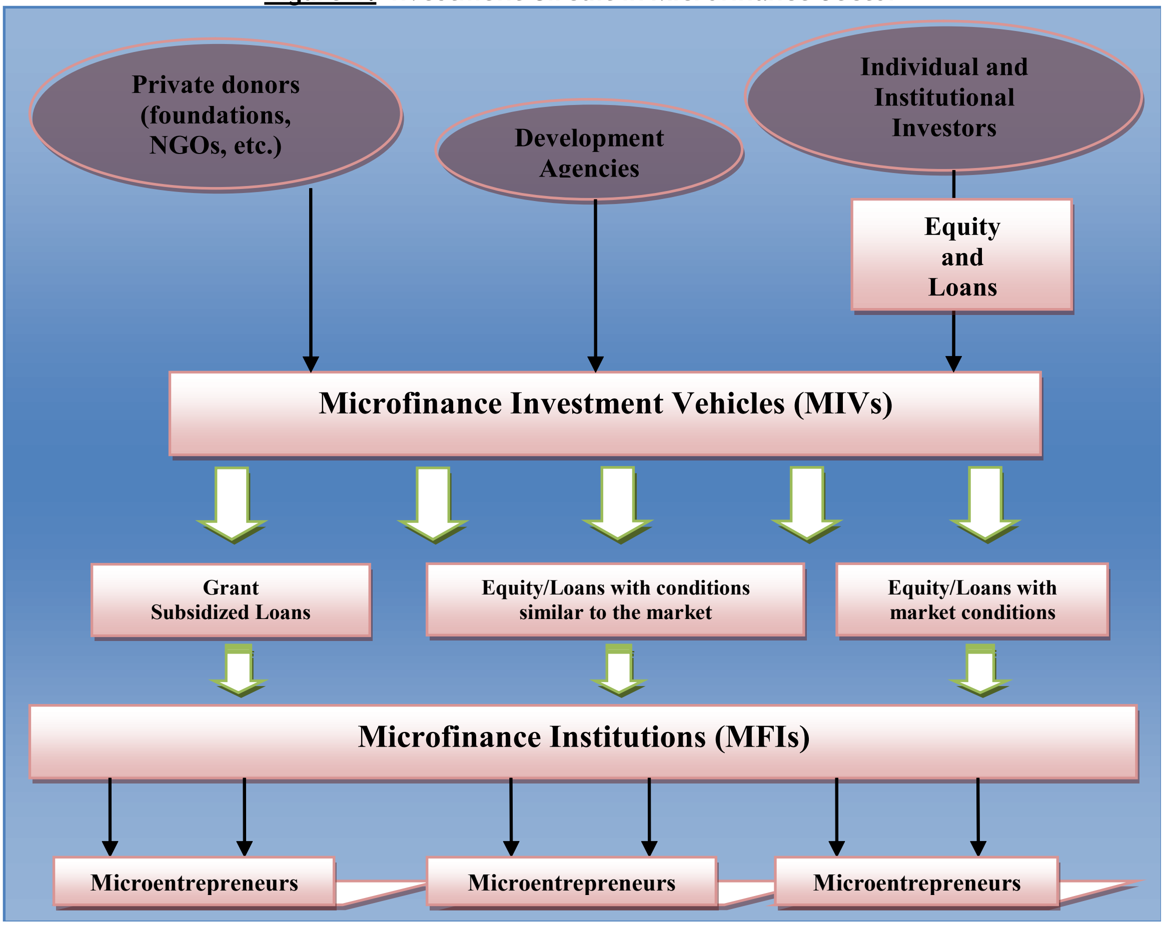
Microfinance Investment Vehicles, (hereinafter, MIVs), encompass and consider the two aspects mentioned in the previous paragraph, and are also regarded as socially responsible investments. MIVs are defined as financial products in the microfinance sector whose minimum investment in this sector must be at least 50% of its portfolio (CGAP, 2009). Investors, both institutional and individual, such as development agencies and private donors (NGOs, foundations and similar institutions) usually invest in these financial vehicles.

MIVs spend at least 50% of their capital on granting loans, generally at fixed interest rates, or on buying shares of Microfinance Institutions (hereinafter MFIs), with the remainder of the capital going to other financial investments.

The goal of MFIs is to provide micro loans to socially and financially excluded people, for the creation of micro enterprises (see Figure 1). In recent years, funding of MFIs has changed radically. Traditionally, these institutions were financed mainly by donations and public and/or private subsidies. Recently, international commercial and investment banks, development agencies, and private donors have started investing in the microfinance sector, by creating microfinance investment vehicles (MIVs) in order to enable MFIs to access capital markets for their financial resources. Over the last decade, MIVs have become a crucial tool for the development and growth of MFIs, and, in the future, MIVs will play an ever-greater role in this sector (Swanson, 2007).
Since most MFIs are not deposit taking institutions and since domestic capital markets are thin, international capital markets will become more and more important for the future funding of MFIs, Galema *et al*. (2008).

Hence, investors of MIVs, while obtaining profits, help the disadvantaged population in their personal and professional development. Consequently, we can qualify the investment in MIVs as "ethical investment" or "socially responsible investing".

Figure 1. Investment Circuit in Microfinance Sector



Source: Goodman (2005)

There are approximately 103 MIVs worldwide, whose assets under management exceed 6.6 trillion dollars. Since the 10 largest MIVs manage 63% of the total microfinance investment, a great concentration of these investments exists. Most MIVs are registered in Luxembourg and the Netherlands due to the favourable tax and regulatory framework in both countries. Approximately 79% of the portfolios of these MIVs are invested in the microfinance sector (Microrate, 2009). The majority of the MIVs invest in Latin America and the Caribbean (43% of funds), followed by Eastern Europe and Central Asia (37% of funds). The most commonly used financial asset, at approximately 75% of total investment, is fixed-income securities (bonds). However, investment in shares of MFIs is also a significant proportion, at around 24%. The remaining 1% is invested in guarantees and instruments of the MFIs.

According to Goodman (2005), LuxFlag (2009) and Audran *et al.* (2009), investing in the MIVs carries some advantages. First, many empirical studies show that MIVs are not correlated with most of the products of traditional financial markets. That is, the systemic risk of MIVs is very low and, therefore, it is a suitable product for the reduction of the negative effects that a depressing macro-economic situation (such as the economic crisis) could have on an investment portfolio. Second, the good performance of MIVs is based on the financial solvency (repayment ratio close to 100%). That is, investing in MIVs has a credit risk close to zero. And finally, the absence of a secondary market for these financial assets ensures their value which equates their purchase price. Consequently, there is no interest-rate risk. However, as a negative aspect, they present a higher liquidity risk than other financial assets of similar characteristics.

This paper investigates whether adding microfinance investments to a portfolio of risky international assets yields gains through diversification. To this end, a comparative analysis of six MIVs with three benchmarks by using RAP (risk-adjusted performance) methodology is performed. We analyse the results of different ratios; on one hand, the volatility of MIVs with respect to benchmarks is analysed by using beta and determination coefficients. On the other hand, the risk-adjusted return, commonly used to compare mutual funds, is measured by using the following indices: Jensen's alpha, the Sharpe ratio and, the Treynor ratio.

The structure of this paper is as follows. In the second section, the most significant lines of research conducted on ethical investments are outlined and the effects that the macroeconomic events have on the microfinance industry are presented. In the third section, the methodology and data used in this study are described and discussed. In the fourth section, the results are presented and justified. And in the last section, conclusions are drawn and future lines of research are proposed.

REVIEW OF RELEVANT RESEARCH LITERATURE

A major point which provokes great interest in research on ethical funds is the study of whether ethical investments offer lower yields than alternative investment funds that belong to the same category (fixed income, equities, etc.), that is, whether ethical investment involves any opportunity cost. The results demonstrate that ethical investments obtain a financial return similar to those of other investments; some authors even suggest that ethical investments be of a possibly higher yield than the market average. Their returns depend upon the ability of their managers and especially upon the financial market situation in a similar way to traditional investments.

From a financial perspective, Mueller (1991), Luck *et al.* (1993), D'Antonio *et al.* (1997), Sauer (1997), Dhrymes (1998) and Ferrari (2000), among others, compare the yields from ethical investment funds with those of non-ethical but similar funds. However, none of these comparisons incorporate the factor of risk.

At a performance level, most research confirms that there are no significant differences between ethical and conventional funds. Works such as that of Rud (1979), Grossman and Sharpe (1986) and Wokutch (1998) on funds whose portfolios do not contain securities of South African listed firms during Apartheid, and that of Hamilton *et al.* (1993), Hickman *et al.* (1999), and Stone et al. (2001), all carried out their own analysis of the financial performance of ethical funds compared to non-ethical funds, and they all show that the market does not value the social characteristics of funds in a negative way. All these authors conclude that ethical funds obtain similar results (and occasionally even higher) than those obtained by conventional funds.

Existing lines of research reported in the literature on the performance of ethical investment funds are of three main types.

