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A Social Performance Analysis of Italian Microfinance

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JEL Classifications: G21, G29, O16, O52

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CEB Working Paper N° 10/020

2010

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ULB

A Social Performance Analysis of Italian Microfinance

Fabrizio Botti and Marcella Corsi♦

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Abstract

This paper aims to analyse Italian MFIs social performance according to the core set of common indicators and framework developed by the Social Performance Task Force using data collected by Fondazione Giordano Dell'Amore and Fondazione Risorsa Donna in 2008 for the European Microfinance Network (EMN) Survey 2006-2007. Key features and client profiles of Italian leading MFIs are also identified with respect to their social performance indicators. The methodology adopted in the current social performance analysis follows the reference framework specified in Social Performance Standard Reports. It examines the whole process of translating MFIs mission into social impact and includes the analysis of several connected dimensions of the social performance pathway corresponding to areas covered by the indicators: the intent of the MFI, the effectiveness of the internal system and activities in achieving its targets, MFI outputs and eventually its capacity to positively affect clients life and achieve social goals.

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Introduction

Microfinance promise to serve low-income and disadvantaged beneficiaries excluded from the formal banking sector in a financially sustainable way (thus to achieve the so called "double bottom line" of financial and social performance) built excitement around the development of a global industry. However, for a long time an anti-subsidy position embedded in the international key donor community have shown little concern of social performance data and information on beneficiaries profiles in terms of various dimension of social and financial exclusion. Until recently, most of the emphasis of microfinance advocates has been devoted to MFIs financial performance following the "win-win" proposition, according to which financial viability should be sufficient to show social impact, a view that is supported by a controversial evidence and based on a selective understanding of conceptual facts.

Nevertheless, several initiatives, recently translated into the Social Performance Task Force[1], explored social aspects of microfinance providing a new definition of social performance more focused on the whole process leading to a social impact[2].

A Social Performance Analysis of Italian Microfinance

Aim of the paper is to analyse Italian MFIs social performance according to the core set of common indicators and framework developed by the Social Performance Task Force using data collected in 2008 for the European Microfinance Network (EMN) "Overview of the Microcredit Sector in EU 2006-2007" (Jayo *et al.*, 2008) on a sample of 27 Italian leading MFIs.

[1] The Social Performance Task Force has been created in 2005 by CGAP, the Argidius Foundation, and the Ford Foundation with the aim to bring together different actors carrying out social performance initiatives in order to exploit synergies, define social performance and identify a common framework for social performance measurement, reporting and rating.

[2] The Social Performance Task Force defines social performance as "the effective translation of an institution's social mission into practice in line with accepted social values that relate to serving larger numbers of poor and excluded people; improving the quality and appropriateness of financial services; creating benefits for clients; and improving social responsibility of an MFI."

The reference framework and methodology followed in the current social performance analysis, specified in the Social Performance Standard Reports, examines the whole process of translating MFIs mission into social impact and includes the analysis of several connected dimensions of the social performance pathway corresponding to areas covered by different set of indicators: the intent of the MFI, the effectiveness of the internal system and activities in achieving its targets, MFI outputs and eventually its capacity to positively affect clients life and achieve social goals.

The sample of Italian MFIs

Foro Nantik Lum de MicroFinanzas launched in 2008, on behalf of the EMN, a survey on microcredit in Europe in order to develop a greater understanding of the scale and the nature of microfinance activities, financial performances and social impact of MFIs in the European landscape, and to identify and promote the needs of the sector at the European level. Data from 94 microfinance providers in 21 countries in the European Union (EU) (27 including the non-member states Norway and Switzerland) were collected through an *ad hoc* questionnaire conceived in different sections. In the first part, the questionnaire collects general information about participating MFIs (mission, legal status, incidence of microlending on overall activity, staff structure) and target clientele. In the second part, the questionnaire focuses on size, methodologies, terms and condition of the microlending activity, inquiring for a detailed overview of loan amounts per different groups or categories of potential clients (men, women, ethnic groups, immigrants, start-up and young entrepreneurs). After a collection of standard indexes and data concerning portfolio quality, financial sustainability and funding sources, the last part of the questionnaire explores the impact of microfinance programmes and their future plans. In Italy, *Fondazione Giordano Dell'Amore* and *Fondazione Risorsa Donna* have carried out the research on a sample of 27 Italian MFIs selected on the basis of their local relevance (Figure 1).

