Social Performance Evaluation of the Microfinance Institutions in Mozambique

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Abstract

Historically, microfinance has been successful in reaching the population excluded from the classical financial system. In the 90's, efforts have been concentrated towards financial and institutional sustainability of the microfinance institutions (MFIs). Tools to evaluate financial performance have been developed, but the social performance was taken for granted. However, nowadays, donors and social investors ask the MFIs to justify the fundings: Who are the clients reached? How to combine social and financial objectives? How to avoid mission drift? Mozambique as a developing country has so many poor people and excluded from the classical financial system. This model is divided in four social dimensions: outreach of the poor and excluded; adaptation of the services and products to the target clients; improvement of social and political capital of the clients; and social responsibility of the MFI. Using the Social Performance Indicators (SPI) model developed by CERISE[1] the results show that MFIs in Mozambique are not concerned about Social Performance as a goal. Only two institutions came close to the international standard MFIs average. In conclusion, the MFIs in Mozambique should redefine their strategies in order to attend the huge market of the people which are still excluded from the financial services.

Key-words:
Microfinance, social performance, evaluation, indicator, social responsibility, poverty, exclusion, developing countries.

[1] Comité d'Echanges, de Reflexion et d'Information sur les Systèmes d'Epargne-crédit.

1. INTRODUCTION

"*Poor people are Bonsai people. There's nothing wrong with their seed, they just don't have enough space to grow*" (Muhammad Yunus, 2007/3/22 in a Gulbenkian Conference in Lisbon).

Yunus summarizes in this inspired sentence the core of the mission of an institution of microfinance (MFI)[2]. To be an instrument of overcoming the financial and correlative restrictions of the poor, so that their capacities can be developed, this activity of financial inclusion must be sustainable and can be profitable. What it cannot do is to step away from the essential: to focus its activity in the poor people and to conceive its products and draw its services to attend them.

The first manifestation of microcredit movement that is known is the "Bread Association". It was created by priest Raiffeinsen in the South of Germany in 1846, after a hard winter which left the local farmers indebted and depending on the moneylenders. The priest granted them wheat flour so that, with the making and commercialisation of bread, they could obtain the necessary funds to reimburse the debt and constitute circulating capital for their activity. As the time passed, the association grew and turned into a credit cooperative for the poor population.

In 1900, a journalist from Quebec Legislative Assembly created the "Caísses Populaires Desjardins". He collected an initial amount of 26 Canadian Dollars to lend the poorest, with the help of 12 friends. At the present time, five million people are associated to the "Caísses Populaires", in 1329 branches.

In 1953, Walter Krump, the chairman of a Chicago Metallurgic, created the "Help Funds" in the departments of the factory, where each participating worker deposited monthly US $1, intended for assisting the members when necessary. Later on, the Help Funds were consolidated and transformed into what was named America Credit League. After this initiative, another ones happened, there being, at present time, the Federation of the Credit Leagues, operated nationally in other countries.

[2]We use the term microfinances because it seems more appropriate than the microcredit, taking into account the extension of financial products cuurently offered, that includes credit, deposits, insurances, etc.

Also in the southern hemisphere, the missionaries launched savings banks and loan-offices based on the mutualist model previously described where the risk is shared by the people of the same village or quarter.

Many other punctual and isolated manifestations with characteristics of microcredit shall have occurred since then. However, the microcredit, in today's acceptation, is associated to the experience started in 1976, in Bangladesh, by professor Muhamad Yunus. Observing that the small enterprises of the villages next to the university where he lectured were hostages of moneylenders, paying scrupulously the extortive interests, professor Yunus started to lend small amounts with personal means, which he afterwards increased, asking for loans.

By proving that the poor are worthy of credit and that they honour their small loans, professor Yunus obtained financings and donations before the private and international banks, which culminated in the creation of the Grameen Bank, in 1978. Grameen Bank at present lends in microcredits a total of US $2.4 billion to about 2.3 million small and medium enterprisers, of which 96% are women. Twelve million Bangladesh citizens were already assisted by Grameen Bank programmes, which, in the meantime, diversified the offer with real estate credit, savings products, health insurance, etc.