In the first place, there is one line of research which compares the financial performance of MIVs with respect to other funds that are not considered "socially responsible" by using matched pair analysis. Contributions of note include those of Mallin *et al.* (1995), Gregory *et al.* (1997), M'Zali and Turcotte (1997), Statman (2000), Kreander *et al.* (2000), and of Reyes and Grieb (1998), who from the classic measures of performance, especially through the Jensen and Sharpe indices, evaluate the performance of ethical and non-ethical funds, and ascertain that no significant differences exist.

Secondly, another relevant line of research compares the performance of ethical funds with market indices (such as S&P 500) which act as a benchmark. In this case, it is essential to know how to choose the benchmark (that is, the market index) in order to examine whether the portfolio management is working efficiently. The contributions from Cummings (2000), Arms (1999) and Vermeir and Corten (2001) are included in this area. Their results from all three pieces of research state that there are no significant differences between the two investment options.

Finally, the relationship between social performance and financial performance of investment funds is explored in the third line of research, whereby Moskowitz (1972, 1975), Cowen *et al.* (1987), Wokutch and Spencer (1987), McGuire *et al.* (1988), Morris *et al*. (1990), Riahi-Belkaaoui (1992), Hart and Ahuja (1994), Johnson and Greening (1994), and Roman, Hayibor and Agle (1999) are the main authors. These authors all conclude that good social performance does not necessarily lead to lower financial performance.

On the other hand, there are those studies which attempt to show the low influence that macroeconomic shocks have on the microfinance industry, and thus on the performance of MIVs. In this field, the research conducted by Ahlin and Lin (2006), Gonzalez (2007), and Krauss and Walter (2008) merits attention.

Ahlin and Lin (2006) used a sample of 112 MFIs from 48 countries between the years 1996-2004. Under the panel-data methodology it is examined whether the performance of MFIs is affected by macroeconomic conditions. They conclude that the macroeconomic context influences the performance of MFIs, although they assume that a significant percentage of the success of MFIs is determined by specific and internal factors of the MFIs.

Gonzalez (2007) examines whether significant changes in per capita GDP affect the risk of default in the portfolio of loans of MFIs. This author applies panel regressions with fixed effects and a random sample of 639 MFIs in 88 countries during the period 1999-2006. No relationship between the asset quality of MFIs and changes in GDP per capita is funded, thereby suggesting that MFIs, and consequently MIVs, are highly resistant to macroeconomic shocks.

Krauss and Walter (2008) examine whether the measures of performance of the microfinance industry show a low correlation with of those of financial markets. A sample of 325 MFIs from 66 emerging countries is used and panel regressions with fixed effects are applied. These researchers study the relationship between five key ratios of MFIs and the performance of three stock indices (S&P 500, Morgan Stanley Capital International, MSCI, at a global level, and the MSCI for emerging markets). Their results show that the investment in MFIs, through the MIVs, helps towards the diversification of international investment portfolios due to the low systematic risk of the MFIs.

In the same line, Galema, R., Lensink, R. and Spierdijk, L (2008), study whether adding microfinance funds to a portfolio of risky international assets yields diversification gains. By using mean-variance spanning tests with short-sale constraints, they conclude that investing in microfinance may be attractive for investors seeking a better risk-return profile.

METHODOLOGY AND DATA SAMPLE

Six commercial microfinance investment funds are analysed during the period April 2007 to April 2010. Their main features appear in Figure 2.

Figure 2. Main features of the Microfinance Funds of the sample

Fund	Currency	Initial Date	Fund Asset	Fund Asset in Microfinance	% Fund Asset in MF
Dexia Micro-Credit Fund	EUR/ USD/ CHF	September 1998	531,000,000 USD	391,000,000 USD	74%
Resonsability Global Microfinance Fund	EUR/ USD/ CHF	November 2003	474,650,422 USD	335,135,434 USD	71%
Responsability Microfinance Leaders Fund	USD	November 2006	159,886,000 USD	129,589,699 USD	81%

Dual Return-Vision Microfinance Fund	EUR/ USD/ CHF	April 2006	95,921,101 USD	89,634,387 USD	93%
Edmond de Rothschild-Saint-Honoré Microfinance Fund	EUR	November 2005	9,970,000 EUR	6,040,000 EUR	61%
BBVA Codespa Microfinanzas	EUR	October 2006	27,650,000 EUR	17,100,000 EUR	62%

Source: Own Elaboration

The most important data for comparative analysis is the net asset value per month of each fund.

This information was taken from the website of Bloomberg Financial Service (www.bloomberg.com, accessed on June 2010).

These funds are selected since they meet the following requirements:
- First, data is available at least once a month throughout the period analysed.
- Second, over 60% of their assets are invested in the microfinance sector.
- Third, their vision and mission clearly includes both financial and social objectives.
- Finally, their main investment is in debt instruments, at a fixed rate, in the microfinance sector.

In order to make a comparison of the performance of these funds, a benchmark must be established. Due to the heterogeneity of the financial instruments (stocks, bonds, etc.), the peculiarity of the institutions (institutions with strong social commitments), and the geographical scope (both emerging and developed countries) in which the MIVs invest, no consensus exists which could define a single appropriate benchmark.

Therefore, three global indices are used in our study as benchmark, the Morgan Stanley Capital International World Index (MSCI), the Dow Jones Sustainability World Index (DJS), and the JP Morgan Emerging Market Bond Index Global (EMBI). The reasons for their selection are discussed briefly below:
- The first index (MSCI) may be regarded as a proxy of the stock market worldwide. This index covers the indices of 45 countries; 24 from developed countries and 21 from emerging markets.
- The second (DJS) is an index related to ethical content. It is one of the most commonly used benchmarks for the comparison of socially responsible investment funds worldwide since it includes only those companies which comply with economic, ethical and social criteria.
- The last index (EMBI) is widely used to examine the performance of microfinance investment funds in connection with the bonds of emerging countries.

The six MIVs selected are compared using the three benchmarks above. Firstly, and from the perspective of systemic risk, their betas are compared. Secondly, and from the perspective of performance, that is, in order to evaluate the risk-adjusted return, we calculate the Treynor ratio, the Sharpe ratio, and Jensen´s alpha are calculated.

EMPIRICAL ANALYSIS

Standard deviation is an accepted measure for quantifying the total risk of a financial product, while the beta coefficient is used in order to measure the systematic risk; that is, that part of the total risk which cannot be reduced through diversification. Hence, the lower the beta of a financial asset, the lower the systematic risk.

Figure 3 below shows the beta of the six microfinance funds in relation to the three benchmarks

considered. All betas are negative, except for "St. Honore-Microfinance Fund" in relation to the "JP Morgan EMBI" benchmark, whose value is very small (0.001). These results suggest that the MIVs have no positive correlation with the market (in this case represented by the three benchmarks), which implies that the MIVs do not move in the same direction as the market.
In addition, it is possible to observe that the R-squared coefficients associated with each beta are insignificant. That is, only a small amount of the variation in the profitability of MIVs is due to the market.

Due to the coefficients of both variables (betas and R-squared), and similar to the findings of Gonzalez (2007) and Krauss and Walter (2008), it can be deduced that the systematic risk of MIVs is close to zero, that is, the influence of macroeconomic shocks on these financial products is very limited. A possible cause could be that the microfinance sector is part of the local economy, which is less sensitive to change at macroeconomic levels, but remains more dependent upon the regional level in which the MFIs operate.

From the above, it can be concluded that any investor should consider the MIVs as very attractive financial products in terms of reducing systemic risk in investment portfolios, regardless of its positive social and ethical connotations.

Figure 3. Beta and R-squared coefficients during the period April 2007-April 2010

MIV	Currency	Beta and R-squared					
		MSCI world		DJSI world		JP Morgan EMBI	
BBVA Codespa Microfinance Fund	EUR	-0,045	12,557%	-0,045	13,483%	-0,068	7,503%
Responsability Global Microfinance Fund	EUR	-0,015	13,900%	-0,014	13,330%	-0,014	3,315%
	USD	-0,017	18,922%	-0,016	17,744%	-0,025	10,512%
	CHF	-0,015	16,381%	-0,014	15,439%	-0,015	4,587%
St. Honore-Microfinance	EUR	-0,004	2,394%	-0,004	2,397%	0,001	0,036%
Dual Return Vision Microfinance Fund	EUR	-0,007	14,593%	-0,006	15,316%	-0,006	3,227%
Dexia Micro-Credit Fund	EUR	-0,011	0,635%	-0,005	0,126%	-0,005	0,040%
	USD	-0,004	3,227%	-0,004	2,987%	-0,011	5,898%
	CHF	-0,003	4,083%	-0,003	3,449%	0,000	0,017%
Responsability Microfinance Leaders Fund	USD	-0,012	3,978%	-0,010	3,255%	-0,025	4,696%
Mean portfolio		-0,013	9,067%	-0,012	8,753%	-0,017	3,983%

Source: Own Elaboration

In addition to the minimization of the systematic risk, investors should study whether the MIVs have a positive performance so that these financial products might be considered in order to be introduced in their investment portfolio. Therefore, we analyse the results of different ratios that measure the risk-adjusted performance (RAP methodology), which is commonly used to compare funds. The ratios used are: Jensen´s Alpha (Jensen, M., 1968), the Sharpe ratio (Sharpe, WF, 1966) and the Treynor ratio (Treynor, JL, 1965).