Figure 1. Italian MFIs involved in the survey

MFIs intent

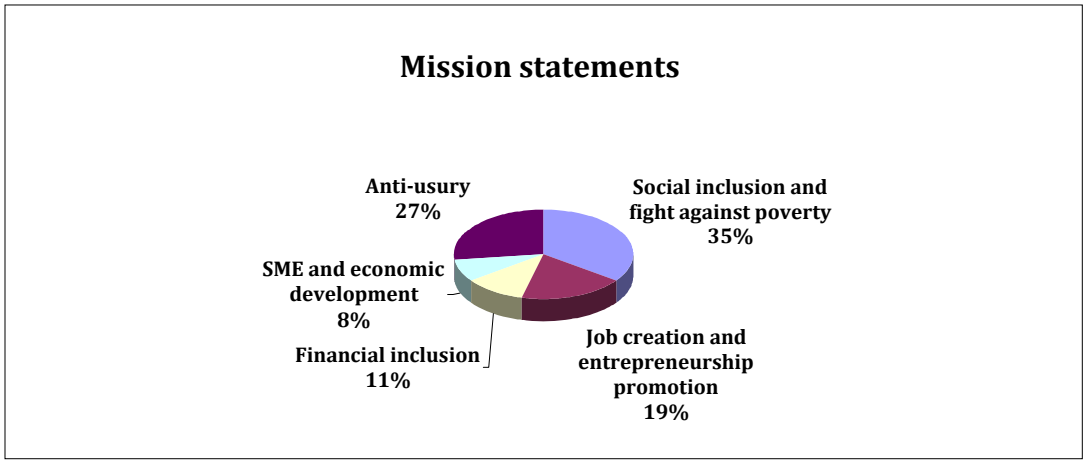
Indicators examined in this section aim at the assessment of MFIs stated commitment to their social mission and its target market, and the relevance of the governance process on the MFI's social mission.

What is your MFI's social mission?

In the first section of the survey questionnaire ("General Information"), MFIs staff was asked to disclose the programme target mission. Consistently with the European overview (Jayo *et al*., 2008), mission statements were grouped in 5 categories, with the introduction of a country-specific mission group: non-standard microcredit providers focusing exclusively or as a share of their activity portfolio on usury victims (27% of responding MFIs). Usury practices affects 600,000 debt position in Italy, approximately worth €35 billions (almost half of them are managed by criminal organization; Sos Impresa-Confesercenti, 2008). Also 15,000 migrants are estimated to be victims of usury or restrictive informal practices.

Social inclusion and fight against poverty are main goals (35%): a greater share if compared with the already remarkable European average (26%). If the above-mentioned evidence is combined with the relatively poor orientation towards SMEs, job creation and entrepreneurship, Italian responding MFIs shows a general focus on the most disadvantaged group of beneficiaries.

Figure 2



What is the target market of your institution?

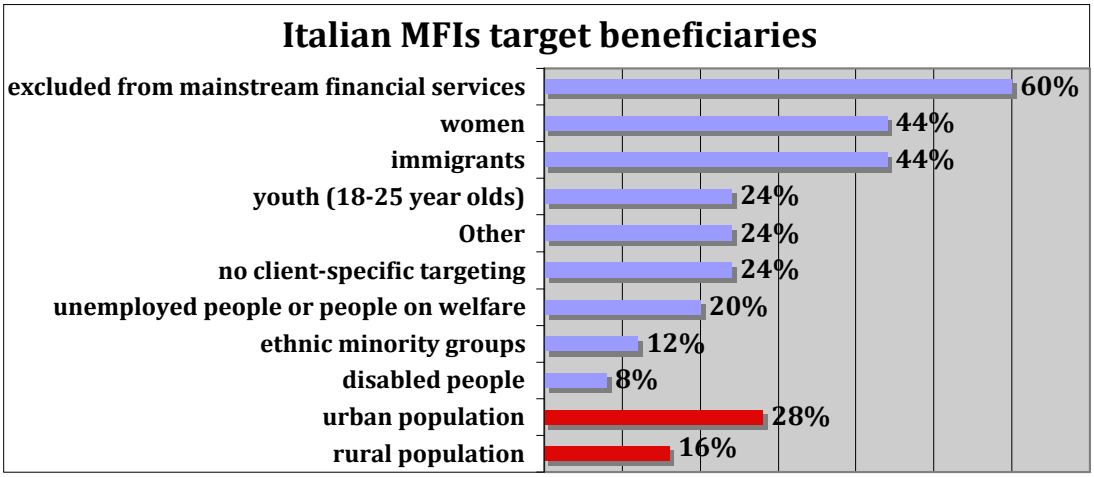
Despite only one fourth of the participating MFIs specified whether they target beneficiaries in rural or in urban context, it emerges the propensity of Italian organization not to focus exclusively on urban targets.