Grameen Bank is based on the premise that it is not the lack of values and capabilities that turn the poor poor, but the fact of these capabilities remaining unused or underused. Thence that the charitableness is not the appropriate answer to poverty, since it simply perpetuates de poverty, creates the dependence and take away the individual initiatives which may break the poverty barrier.

Consequently, Grameen Bank gives big priority to the building of the social capital, centred in small groups, through the development of the democracy and leadership, legitimized by annual elections of the social bodies. It is also evidenced that Grameen Bank gives emphasis to the training of human capital, cares for the environmental protection, following up the education of children, provides scholarships and loans to students for higher education, etc.

With local adaptations, Grameen Bank model was replicated in several countries. In fact, Grameen model lays on the same principles as the first Raiffeisen or Desjardins banks: loans and saving by small groups of people, especially women, who know each other, meet regularly and who accept the rules of the game of the mutualist bond to cover the eventual risk of one of them not being able to pay back her loan.

Recently, and under the initiative of professor Yunus, all these microcredit organisations met in Washington for the first Microcredit Summit. This "big meeting" enabled thousands of people involved in their countries, either from the South, or from the East, or from the North, to become aware of the importance of their action and decide to eradicate the poverty through microcredit.

The leaders of this summit created an efficient communication policy, having managed, through their lobbies, that many big companies, commercial banks, private development agencies[3] and international cooperation agencies committing to finance and develop the microcredit, as an instrument of local and regional economic growth, namely in the rural environment.

With the collapse of the development banks and the disinterest of the conventional banks for the rural sector, the microfinance institutions are today, for many countries of the south hemisphere, the only financial operators in rural areas (side by side of the informal sector). There is a double purpose underlying with the development of the microfinance institutions:

- To fight against poverty;
- To enable capital accumulation processes.

Thus, in majority of the countries with a structural adjustment whereby the development banks and agricultural credit institutions were suppressed or are about

[3]The performances of the following international organisations are evidently important for the development of microcredit services: Acción International, Calmeadow, CARE, Women's World Banking, the Small Enterprise Education and Promotion Network, the MicroFinance Network, the U.S. Agency for International Development, Deutsce Gesellschaft fur Technische Zusammenarbeit, Caisse Française de Développement, Inter-American Development Bank and World Bank (Ledgerwood, 1999)

to disappear, the microfinance institutions represent the main gateway to the official financing of the small production of the peasants or the “informal” sector and the production of the urban micro and small enterprises.

At a more global level, the World Bank identified, in 1996, in 101 countries, 1,000 microfinance institutions which had already a certain dimension[4]. The organisations that were taken census mobilised, in September 1995, €18 billion in 45 million accounts and made loan of about €7.5 billion to more than 13 million people and groups.

More recently, a census from IFPRI[5] on all microfinance institutions conducted from secondary sources (donors, international NGOs, national networks, etc.) found out, at the end of 2000, in 85 countries, 1,468 institutions that reached, with 12.3 billion Dollars of captivated saving and 17.5 billion Dollars of credit, more than 54 million members (Lapenu & Zeller, 2001).

Notwithstanding, according to this last review, certain countries were greatly affected by this wave for security reasons (Algeria, Angola, Somalia, Sudan) or policy guidelines which put them away from the circuits of development help (Afghanistan, North Korea, Cuba, DRC[6], Iraq, Liberia, Myanmar, Pakistan), the phenomenon seams to be generalised in Latin America, Asia and in the whole of sub-Saharan Africa[7], which places immediately the question of their conditions of coming into sight.

Countless studies were made on the impact of the microfinance, at the local level and of the beneficiary individuals, as well as on the financial sustainability of these institutions.

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[4] Institutions that offer microfinance services (i.e., that reach the “poor” populations and in which the transactions are generally less than 1,000 US Dollars), which have at least 1,000 clients and more than two years of existence.
[5] International Food Policy Research Institute.
[6] Democratic Republic of Congo.
[7]But far from concentrating in the “South”, microfinance developed equally in the “North” and, for some years in the framework of the transition economies of Eastern Europe equally, as illustrated by the *“European Conference on* microcredit *and the* Micro-Enterprises” organised by France in December 2002 within the framework of European chairmanship.