Before applying these indicators, monthly returns of the investment funds and returns of the chosen benchmark indices are calculated, over each period. To this end, the following formulae are used:

$$r_{it}^{b} = \frac{NAV_t - NAV_{t-1}}{NAV_{t-1}}$$

$$r_{Mt}^{b} = \frac{index_t - index_{t-1}}{index_{t-1}}$$

where NAV_t is the net asset value of a mutual fund i in time t, and $index_t$ refers to the level of a given index in time t.

Net asset value is often used in relation to mutual funds since the shares of such funds registered with the U.S. Securities and Exchange Commission are redeemed at their net asset value. This term describes the assets of the entity minus the value of its liabilities. It may represent the value of total equity, or, as in our case, it may be divided by the outstanding number of shares held by investors and, therefore, it is the net asset value per share.

Jensen's alpha calculates the difference between the excess return earned by a portfolio with respect to the riskless asset and the excess that should be obtained according to the Capital Asset Pricing Model (CAPM). According to the original version of CAPM, excess return of a portfolio is a function only of the excess return of the market portfolio. Jensen introduced a more realistic and complete model, theorizing that part of the performance of the funds depends on the ability of the fund manager to choose securities according to a point of view of risk-return trade-off (active stock picking).

If a portfolio presents a significantly positive value of Jensen's alpha, then it produced a return higher than that expected on the basis of systematic risk taken. This excess return is determined by the ability of the fund manager to choose more undervalued securities, among those which compose the benchmark, and to avoid exposition to overestimated assets. Conversely, investment funds which are characterized by significant negative values of alpha over time could not beat the market, since they selected less performing securities and, therefore they produced lower returns than they would have on the basis of their riskiness. Finally, if Jensen alpha is equal to zero means that the fund manager is obtaining a return similar to that of the market.

Analytically Jensen's alpha can be determined as follows:

$$\alpha = R_p - R_{CAPM}$$

Since, $R_{CAPM} = R_f + \beta_p (R_m - R_f)$

The equation can be expressed as follows:

$$\alpha = R_p - R_f - \beta_p (R_m - R_f)$$

where:

$\mathbf{R}_p$ is the return of portfolio p,
$\mathbf{R}_f$ is the risk-free rate,
$\mathbf{\beta}_p$ is beta of portfolio p,
$\mathbf{R}_m$ is the return of market,
$\mathbf{R}_{capm}$ is the return that the fund would have to offer on the basis of CAPM, thereby on the basis of its level of market risk.

It should be noted that discussed formula must be applied considering a medium-long time horizons, because over a short period they can provide not very meaningful information.

Therefore, after having analysed the information included in Figure 4, we can state that all MIVs are more profitable, per unit of systematic risk, than the three benchmarks in the analysis horizon.

Figure 4. Jensen´s Alpha during the period April 2007-April 2010

MIV		Jensen´s Alpha		
		MSCI world	DJSI world	JP Morgan EMBI
BBVA Codespa Microfinanza Fund	EUR	0,103%	0,100%	0,153%
Responsability Global Microfinance Fund	EUR	0,193%	0,193%	0,205%
	USD	0,212%	0,211%	0,231%
	CHF	0,082%	0,081%	0,094%
St. Honore-Microfinance	EUR	0,091%	0,091%	0,091%
Dual Return Vision Microfinance Fund	EUR	0,212%	0,212%	0,217%
Dexia Micro-credit Fund	EUR	0,215%	0,216%	0,221%
	USD	0,229%	0,228%	0,236%
	CHF	0,111%	0,111%	0,111%
Responsability Microfinance Leaders Fund	USD	0,298%	0,298%	0,315%
Mean portfolio		0,175%	0,174%	0,187%

Source: Own Elaboration

The Sharpe ratio measures the relationship between the additional benefit of an investment fund, measured as the difference between the fund and the return on a riskless asset and its volatility, as measured by its standard deviation.

The Sharpe ratio is a measure of the excess return (or Risk Premium) received due to the extra volatility endured in holding a riskier asset and has the following mathematical expression:

$$S_p = \frac{R_p - R_f}{\sigma_p}$$

where:
R_p is the return of portfolio p,
R_f is the risk-free rate,
σ_p is the standard deviation of the portfolio return.

Return R_p can be measured with any frequency (i.e. daily, weekly, monthly or annually), as long as it is normally distributed. The risk-free rate R_f is used to check if there is an appropriate compensation for the additional risk taken by investing in a risky asset. Traditionally, the risk-free rate of return is the shortest dated government Treasury bill; this type of security has the lowest volatility.

If, in the equation of the Sharpe ratio, the return and standard deviation of each benchmark are included, then the Sharpe index of the benchmark is determined:

$$S_m = \frac{(R_m - R_f)}{\sigma_m}$$

In order to determine the quality of the investment fund to be evaluated, it is possible to compare the Sharpe index of each benchmark with the Sharpe index of the managed fund.

The higher the Sharpe ratio of a fund, the better its return (relative to the amount of risk it has taken). Therefore, if the Sharpe index of the fund is higher than that of the benchmark, then the fund manager has produced better results than those of the parameter of reference.

The higher the standard deviation of the fund, the larger the denominator of the equation of the Sharpe ratio; therefore, the fund needs to generate a high return to earn a high Sharpe ratio. Conversely, funds with modest standard deviations can result in high Sharpe ratios if they generate good returns.

It is significant that all MIVs display a positive Sharpe ratio (see Figure 5). That is, investors are compensated in the review period (April 2007-April 2010) for the extra risk taken instead of having invested in risk-free assets (in our case, U.S. treasury bills to 4 weeks). According to this figure, the best MIVs, in terms of excess return per unit of total risk assumed, were the "Dual Return Vision Microfinance Fund (1.622) and the " Dexia Micro-Credit Fund, in USD, (1.287).

The Treynor ratio, also called the reward-to-volatility ratio or Treynor measure, is a measurement of the returns earned in excess by a portfolio of systematic risk per each unit of market risk assumed. It is similar to the Sharpe ratio, with the difference that the Treynor ratio uses beta as the measurement of volatility. It has the following mathematical expression:

$$T_p = \frac{R_p - R_F}{\beta_p}$$

where:
$\mathbf{R}_p$ is the return of portfolio p,
$\mathbf{R}_f$ is the risk-free rate,
$\mathbf{\beta}_p$ is beta of portfolio p.

The higher the value, the better managed an investment portfolio will be. This index can be used as a ranking criterion of portfolios. It is useful when the portfolios are considered as sub-portfolios of a broader, fully diversified portfolio. Notice that portfolios with identical systematic risk, but different total risk, would obtain the same value for the ratio, although the portfolio with a higher total risk is less diversified and, therefore has a higher unsystematic risk. This is why the results of Sharpe and Treynor indices can be different: the Sharpe index focuses on total risk of the investment (volatility), conversely the Treynor ratio focuses on Beta coefficient which represents the systematic component of the portfolio risk.

This ratio shows a particular behaviour since all values are negative (as shown in Figure 5), which means that the performance of MIVs is worse than that of the three benchmarks. This could be regarded as a contradiction of the results obtained by Jensen's alpha and the Sharpe ratio. Nevertheless, this situation arises due to the mathematical formulation of the Treynor ratio; if the beta is negative (as happens in all MIVs, except one), and since the numerator is positive, the Treynor ratio is negative.

Figure 5. Treynor´s and Sharpe Ratios during April 2007-April 2010

MIV	Currency	Treynor´s Ratio			Sharpe´s Ratio
		MSCI world	DJSI world	JP Morgan EMBI	
BBVA Codespa Microfinance Fund	EUR	-0,0256	-0,026	-0,017	0,118
Responsability Global Microfinance Fund	EUR	-0,1331	-0,141	-0,139	0,644
	USD	-0,1247	-0,134	-0,085	0,704
	CHF	-0,0580	-0,062	-0,056	0,304
St. Honore-Microfinance	EUR	-0,2315	-0,241	0,968	0,465
Dual Return Vision Microfinance Fund	EUR	-0,3274	-0,332	-0,355	1,622
Dexia Micro-credit Fund	EUR	-0,1965	-0,459	-0,400	0,203
	USD	-0,5525	-0,597	-0,208	1,287
	CHF	-0,3390	-0,384	2,682	0,888
Responsability Microfinance Leaders Fund	USD	-0,2592	-0,298	-0,122	0,671
Mean portfolio		-0,2247	-0,267	0,227	0,691

Source: Own Elaboration

Therefore, despite the values of the Treynor ratio, we conclude that the six MIVs have a better risk-adjusted return than do the three benchmarks.