A lack of specific target groups or the focus on the entire potential population has been declared by 24% of the surveyed programs.

People excluded from mainstream financial services are the main target group of surveyed institution (60%). According to the European Commission (2008), financial exclusion "*refers to a process whereby people encounter difficulties accessing and/or using financial services and products in the mainstream market that are appropriate to their needs and enable them to lead a normal social life in the society in which they belong*". Financial exclusion affects 16% of the Italian households (European Commission, 2008), while almost 11% have no access to

a bank or postal account, despite the trend seems to decline (Banca d'Italia, 2008). Given the negative correlation between levels of financial exclusion to the one hand, and GDP per capita and inequality (measured by Gini coefficient) to the other hand (European Commission, 2008; Kempson, 2006), the Italian MFIs orientation towards this target group represent a reliable indicator of their intent to serve disadvantaged group of clients.

Figure 3



Migrants[3] and women are also amongst the most frequently identified target groups by Italian surveyed programs (44%). Foreign residents in Italy are about 4 millions (EU included), and an increasing share of them (165 thousands in 2007) are entrepreneurs (Caritas Migrantes, 2008). They also have a growing access to bank accounts (67% of migrant adults) and send remittances through formal channels for 6 billions of euros (2 billion are estimated to follow informal channels). Anyway, the increased access to bank accounts is not translating into greater access to credit: only 23% of migrants holding a bank account became borrower[4], and by 40% of migrant entrepreneurs demanding a loan, two-third obtain it.

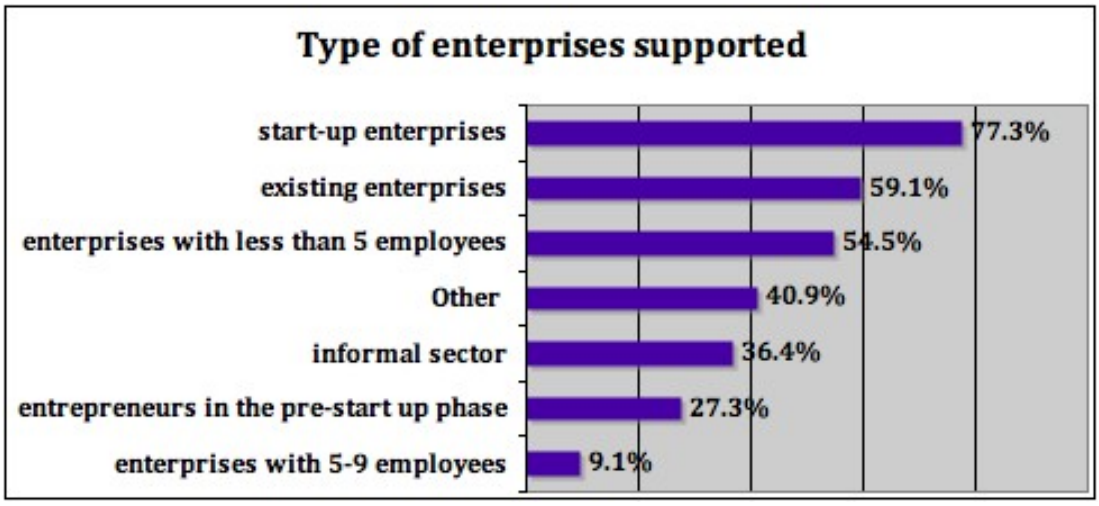
Last target groups chosen by Italian programs are youth (24%), unemployed or people on welfare (20%), ethnic minorities[5] (12%) and disabled (8%).

[3] Migrant is deemed to be a person born outside the EU and/or without the EU citizenship.
[4] Terreri and Faussone (2008) reports an evidence provided by the Associazione Bancaria Italiana in 2008.
[5] Ethnic minorities refer to a group in a community that differs ethnically from the main population.

What kind of enterprises your institution supports?

Businesses targeted by responding MFIs are primarily enterprises at their start-up phase (77.3%) and existing enterprises (59.1%), while an unexpected share of microfinance programme targets enterprises at their pre-start up phase (27.3%) supporting their feasibility studies. According to business sizes, most of the Italian MFIs lend to small-scale businesses with 5 or less employees (54.5%).

Figure 4



One of the most remarkable features revealed by Italian MFIs is the large share of organizations assisting small-scale enterprises operating in the informal sector. The large portion of migrants on total target clientele showed by respondents might explain the evidence, and the resulting need to focus on unregistered business and support their transition to the formal sector. Survey respondents also identified a substantial share of business targeted (40.9%) in the residual category of other types of business supported: people trying to enter the labour market (training, driving licences for migrant care-workers etc.)

Governance

Governance structure of Italian MFIs is still undeveloped and informal and the lack of available data on boards of director composition, responsibilities, terms of services and expertise prevents from the provision of suitable indicators for the assessment of board

members knowledge and commitment to social performance. Data collected from Italian microlenders however allow the assessment of the staff gender balance and the employment of members of target groups in microlending activities.

Internal system and activities (strategies and systems)

Range of product and services

Which of the following financial products/services does your institution offer?

One distinctive feature of the Italian sector is the small number of loans disbursed by each MFI per year, 23 microloans in 2007 (compared to 22 in 2006), and the absence of large-scale providers as ADIE in France. With the exception of *Caritas Diocesana Vicentina* and *Progetto SMOAT*, disbursing 107 and 103 loans per year respectively, none of the responding Italian MFIs exceeds 38 loans provided to their beneficiaries in a twelve-month period. However, when we look at the number of loans disbursed by country, the Italian sector small scale is consistent with the European landscape where 50% of the organizations made fewer than 50 loans in the same year while actually greater number of annual loan disbursed emerges in more mature national industries as in Eastern Europe (Bulgaria, Poland, and Romania) where are greater than 1,000 per year.

Most of the loan products offered fit in the "general loans" and "microenterprise loans" categories with an average loan size of € 9,654 in 2007, below the western EU countries average of € 11,061.

Other financial services to socially and financially excluded people are provided by 37% of Italian lenders, mostly debt counselling, emergency loans and anti-usury loan products. In some residual cases, Italian MFIs also offer consumer loans (*Caritas Italiana and Fondazione S. Maria del Soccorso*), bank transfer and remittances services (*Fondazione Antiusura "Padre Pino Puglisi"*), and insurance products (*Permicro*).

Slightly more than half of the respondents also provide specific support services to their beneficiaries to move into the mainstream financial system. As almost all of those lenders are committed to the "financially excluded" target clientele (*Caritas Italiana, ECIPAR, Fond.*

Don Mario Operti, Fond. Risorsa Donna, Fond. S. Maria del Soccorso, Fondazione Toscana Anti-Usura, Microcredito di Solidarietà, Permicro, and Progetto SMOAT), the result shows the commitment of concerned MFIs to their stated social mission.

What are the lending methodologies of your institutions?

Almost all of the responding Italian MFIs (94%) provide individual loans with the remarkable exceptions of *Mag4* (disbursing exclusively group loans), *Caritas Italiana* and *Terre in Valigia*. The preference for individual *lending methodologies* matches the commonly recognized trend involving microcredit in Europe where the employment of solidarity group methodologies and dynamic incentives on loan increasing size are still limited and possibly unfitting the demand and the social tissue existing in the continent.

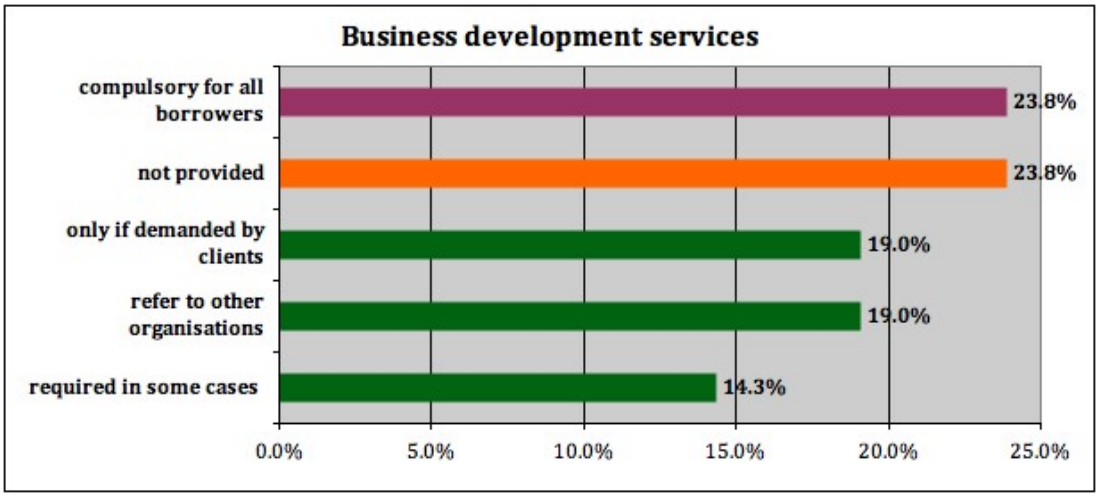
Which of the following non-financial services does your institution offer to its clientele?