CONCLUSIONS AND FUTURE LINES OF RESEARCH

Since late 2008, the high volatility of financial assets has been an issue worldwide. The main cause of the increase in the volatility and, therefore, in systematic risk, has its foundations in the acute economic crisis.

In this context, investors try to minimize their exposure to those financial products with high correlation with the macroeconomic situation; that is, they seek to reduce the systematic risk of their investments. However, financial assets unaffected by negative macroeconomic shocks are highly elusive thereby rendering the results found in this study of greater relevance and timeliness.

The main contribution of the analysis is that the MIVs due to their low systematic risk, credit risk and interest rate risk can be considered highly suitable financial products for the formation of efficient portfolios. Furthermore, the low correlation between MIVs and the macroeconomic situation is of special significance. The main consequence is the possibility for investors to obtain positive returns in periods of deep economic recession, as opposed to most existing financial assets in financial markets whose returns, in situations of economic crisis, are often negative. Moreover, the MIVs obtained in the period under analysis yield a risk-adjusted return superior to that of their benchmarks. In line with the conclusions reached by other authors, this fact shows that socially responsible investments do not necessarily obtain lower returns than investments deemed non-ethical; furthermore, in our case, higher returns are obtained.

In addition to profitability and risk, further aspects frequently taken into account by investors are those related to the professionalism of the investment fund managers and the political and social stability of the country where the funds are registered. In the case of MIVs, the legal safety of the investment is high since these are mutual funds registered in developed countries (Luxembourg and Holland in particular) and managed by professional teams.

From an ethical and social point of view, socially committed investors should consider MIVs as one of the best financial products to which to allocate their investments. The main reason is that at least 50% of the assets of an MIV are invested in the microfinance sector, that is, in microfinance institutions (MFIs). That is, the majority of their investments are intended ultimately to help the poorest people, in a situation of social and economic exclusion, through the creation of microenterprises.

A future line of research in the field of MIVs could be the study of the social performance of MIVs. This is one field of study and research which remains complex in the microfinance industry due to the nature of the ratios (qualitative, not standardized and not publicly available) required for the measurement of social performance, in complete contrast to those for the measurement of financial performance, since the performance ratios of an investment portfolio are standardized and universally accepted. Therefore, the methodology for the measurement of the social performance of MIVs remains as yet unresolved. This methodology should use publicly available information as inputs in order to obtain reliable and transparent results.

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INFORMAL SAVINGS, LENDING AND INSURANCE ARRANGEMENTS AMONG ETHNIC MINORITIES IN THE NETHERLANDS

An exploratory study

INTERIM REPORT

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Informal saving, lending and insuring in The Netherlands

Microcredit has been a well-known concept in the Netherlands for some years now. The term 'microfinance' is often restricted to providing microcredit, while services such as microinsurance and microsavings also fall under it. Although microcredits, microinsurance and microsavings are fairly new in the Netherlands, they have been around for centuries (Molenaar, 2008: 12).

Informal Savings, Lending and Insurance Arrangements ("ISLIAs") are known in developing countries, and are also referred to in the South (Bijnaar, 2002: 13), and in Europe (De Swaan, 1996). In comparison to the Netherlands, people and particularly women in developing countries have limited or no access to the formal financial sector. There are various reasons for that: demand for financial services is too low, the required securities are lacking, or the regular income from employment is too low. For this reason, people come up with their own informal solutions. In the South, ISLIAs have been studied on a regular basis, and we now have a profound knowledge of this informal form of financial service provision. There is also a lot of information available on more formal microfinancial services via NGOs and MFIs, such as community-based saving methodologies.

In Europe, ISLIAs formed the basis for the savings bank system and insurance industry. In pre-industrial Europe, millions of labourers were affiliated with one of the numerous small, mainly informal, self-regulatory banks. These banks contributed greatly to the development of the insurance industry and the savings bank system (De Swaan, 1996: 11). During the industrial revolution, Friedrich Raifeissen set up local microsavings and credit systems to enable poor farmers to act independently towards traders and businesses. The Dutch insurance company ‘Achmea’ started as a group of small-scale farmers in the North of the Netherlands that collected money among its members for times of hardship.

One example of a modern ISLIA in the Netherlands is the Local Exchange Trading System (LETS). This is a social, eco-friendly and inexpensive exchange system where people do business with each other and undertake activities as a group. LETS operates in its own currency, which differs in terms of unit and name per region and which is not linked to the monetary system, but to activities to be exchanged.

ISLIAs among ethnic minorities

In 2010, a large part of the Dutch population had a non-Dutch ethnic background. Some migrant groups have been living in the Netherlands for generations, while others had only been there for a couple of years. The reasons to settle in the Netherlands also differ greatly. There are refugees, migrant workers, and people from other parts of the former Kingdom of the Netherlands. The length of their stay in the Netherlands and the reasons to come to this country largely determined the future perspective and choice to settle permanently for migrants.

We know that various migrant groups have ISLIAs in their country of origin. Studies into ISLIAs were conducted in various countries (Bouman, 1994; 1995), in Kenya (Gugerty, 2005), in Surinam (Bijnaar, 2002), in Swaziland (Kappers, 1986) and in South Africa (Bähre, 2007). As migrant groups naturally bring their cultural customs from their country of origin to the Netherlands, we assume that ISLIAs also exist among ethnic minorities in the Netherlands.

Approach of the Centre for Microfinance and Small Enterprise Development

However, we know little and hardly have any insight into the existence of ISLIAs among ethnic minorities in the Netherlands. The objectives of ISLIAs in the Netherlands and the motives of individuals to participate in them are not yet known, nor is the network (local, national and transnational) in which these ISLIAs operate.

That is why in 2009, the Centre for Microfinancing and Small Business Development of the INHolland University of Applied Sciences decided to conduct a explorative study program so as to determine in what form ISLIAs exist in the Netherlands, the reasons why they were set up, the financial services that they offer their members, and which figures the groups are dealing with. The Centre also wanted to find out if there was an additional demand for (micro) financial services among ethnic minorities and if microfinance researchers and practitioners should reconsider their practices and services with respect to ethnic minorities. ISLIA's can be of interest for MFI's that wish to improve their depth of outreach and aim to target ethnic minorities in particular.

This exploratory research program provides an innovative description of ISLIAs among ethnic minorities in the Netherlands. The possible link between ISLIAs and the microfinance sector has not been studied so far in The Netherlands nor in the majority of European countries. By investigating this link, the centre wanted to contribute to the development of a more inclusive microfinance sector in Europe.

This interim report presents the initial indicative results of the exploratory study program for thirteen different ethnic minorities. The analysis has been used to determine the follow-up steps of the in-depth study.

Reader's guide

Chapter 2 describes the reason and formulation of the problem of this study. It also outlines the objectives, research questions and the study method applied.

Chapter 3 gives the results of the literature study. The first paragraph focuses on ISLIAs in the South, where ROSCAs and ASCRAs play a role. The second paragraph describes the results of the literature study into a modern ISLIA in the Netherlands, as well as the ISLIAs among ethnic minorities in the Netherlands.

The analysis framework for the interpretation and analysis of the study results can be found in chapter 4. It also defines terms such as 'ethnic minority' and 'ISLIA'.

In chapter 5, the researchers compare and analyse the indicative results of the explorative studies among thirteen different ethnic minorities.

Finally, chapter 6 covers the approach of and questions for the follow-up study, making it possible to give a clear answer to the two research questions of the study.

The appendixes contain the references, the list of abbreviations and the explorative results per ethnic minority on factsheets.

SETUP OF the EXPLORATIVE STUDY

This chapter first describes the objective of the study and the two research questions. This is followed by a description of the setup, the method used and the various stages of the study.

Study objectives

In the Netherlands there is little factual information available on ISLIAs among different ethnic minorities. The first objective therefore is to map out ISLIAs in the Netherlands.

The interest from banks, local authorities and politicians to provide microcredits to ethnic minorities demonstrates the need for specific information on ISLIAs. Different microfinance services could be a tool to promote social and economic empowerment of Dutch people with different ethnic backgrounds. The *second objective* of this study therefore is to analyse the potential market for microfinance services (via ISLIAs) among different ethnic minorities in the Netherlands.