In Europe, and in Italy in particular, business regulatory environments and bureaucracy make the enterprise start-up phase or the day-to-day management a heavy and costly activity. Training and technical support to business development are thus crucial factor affecting micro-enterprises success.

For the majority of respondents, business development advice programs are compulsory (24%), and when client participation is not mandatory, MFIs rely on other organizations (19%) or provide them on demand. Italian MFIs directly or indirectly providing this type of non-financial services do not charge any fees and the share of clients participating in business development advice programmes is close to half of their overall portfolio of beneficiaries and increased between 2006 and 2007. One fourth of responding MFIs does not provide any business development service, a greater share with respect to the European average (16%).

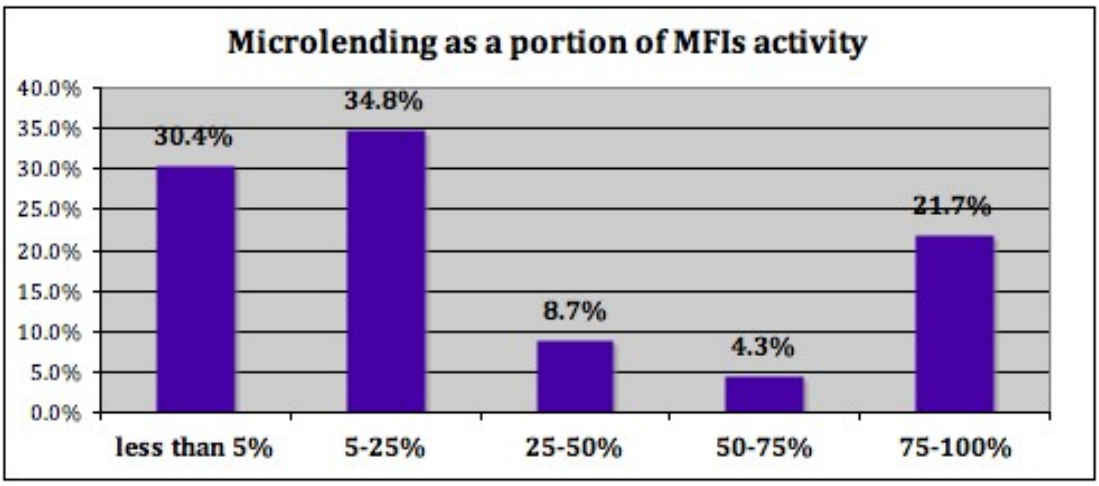
With respect to Italian MFIs capacity to offer an integrated approach to their target beneficiaries, it is important to emphasize the multidimensional nature of their intervention. Italian actors are mainly NGOs, Foundations or public agencies connected to local authorities (Regions and municipalities) with a broader original mission and a non-exclusive commitment to microlending activities.

Figure 5



As showed in Figure 6, for 65.2% of the Italian sector, microlending represents one fourth or less of the overall activity. A significant share of portfolio activity (more than 50%) is devoted to microcredit by all the non-bank financial institutions (*Mag4, Microcredito di Solidarietà* and *Permicro*), and other programs explicitly established for purpose of lending to disadvantaged or financially excluded people (*Progetto Seme, Micro.Bo* and *Fondazione Lucana Antiusura*).

Figure 6



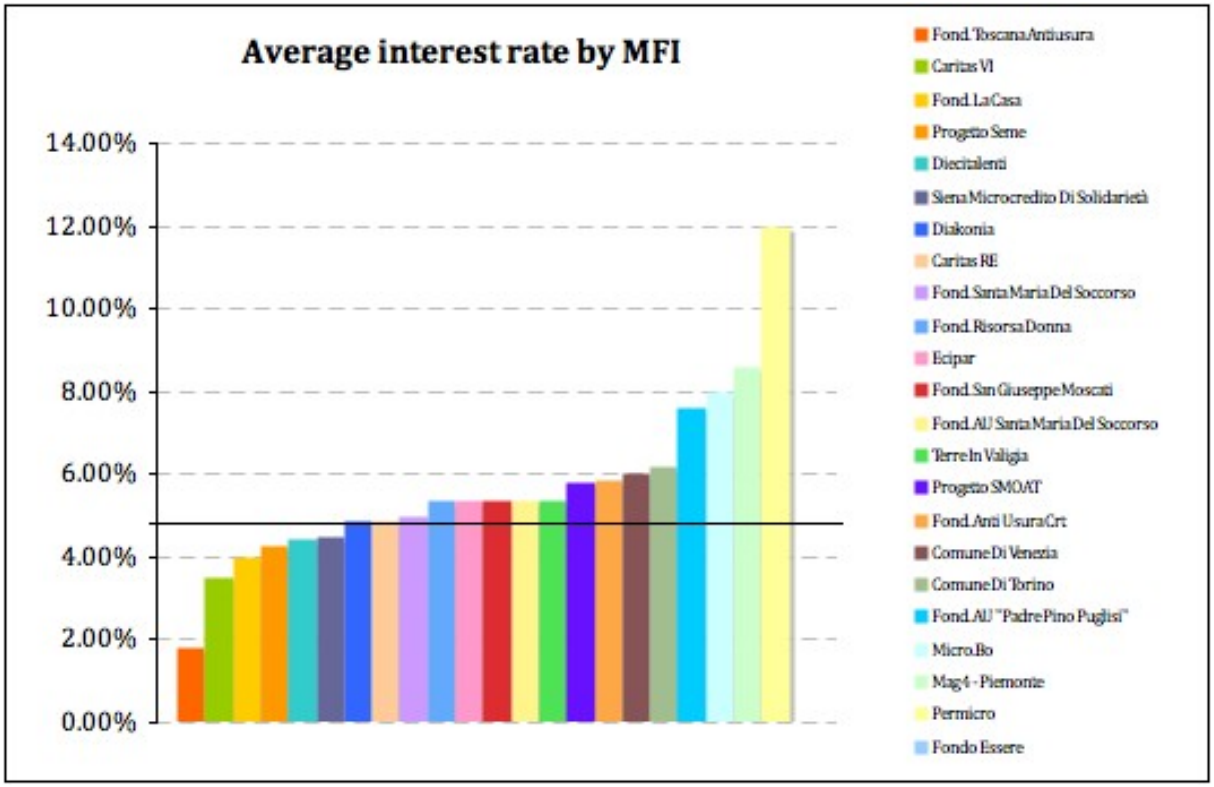
Internal system and activities (policies and compliance)

Cost of services to clients

The average interest rate charged by Italian MFIs is 5.6%, well below the European average of 8%. The evidence is due to a couple of supporting factors: interest rate ceilings fixed by a national usury law act as a significant constraining factor by reducing MFIs margins on pricing, and the observed propensity of most of Italian microlenders to provide cheap credit as a way to serve more disadvantaged categories of clients.

Nevertheless, a deeper investigation of Italian MFIs policy on interest rate reveals a differentiated landscape: most of the lenders set their interest rate as a mark-up over the Euribor rate[6] for cost recovering, while for slightly more than one third of responding MFIs, average interest rate is even lower than the market reference.

Figure 7



[6] Euribor rate is assumed to be 4.9% in data processing according to its quotation at the time of the survey.

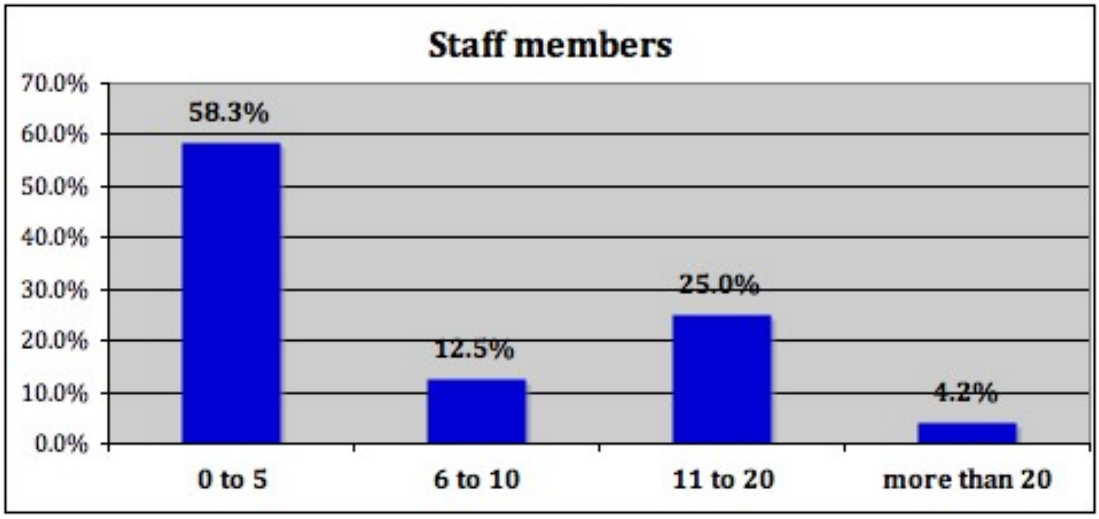
Among the former group of MFIs, we can find MFIs as *Permicro* (12%), *Mag4* (8.6%) and *Micro.Bo* (8%) trying to price for credit risk and full costs in order to attain sustainability, and at the same time an anti-usury foundation (Padre Pino Puglisi, 7.6%) and the programme lead by the municipality of Turin (6.2%). The rest of the concerned group set an interest rate greater than the Euribor level but always below 6%. Programs following a subsidized pricing policy and charging a below-market interest rate are 34.8% of the responding MFIs and are expected to be a larger share according to information collected informally on non-responding participants.