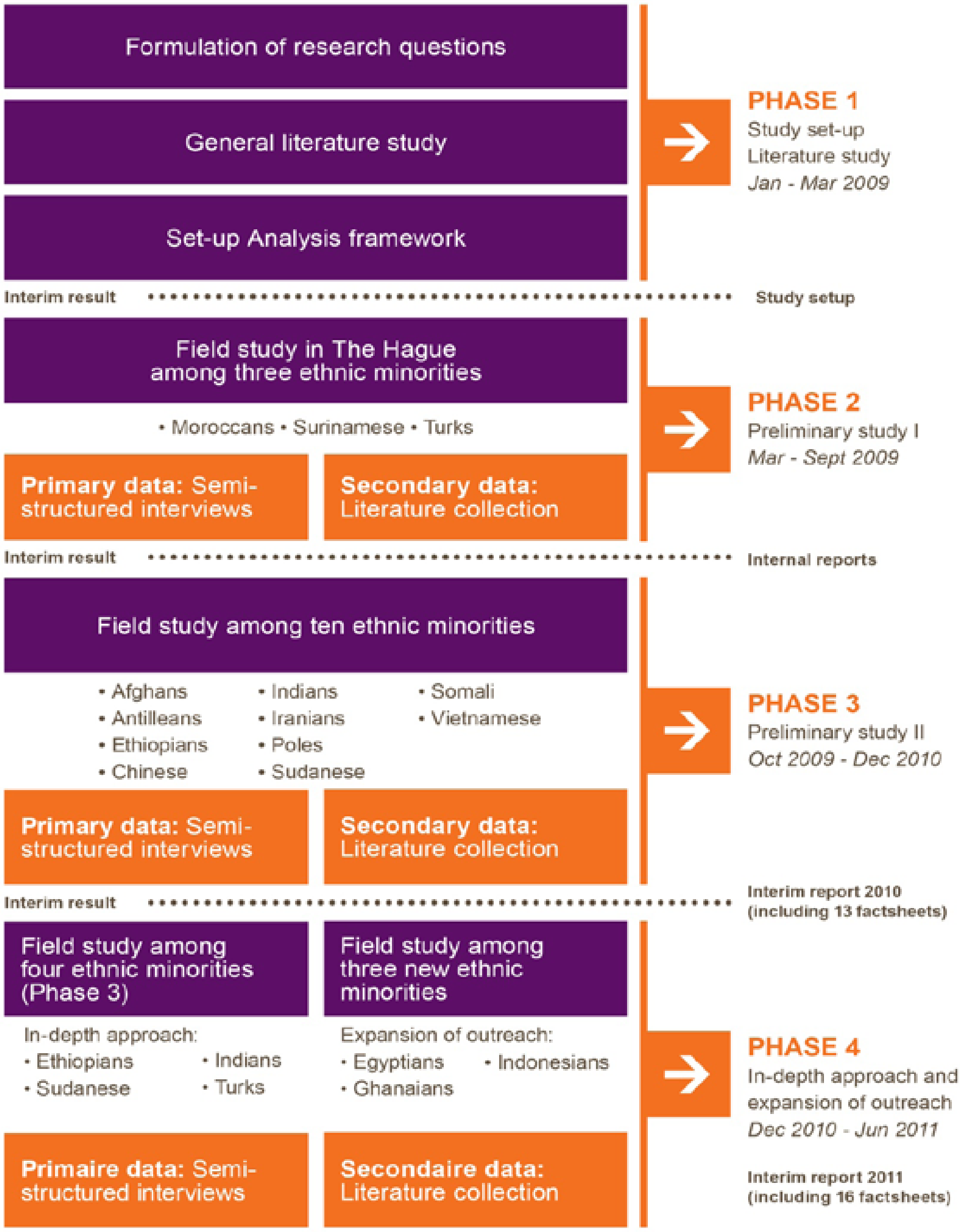
Research questions

The two research questions for this study are:

i. Which organisational forms of Informal Savings, Credit and Insurance Arrangements can be found among thirteen ethnic minorities in the Netherlands and to what extent?

ii. What is the potential market for microfinancial services (via ISLIAs) among different ethnic minorities in the Netherlands?

Schematic overview of study setup



Literature study and development of analysis framework

During this first study phase we held a literature study in order to substantiate the problem formulation and the research questions and to work out the analysis framework in detail.

Preparatory literature study

The literature study was conducted, exploring the phenomenon of Informal Savings, Credit and Insurance Arrangements (ISLIAs) in the South. Rotating Saving and Credit Associations (ROSCAs) and Accumulating Savings and Credit Associations (ASCRAs) are the most popular ISLIAs in the

South. Another study focused on ISLIAs in the countries of origin of the thirteen ethnic minorities. Local Exchange Trading System (LETS) is a modern Dutch example of an ISLIA. Otherwise, information about ISLIAs among ethnic minorities in the Netherlands is limited to Turks and Surinamese (Smets, 1996; Bijnaar, 2002). A brief literature study into ISLIAs in the South and in the Netherlands can be found in chapter 2. Each factsheet in appendix 3 gives a description of the ISLIA in the country of origin of that ethnic minority.

Analysis framework
The literature study formed the basis for an analysis framework in order to be able to describe and analyse the study results of the ethnic minorities studied in a comparable manner. The analysis framework comprises three parts:

- the functioning of ISLIAs;
- the objectives and motives of ISLIAs;
- embedding of ISLIAs within networks.

Preliminary study I

In order to get a picture of the structure, functioning and objectives of ISLIAs and of the motives of members to participate in an ISLIA, it was decided to conduct a preliminary study first.

In 2009, two students, under the supervision of the Centre of Microfinancing and Small Business Development, conducted a study on the incidence of informal savings and credit groups among Moroccans, Surinamese and Turks in two neighbourhoods. The researchers conducted 59 general surveys and seven in-depth interviews (Klein-Hesseling, 2009; Aharchi, 2009).

This initial explorative study demonstrated that it was not yet possible to collect quantitative information. This corresponds with the findings of other researchers (Smets & Broekman, 1996; Bijnaar, 2002). ISLIAs are about sensitive issues; family business and financial matters. People are often more likely to provide information during a private meeting. It therefore *is* possible to obtain a refined picture of the functioning of ISLIAs and the objectives and motives of participants in ISLIAs via a qualitative study method (Silverman, 2006: 110).

Preliminary study II
The insights from the initial preliminary study were used to advance the follow-up study on eleven other ethnic minorities.

Choice of the total number of ethnic minority for the study program
The choice of the thirteen ethnic minorities (from Afghanistan, the Antilles, China, Ethiopia, India, Iran, Morocco, Poland, Sudan, Somalia, Surinam, Turkey and Vietnam) was based on a number of criteria to reflect the diversity of ethnic minorities in the Netherlands. The criteria that play a role in this are:

- The number of members of the ethnic minority in the Netherlands according to Statistics Netherlands (www.cbs.nl).
- The reasons for ethnic minorities to come to the Netherlands (as someone looking for work or as a refugee).
- The duration of stay in the Netherlands (year of arrival in the Netherlands and presence of members of the first, second and third generations per ethnic minority).

Gathering of data
In the course of the 2009 academic year, the researchers and some students started to build up a network among 10 ethnic minorities. The idea was to get to know people from these ethnic minorities via the "snowball method" (Blaikie, 2008) and to obtain access to their social networks through them. One disadvantage of this method is that the contacts made may be limited to a subgroup within the ethnic minority. The approach of the in-depth study will pay specific attention to this.

Researchers and students made contacts through colleagues, friends and family. They visited businesses such as shops and restaurants, and approached organisations such as churches, foundations and NGOs. They had telephone contact with an average of ten people per ethnic minority, and conducted five semi-structured interviews.

The explorative study (preliminary study I and II) into ISLIAs among a total of thirteen ethnic minorities in the Netherlands throws up interesting indicative similarities and differences between the functioning, objectives and motives of these groups. The exploratory results for each ethnic minority have been summarised on factsheets and form the basis for this interim report.

Next steps in the future

The explorative study into ISLIAs among ethnic minorities in the Netherlands illuminates interesting indicative similarities and differences between the functioning, goals and motives of these groups. However, the two preliminary studies have their limitations. The challenge for the follow-up study is to gather more qualitative and, when possible, quantitative data.

The explorative studies also clearly show that members of an ethnic minority primarily save and borrow for social and private purposes via ISLIAs in the Netherlands. Only a small number of members of some ethnic minorities take part in an ISLIA in order to finance an economic investment occasionally. The in-depth study focuses in more detail on the question of the potential market for microfinance services (via ISLIAs) among Indians, Ethiopians, Sudanese and Turks. Additionally, the target groups are expanded: The ISLIAs of Ghanaians, Egyptians and Indonesians are investigated. The study results will be presented in the summer of 2011.

ISLIAs in the south and in the netherlands

This chapter gives the results of the literature study into Informal Savings, Credit and Insurance Arrangements in the South (paragraph 3.1) and into the history and present form of some Dutch ISLIAs as well as other ISLIAs among ethnic minorities living in the Netherlands (paragraph 3.2).

ISLIAs in the South

Developing countries have many different forms of informal saving, borrowing and insuring. People in developing countries, particularly women, often have limited or no access to the formal savings, credit and insurance sector. There are various reasons for that: demand for financial services is too low, the required securities are lacking or the regular income from employment is too little. That is why people come up with their own informal solutions, which are often invisible to outsiders: there is a large diversity of informal saving, borrowing and insurance. People often make use of different services at the same time (Rutherford, 2004: 263).

Rutherford (2000) describes a number of different forms of ISLIA. Members of ISLIAs save and borrow on their own or together with family members, friends and neighbours. Members have confidence in the group and the costs of borrowing money are reasonable. Apart from the ISLIAs there are the more commercial moneylenders, who tend to provide credit at high interest rates, but who are able to provide a loan in the short term (Aryeetey, 2005: 17). Local retailers also provide loans by allowing people to buy their products on credit. In emergencies, employers can give members of staff an advance on their salary.

Well-known forms of informal mutual saving and borrowing as a set group include participating in the Rotating Saving and Credit Associations (ROSCAs) and Accumulating Savings and Credit Associations (ASCRAs) (Bouman, 1995). ROSCAs and ASCRAs can be found in nearly all developing countries, under different names such as 'Iqqub' (Ethiopia), 'Susu' (Ghana), 'Chit fund' (India), 'Kasmoni' (Surinam) or 'Sitanani' (Swaziland).

Bouman (1995: 374) sums up the characteristics as follows: 'ROSCAs and ASCRAs are both voluntary and autonomous institutions with their own rules, objectives and structure.' As a financial institution, ROSCAs and ASCRAs are self-sufficient, self-regulatory and independent from a financial or legal authority.

ROSCAs can be described as groups in which individuals periodically deposit money by themselves in order to save, borrow or insure themselves. The participants usually deposit an agreed sum into a joint kitty at a prearranged time. The total sum in that kitty is paid out as a lump sum to one of the participants (Gugery, 2005: 2). Participants who receive the money at the end of the cycle are savers who do not receive interest. Participants who receive the money at the start of the cycle are borrowers who do not have to pay interest. When one of the participants is faced with an unexpected setback, the other participants may decide to give this person priority for payment of the money. In other words, members give each other financial support in emergencies. In the same way, ROSCAs also act as insurance. The joint saving and borrowing within ROSCAs operates outside the regular financial system.

The second known form of informal saving and borrowing in a group is the ASCRA. The major difference with a ROSCA is the money paid in. Other than with ROSCAs, the money of the ASCRAs is not paid out every time: the participants in these groups wait until the end of the cycle for payment of the money they paid in. Participants *can* get their money paid out earlier in the event of setbacks. The savings system of an ASCRA makes it possible to issue low-interest loans to members or non-members. As such, ASCRAs are more complex in terms of saving and borrowing, and therefore require more supervision, more compulsory rules and detailed accounts.

The ROSCAs and ASCRAs described above come in many different versions, depending on the reasons for members to participate: saving, borrowing, insurance, or a combination of the three. In addition to that, the country and region where members live, the community and culture which the members take part in, or the work they carry out, are determining factors for the functioning of a ROSCA or ASCRA. Individual characteristics of participants such as age, gender and ethnic background also influence the reasons for participation. Some members, for instance, take part for financial reasons, to be able to dispose of money quickly or to start saving for a large purchase. For other members the social reasons are important. Meetings offer sociability; information is exchanged and members help each other out with problems.

ISLIAs in the Netherlands

ISLIAs could and still can be found in the Netherlands. Literature distinguishes between three forms of ISLIAs: informal, self-regulatory banks in pre-industrial Europe, the modern Dutch Local Exchange Trading System (LETS) and ISLIAs among ethnic minorities in the Netherlands. There is much literature available about informal saving, borrowing and insurance when the Netherlands had just begun to industrialise, at the end of the 18th century, until the start of the 19th century (Molenaar, 2008; Sluyterman et al 1998, 2008; De Swaan, 1995; Van der Linden, 1996).

As industrialisation begun, a large group of people moved from the countryside to urban areas to find work in one of the new factories. This new factory work introduced many dangers that threatened the workers and their families, such as industrial accidents due to poor working conditions. In order to be able to help each other outside the normal traditional mechanisms, such as helping out family members in times of crisis, millions of manual labourers in western Europe affiliated themselves with one of the numerous small, largely informal self-regulatory banks. These banks provided an insurance against unemployment and illness (De Swaan, 2006: 33).

During the same period, German Friedrich W. Raiffeissen started organising poor farmers through credit and savings cooperatives. As such, he created a new movement for and with the poor population throughout Europe. He recognised that the farmers were not necessarily able to combine setting up and managing credit and savings cooperatives with their agricultural activities. Thus, farmers were better off organising themselves in a well-managed financial cooperative with the right services at the right price (Sluyterman et al, 1998).

The Dutch insurance company ‘Achmea’ started as a group of small-scale farmers in the North of The Netherlands that collected money among its members for times of hardship. Thus, the insurance company is basically founded on the reality that the farmers were unable to carry the risks of natural catastrophes (like draught) and personal disasters (death or burning of houses) on their own (FOV 2009).

One example of a modern ISLIA in the Netherlands is the Local Exchange Trading System (LETS). This is a social, eco-friendly and inexpensive exchange system where people do business with each other and undertake activities as a group. LETS operates with its own currency, which differs in terms of unit and name per region and which is not linked to the monetary system, but to the activities to be exchanged.

LETS is characterised by two important aspects (Peacock, 2006: 1060). Members offer each other (economic) services via LETS. LETS is particularly useful for poor and unemployed people who do not have access to the labour market. In addition, LETS detaches itself from the market economy by setting up communal groups, where confidence and sociability can be promoted.

A good example of these two aspects is the LETS in Woudrichem. The primary objective in this case was to improve the integration of refugees into the local community. The five hundred refugees living on a boat were not permitted to work because they were awaiting their application for asylum and therefore could not take part in Dutch society. In order to involve them in Dutch society anyway, the municipality and Woudrichem citizens set up the LETS exchange system. This enabled refugees to offer residents of Woudrichem their services and build up a social network in the Netherlands (Smets, 2008).

In the Netherlands, little research has been conducted on ISLIAs among ethnic minorities. During a study day in 1996 about mutual relief funds (organised by the Amsterdam Institute for Social Science Research), a presentation was made about Turkish women and their 'güns' in Amsterdam (Smets & Broekman, 1996). The authors concluded that ROSCAs also exist in the Netherlands and that they have both a social-cultural and financial-economic function.

On the same day, Ineke van Wetering (1996) spoke about her study into 'kasmonis' among Creole Surinam women in Amsterdam. She concluded that 'kasmonis' also exist in the Netherlands and that they are directly influenced by the social context in which Creole Surinam women live in the Netherlands.

The most extensive study into ISLIAs in the Netherlands deals with the same ethnic minority: the Surinamese. Aspha Bijnaar (2002) conducted a comparative study on saving traditions among Creole Surinamese in Surinam and the Netherlands. Like Van Wetering, Bijnaar concluded that there are a large number of 'kasmonis' in the Netherlands. The economic motive is one reason to participate in a 'kasmoni'. Surinamese regularly use 'kasmonis' because of the interest-free credits they offer. Others take part in order to be able to save under social pressure. According to Bijnaar (2002), the 'kasmonis' appear to be a rational and efficient financial arrangement, enabling Creole Surinamese to improve their lives.

Analysis framework

This chapter first defines the terms 'ISLIAs' and 'ethnic minorities'. This is followed by a description of the analysis framework in order to compare the results per ethnic minority.

Definition of an Informal Savings, Credit and Insurance Arrangement

Informal saving and borrowing does exist in the Netherlands. In pre-industrial Europe we had self-regulatory banks, and in modern Dutch society we have the Local Exchange Trading System (LETS). There is also informal saving and borrowing among ethnic minorities in the Netherlands, albeit to a limited extent. In the South there is a wide range of informal saving, borrowing and insurance, and it usually involves ROSCAs and ASCRAs.

Informal saving, borrowing and insurance in the South can take place within a group, just like in the Netherlands. A group usually consists of family members, friends, colleagues or acquaintances – and it is always on the basis of voluntary collaboration within a self-regulatory group of people. An ISLIA consists, for example, of 12 group members who contribute €100 a month to a common "pot" for one year. Consequently, every month one group member 'receives the "pot" of €1200. In a micro-sociological perspective, these groups form a system of small autonomous units: the individuals. Each system, in this case the informal savings and borrowing group, needs its own reason to exist (De Swaan, 2006: 15). According to Bijnaar (2002: 24), authors (Ardener, 1996; Bouman, 1995) agree about the fact that ISLIAs can differ strongly. The effect of the system is based on the rules set by the participants. This study maps out how ISLIAs function among different ethnic minorities in the Netherlands and if ISLIAs can play a role in microfinancial service provision.

For the purpose of this study we have chosen the term 'Informal Savings, Credit and Insurance Arrnagement' (ISLIA), as this does justice to the many forms of informal saving, borrowing and insurance people opt for.