Italian programs are also low-priced in terms of additional loan fees if compared to the European average: a portion of 72% doesn't charge any fee in addition to the interest rate (only 51% in Europe as a whole). Loan application fees are the most common among organizations charging additional costs to clients. The majority of respondents thus deny the employment of another mean for cost and risk recovering, signalling a poor commitment to financial self-sufficiency and possibly a strong focus on the most disadvantaged target groups.

Social responsibility to staff

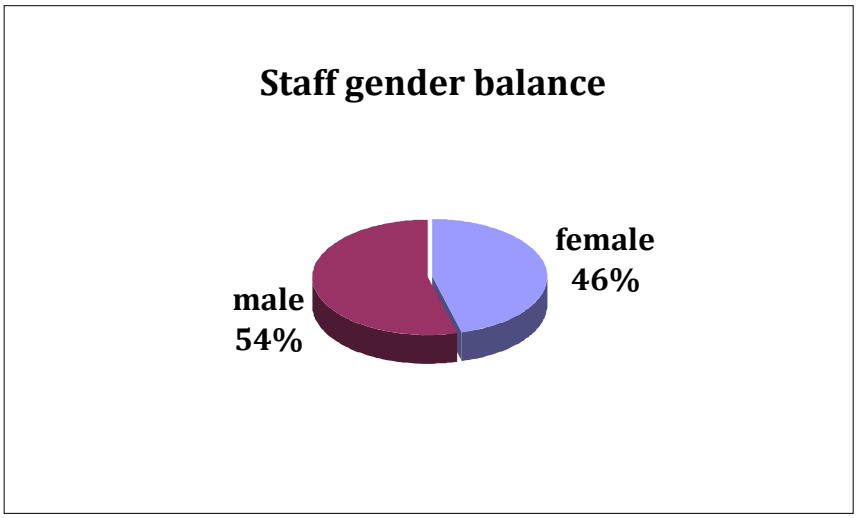
Italian organizations employ in microlending activities a relatively small number of staff members, 234 people as a whole, just 27.2% of them are deemed to be full time equivalent loan officers.

Figure 8



The share of women in the staff employed in microlending activities and business development service programs is smaller than that of men (46%), and other representatives of specific categories of clients are lacking, except for 3 members of ethnic minorities involved with the program of the municipality of Venice (2 paid members) and *Fondazione S. Giuseppe Moscati*. The percentage of female members of the MFIs staff is also below the European average of 54% (Jayo *et al*., 2008).