Definition of ethnic minorities

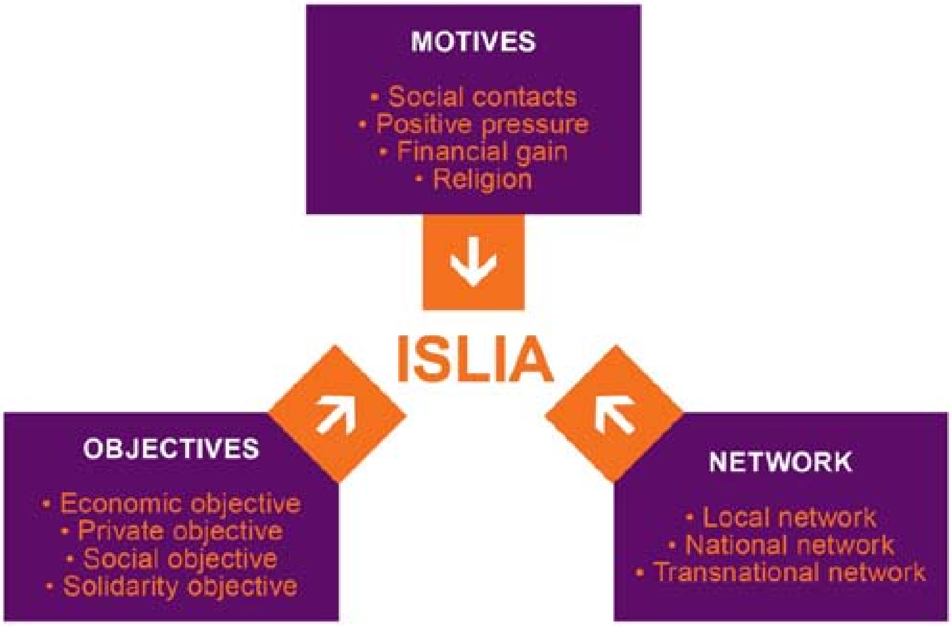
In the Netherlands there is a difference in opinion regarding the term used for fellow citizens with a different national, cultural or ethnic background. They include non-Western or Western 'immigrants', migrants and 'new' Dutchmen. According to Netherlands Statistics, a person is regarded an immigrant ('allochtoon') if at least one of the parents was born abroad (Keij, 2000: 1).

It is not just the Dutch authorities that use different terms; society and science also use a multitude of expressions to describe immigrants. For instance, Verkuyten (1999: 12) writes that all authors agree that the term 'ethnicity' relates to group relationships and the classification of people. Apart from the Dutch identity, an ethnic group also has a social identity that refers to the country of origin. Beer and Verweij (2008) argue that ethnicity is 'a collection of cultural characteristics and behaviours shared by a group of people and transferred from generation to generation. Members of ethnic groups identify themselves with common factors such as nationality, descent, physical characteristics, religion, language, culture or history'. In this paper, the term 'ethnic minorities' is used under the preconditions that not only do minority groups have a certain ethnicity, but majority groups in The Netherlands do as well (Ghorashi 2006).

Analysis framework to classify ISLIAs

Each ISLIA has its own specific objective to prove its right to exist and to attract members. These members have a motive to invest time, money and energy in such a group. Furthermore, such an arrangement always forms part of a larger whole, embedded in a local, regional or transnational network. For this reason, the analysis framework of this study specifically distinguishes the objectives of ISLIA, the motives of the members to take part in an ISLIA and the embedding of the ISLIA (see diagram 1).

Diagram 1: Framework of Analysis



Objectives of ISLIAs

The analysis framework of the study into Informal Savings, Credit and Insurance Arrangements distinguishes four objectives of ISLIAs.

i. *Economic objective*
The economic objective is an investment of the monies saved in economic activities. Given the extent of the money flows within an ISLIA, such economic activity focuses on a micro-business.

ii. *Private objective*
The private objective relates to using the monies saved for private consumer spending. Private objectives can include the renovation of a house, permanent housing costs, domestic appliances or a holiday.

iii. *Social objective*
The social objective relates to using the monies saved for events of a social nature. This could be a wedding or a birthday, or an unexpected setback, such as a funeral or hospitalisation.

iv. Solidary objective

With the solidary objective, the members of ISLIAs as a group financially support people of the same ethnic minority living in and especially outside the Netherlands, based on a feeling of solidarity. For instance, the monies paid in can be used for study costs, medical care or for the travel expenses incurred in order to be able to leave the country of origin.

Motives for participation in an ISLIA

The analysis framework of the study into Informal Savings, Credit and Insurance Arrangements distinguishes five motives of members of an ISLIA to participate.

i. Social contacts

The motive to build up and maintain a social network relates to the need of individuals 'abroad' to spend time with a group of familiar people from the same country. This is not only about mutual financial support, but also about being together. Membership in a group gives the members a legitimate reason to meet each other on a regular basis and to maintain a network of people from their country of origin.

ii. Positive (group) pressure

People with the need for positive social pressure to save have this as a motive to be a member of an informal savings and credit group. They experience social pressure from their fellow members in order to be able to save effectively.

iii. A distrust of banks

Members of ethnic minorities may have less positive experiences with banks due to the instability of the financial sector in their country of origin or having experienced restricted access in The Netherlands. This may lead to a feeling of distrust of Dutch banks, and it could be a motive to arrange financial affairs within an ISLIA.

iv. Financial gain

At Dutch banks, people have to pay interest on the sum they borrow. In addition, the loan application procedure can be a time-consuming affair. The motive for participating in an ISLIA is the financial gain for members, since they will not have to pay interest, and a loan within an ISLIA is much cheaper and easier to obtain. Another financial motive for participation in an ISLIA is that members exchange services that are not paid for with money but in kind. This means that people who have no or fewer financial resources can also participate in an ISLIA.

v. Religion

Each religion has its own ways to deal with talents, poverty, money, gifts and collecting loan interest. Participation in an ISLIA gives people the opportunity to deal with financial matters within the rules of their religion.

ISLIAs as part of a network

Different population groups are also influenced by three network levels.

I. *Local network*
Groups do not function in isolation from their surroundings. Members of a group network know each other on a local level and are in direct contact with family, acquaintances and friends. As such, the social environment influences the ISLIA and individual members.

II. *National network*
The Netherlands forms the second network level of the analysis framework. The functioning of ISLIAs is affected by developments in the Netherlands. Networking on a national level runs via family and friends, via people from work and, in a formal sense, via foundations and clubs.

III. *Transnational network*
Groups in the Netherlands are also in contact with the third level, the transnational network. Members of ethnic minorities in the Netherlands are, individually or via foundations and organisations, in direct contact with family and friends still living in the country of origin or with family and friends who emigrated. The group in the Netherlands remains in touch with the country of origin via transnational networks.

RESULTS OF ISLIAs in the Netherlands

This exploratory study into ISLIAs among ethnic minorities shows interesting indicative similarities and differences. The results of that study have been summarised on factsheets per ethnic minority (see appendix 3). General striking results for ethnic minorities are listed first. This is followed by an analysis of the motives, objectives and the network of the ISLIAs studied. The analysis of similarities and differences between ISLIAs and between ethnic minorities provides an initial estimation and guide to the in-depth study.

General Results

The explorative study on ISLIAs among the thirteen ethnic minorities in the Netherlands studied so far illuminates indicative similarities and differences regarding the existence of ISLIAs among ethnic minorities in the Netherlands. We can make the following explorative conclusions:

i. Among Iranians and Afghans in the Netherlands, ISLIAs formally exist primarily within the family, the reason being that immigrants from these countries only trust their family and do not want others (non-family members) to get involved in their financial affairs.

ii. In China, various ISLIAs exist within a group, but in the Netherlands, Chinese immigrants organise themselves in ISLIAs to a limited extent, mainly focusing on saving together within a group in order to go on holiday.

iii. In Ethiopia, India, Morocco, Sudan, Somalia, Surinam and Turkey, ISLIAs are a well-known phenomenon, and they exist in various variations within groups. This study shows that people from these ethnic minorities also participate in ISLIAs in the Netherlands.

iv. Poles are the exception. ISLIAs are not known in Poland and in the Netherlands. Poles come to the Netherlands to work hard and save as much as possible in a short period of time, then subsequently take their money back to Poland.

In addition, the findings have - on the basis of the analysis framework - been classified according to motives, objectives and embedding of the networks among the thirteen ethnic minorities studied. Each table illustrates the indicative results: '++' means very important; '+' means important and '0' means not applicable.

Social network is the main motive for participation in an ISLIA

The results of the study show that people have different motives for participating in ISLIAs (see table 5.2.1). One striking aspect is that nearly all members have a need for social contacts with people of the same ethnic background (see table 1).

Table 1: Motives for participation in an ISLIA

	MOTIVES				
ETHNIC MINORITY	SOCIAL NETWORK	POSITIVE (GROUP) PRESSURE	DISTRUST OF BANKS	FINANCIAL GAIN	RELIGION
Afghans	++	+	0	0	0
Antilleans	+	+	0	0	0
Chinese	+	++	0	0	0
Ethiopians	++	++	+	++	0
Indians	++	+	0	0	0
Iranians	+	0	+	+	0
Moroccans	++	+	0	0	++
Poles	0	0	0	0	0
Sudanese	++	+	0	++	0
Somali	++	+	0	++	0
Surinamese	++	++	0	+	0
Turks	++	+	0	+	++
Vietnamese	+	++	0	+	0

i. *Social network*
The most important motive to participate in an ISLIA for all people from various ethnic minorities is to build up and maintain a social network with people from the same country of origin. People like meeting up with fellow countrymen when abroad. The main reason to join the ISLIA is to preserve customs and to exchange information about the situation in the Netherlands and in the country of origin.

ii. *Positive (group) pressure*
Apart from maintaining a social network, members of ISLIAs from various ethnic minorities indicate that the social pressure to save is a very important motive to join the ISLIAs. Members of these groups appear to need a form of social pressure to save money. In this case, members experience the social pressure as a positive means to encourage each other to save.

iii. *Distrust of banks*
The members of ISLIAs among various ethnic minorities say they have confidence in the Dutch banking system and that a distrust of financial institutions in the Netherlands is not a reason to set up an ISLIA. One exception is Ethiopians in the Netherlands, who seem to have a general distrust of banks. It appears to be difficult for refugees to gain access to banks (especially to receive credits), with the exception of highly qualified Afghans and Iranians.

iv. *Financial gain*
Refugees from countries plagued by war and conflict in particular see participation in ISLIAs in the Netherlands as path to financial gain through joint saving. Sudanese, Somali and Ethiopian people in the Netherlands confirm that participation in their ISLIAs enables them to make money fast and easily. It is also striking that it is these ethnic minorities that most likely send the money straight to the country of origin. For Somali women in ISLIAs that have no male participants, independent management and control over their own money is an important motive to participate. Another particular aspect is that Ethiopians in the Netherlands indicate that they participate in the savings and credit groups to pay off debts and to avoid having to pay a high interest rate.

v. *Religion*

Religion emerges as a very important motive to participate in ISLIAs in the Netherlands for Moroccan and Turkish women in particular. After all, Islam forbids the charging of interest. The ISLIAs enable Moroccan and Turkish women in the Netherlands to have money without paying interest. It is remarkable that this religious motive is cited mainly by ethnic minorities of Islamic faith who have been living in the Netherlands for a longer period of time.

Private and social objective the main objectives for participation in ISLIA

The results of the study show that people have different objectives when participating in ISLIAs (see table 2). However, the private and social objectives dominate among all ethnic minorities studied.

Table 2: Objectives for participation in an ISLIA

	OBJECTIVES			
ETHNIC MINORITIES	SOCIAL OBJECTIVE	PRIVATE OBJECTIVE	ECONOMIC OBJECTIVE	SOLIDARY OBJECTIVE
Afghans	++	++	0	++
Antilleans	+	+	0	0
Chinese	0	++	0	0
Ethiopians	++	+	+	++
Indians	++	+	+	0
Iranians	++	+	++	0
Moroccans	++	++	0	+
Poles	0	0	0	0
Sudanese	+	++	0/+	++
Somali	+	++	0	++
Surinamese	+	++	+	0
Turks	+	++	0	+
Vietnamese	++/+	0	0/++	+

i. *Economic objective*

A small number of members of some ethnic minorities, among them Ethiopians, Indians, Sudanese and Surinamese, has emphasised that they take part in an ISLIA in order to finance an economic investment occasionally. This could relate to setting up a micro-business. ISLIAs in the Netherlands with only female members hardly ever have an economic objective.

ii. *Private objective*

For all members of the ethnic minorities studied, saving and borrowing for private objectives is the main reason to participate in an ISLIA, apart from the social objective. The money is used to purchase domestic appliances, to pay recurring bills, to renovate the house, for the education of the children and for travel.

iii. *Social objective*

For all members of the ethnic minorities studied, the joint saving and borrowing for social objectives is the main reason to participate in an ISLIA. The money saved is used to pay for parties such as weddings, birthdays and funerals of members of the family and friends in the Netherlands and the country of origin.

iv. *Solidary objective*
A solidary investment is particularly important for refugees from countries plagued by war and conflict. Ethiopians, Iranians, Sudanese and Somali in the Netherlands support their families in their countries of origin by means of the ISLIAs.

Clear embedding of ISLIAs within networks

The results of the study show that people are active in different networks. This analysis applies the three networks as described in the analysis framework.

The functioning of a local network of an ethnic minority primarily depends on the size of the local ethnic minority. On a national level, all ethic minorities have networks, informal and formalised, in foundations and clubs. ISLIAs appear to be a good way to encourage social networking on a local, national and transnational level (see table 3).

Table 3: Embedding of ISLIAs on a local, national and transnational level

	NETWORK		
ETHNIC MINORITY	LOCAL	NATIONAL	TRANSNATIONAL
Afghans	+	++	++
Antilleans	+	+	+
Chinese	++	++	++
Ethiopians	++	++	+
Indians	+	++	+
Iranians	0	+	++
Moroccans	++	0	+
Poles	+	0/+	++
Sudanese	+	++	++
Somali	+	++	++
Surinamese	++	++	+
Turks	++	++	0/+
Vietnamese	++	+	0

Networks on a national level show diversity. People from different - conflicting - ethnic minorities from a certain country of origin may come to the Netherlands. Ethnic minorities also have internal differences in terms of educational level and integration in the Dutch labour market. The extent of integration in the Netherlands and the organisational method on a national level is determined by reasons for coming to the Netherlands (as an unemployed person or refugee), the duration of the stay in the Netherlands, and whether the immigrant in question is a member of the first or second generation.

Members of ISLIAs often appear to be part of a transnational network, with family being an important link. People from ethnic minorities in the Netherlands and members of ISLIAs often seem to financially support (faraway) families in their countries of origin or another country.

SETUP OF FOLLOW-UP STUDY INTO ISLIAs in the Netherlands

Findings about ISLIAs among ethnic minorities in the Netherlands

The explorative studies yielded interesting information about an average of ten ISLIAs among thirteen ethnic minorities. Representative information per ethnic minority about the functioning of ISLIAs and objectives, motives and embedding is not yet available. During the course of the study, it also became clear that it is not yet possible to make an estimation of the number of ISLIAs or the extent of the money flows within an ISLIA.

So in order to be able to answer the two main questions of the study in more detail, a further, in-depth study is required:

i. Which organisational forms of Informal Savings, Credit and Insurance Arrangements can be found among thirteen ethnic minorities in the Netherlands and to what extent?

ii. What is the potential market for microfinancial services (via ISLIAs) among different ethnic minorities in the Netherlands?

Extension and quantification of information about ISLIAs in the Netherlands

The explorative studies on ISLIAs among ethnic minorities in the Netherlands illuminate interesting indicative similarities and differences between the functioning, objectives, motives and embedding of these groups. However, the explorative study had its limitations.

When increasing the number of interviews, it is important to make a clear distinction and balanced classification according to gender (male/female), age (particularly between 1st and 2nd generation) and country of origin (region, religion, ethnic minority). In expanding the qualitative data, the follow-up study will focus on semi-structured interviews.

The challenge for the follow-up study is to gather more quantitative and qualitative data in order to be able to describe the objectives, motives and embedding of the ISLIAs in detail.

The role of ISLIAs in social inclusion and economic empowerment of the ethnic minorities in the Netherlands also deserves attention.

Potential market for microfinancial services via ISLIAs in the Netherlands

The Netherlands has become a more and more multicultural society. Not every member of this society is able to live up to his or her full potential. In the opinion of the Centre of Microfinance, the microfinance sector has to face the needs of a multicultural target group. The development of an inclusive microfinance sector does not only need facts, figures and money, but also listening skills and a mind open to unusual solutions. A rewarding intercultural dialogue and learning process is only possible if one steps back from one's own perception and tries to open up to the strategies and point of views of individuals with different backgrounds.

In this regard, this research aims to stimulate the microfinance sector to reconsider their current approach. Taking the experience of microfinance in developing countries into account, new findings on ISLIAs among ethnic-cultural groups in The Netherlands might be able to stimulate entrepreneurship, economic empowerment and social inclusion of people who have not been reached so far.

The explorative study clearly shows that members of an ethnic minority primarily save and borrow for social and private purposes via ISLIAs in the Netherlands. Only a small number of members of some ethnic minorities (such as Ethiopians, Indians, Sudanese and Surinamese) take part in an ISLIA in order to occasionally finance an economic investment.

The follow-up study focuses on answering the following questions.

i. To what extent do ISLIAs offer their members the opportunity to finance an economic objective?
ii. Do members of an ethnic minority go to a bank in order to finance an economic objective?
iii. Do members of an ethnic minority go to a microfinance service provider in order to finance an economic objective?
iv. Do men and women from different ethnic minorities have the same opportunities to finance an economic objective via an ISLIA, bank or microfinance service provider?
v. Do men and women from different ethnic minorities have a need for other/new products for financing focusing more on consumption than entrepreneurial credit?

The answers to these five questions will provide insight into whether there is a potential market for microfinance services among different ethnic minorities in the Netherlands. It will also become clear which role the ISLIAs may play in this.

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List of abbreviations

ASCRA	Accumulating Savings and Credit Association
ISLIA	Informal Savings, Credit and Insurance Arrangement
LETS	Local Exchange Trading System
MFI	Microfinancing Institution
NGO	Non-Governmental Organisation
ROSCA	Rotating Saving and Credit Association

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