Figure 9



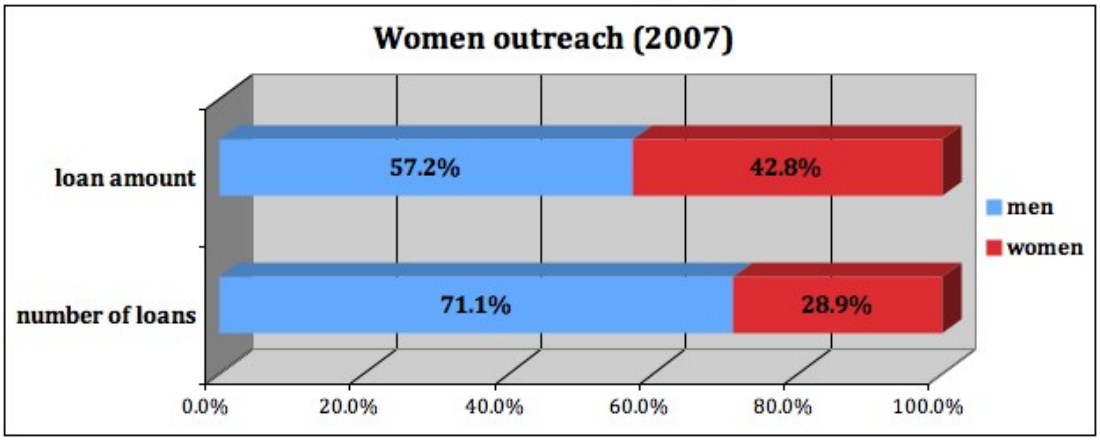
The large majority of MFIs have volunteers who assist their microlending activities (84%): an apparent indicator of a young sector striving to attain cost-efficiency, possibly oriented to social objectives and in some cases lacking professionalism.

Achievement of social goals

Women outreach

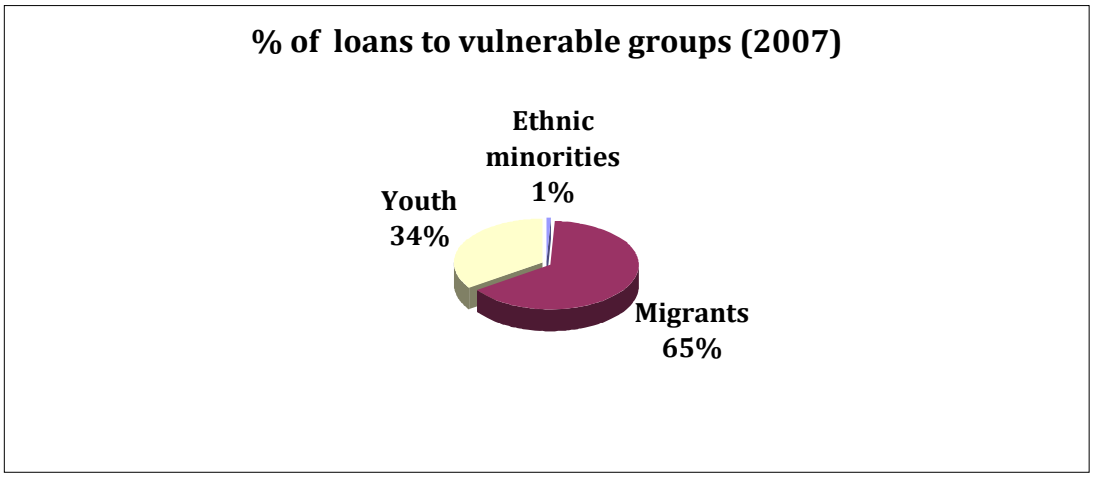
Only 28.9% of Italian MFIs beneficiaries were women in 2007, the lowest percentage of loans disbursed to women in Europe with Hungary, also in a significant declining trend if compared to 2004-2005 EMN survey data (Jayo *et al*., 2008). Women are also under-represented in terms of loan amounts (42.8%), thus attracting larger loan size per capita with respect to men.

Figure 10



For those organizations reporting on lending activities to vulnerable groups (26% of the surveyed group of MFIs), 65% of beneficiaries are migrants and 34% are young clients aged between 18 and 25 years old, considerably greater than the European average (12% both). Only ECIPAR affirmed to serve ethnic minorities while none of the respondents reached disabled people.

Figure 11



According to enterprises financed and based on the same sub-sample of MFIs detailing their share of clients from vulnerable groups, it emerged that 85.6% of loans disbursed in 2007 reached start-up enterprises, well above the stated commitment (77.3%).

Conclusions

Social performance indicators show how microcredit in Italy is essentially a tool to address social and financial exclusion among vulnerable groups, and only marginally a financial instrument devote to SMEs and local development.

Social Performance Analysis allowed identifying several distinctive features of the Italian sector: the small size of staff, also relying on volunteers, a below-market rate pricing policy, the non-exclusive commitment to microcredit activities, and the free provision of non-financial services.

Italian MFIs prevailing features signal a sector heavily subsidized, a poor commitment to financial self-sufficiency combined with institutional constraints (lack of a suitable regulatory framework, interest ceiling) preventing financial soundness, a strong focus on the most disadvantaged groups (migrants, youth, usury victims) but an inability to serve women.

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