The present study concerns a different and less studied issue: The Social Performance of The MFIs. In other words: The Consistence of The Affirmed Mission of the MFI and its real activity.

In the 90's, efforts have been concentrated towards financial and institutional sustainability of the microfinance institutions. Tools to evaluate financial performances have been developed, but the social performances were taken for granted.

However, nowadays, donors and social investors ask the microfinance institutions to justify the fundings: Who are the clients reached? How to combine social and financial objectives? How to avoid mission drift? etc. Some microfinance institutions themselves have the intuition that reinforcing social performance can lead, on the mid run, to strengthen financial sustainability.

In order to do such, we used the SPI instrument, granted by the CERISE, in a sample of seven MFI that represent 80% of the microfinance market portfolio in Mozambique. The results are compared with the obtained by the application of the same instrument in others countries.

2. MICROFINANCE AND POVERTY

To Amartya Sen (1999), poverty must be seen as a deprivation of basic capacities. The level of profit, used as a measure by the World Bank [8], is only the symptom, which can obviously be useful for effects of collected classification. The Rate of Human Poverty or the Rate of Human Development, which combines representative indicators of several dimensions of the poverty, allows a more complete characterization of a given situation.

The relief of poverty demands to have and to be able to work with many tools, among which food, shelter, health, financial credit, education, and so on. In consequence, charity is not the appropriated answer for the eradication of poverty, since it only lessens the immediate problem. So, microfinances are an instrument of inclusion, because they offer financial tools to the economically active poor people, who are

[8] The World Bank defines as poor person someone who has a daily profit less than US$1 and extremely poor if the daily profit is less than US$ 0.75 (World Bank, Report of the World-Wide Development of 1990: Poverty).

excluded or have difficulty in accessing the classic bank system (Robinson, 2001). It is certain that these populations were already using financial credit obtained informally, from familiar help to loan by loan sharks, but in tiny amounts and costly interests or social vexatious conditions.

The MFIs operate from financial resources joined in an initial fund destined to loans. The fund can come from different sources, from donations to financial investments. The set of final products is variable, but all of MFI announce to target the population little or not attended at all by the classic financial system. In strictly financial terms, the MFI has an intermediation function between the financers and the clients, for which they try to reduce the costs of the transaction and to get the best guaranty possible of the loans credited, (Ledgerwood, 1999).

Given the characteristics of the target clients, the proximity to him is fundamental since the usual intruments of evaluation and covering of the risk do not work, (Servet, 1996). The credit suitableness lies on the judgement of confidence of the potential client. The probability of success of the projected investment increases with the development of the human capital and of the social capital, through the development of professional, leadership and social network competences. Therefore the MFIs are agents of social development, not only because this is necessarly their aim, but because it is a way of guaranteeing the return of the investment.

The guaranty is in general of the cooperative type. Frequently microfinance institution works with groups of persons, where people know each other and meet with regularity and accept to cover the eventual risk if one of them does not manage to pay back his loan. In other cases, in the village banks the whole community is assumed like a mutualist group. Whichever way, the social control is very important to minimize the moral risk.

When they are not subsidized, the interest rates of the microfinance institutions are generally high, in the order of 2 to 3 % monthly, but very inferior to the ones practiced in the informal market[9]. The reasons for this are the high costs of transaction resulting from reduced amount but numerous loans, necessity of being near the targeted cilents, development of capability actions, etc. Unpaid debt is in general very

[9] FAO INTER RESEAUX, Financement des exploitations agricoles dans les pays en développement, Fiche n°5 Octobre 2002

low, being the taxes of refund superior to 95 % common. Even so, in the inquiries effectuated in Guinea and Benim the interest rates were not spontaneously referred as a constraint[10].

Despite of these difficulties, the microfinances dominate the World development agenda[11]. The West African Central Bank (BCEAO), that does a periodic survey in Africa, shows a big development in the sector last years. In seven West African countries there were 303 microfinance institutions or similar with more than 2.5 millions clients, (BCEAO, 2002).

[10] ibidem

[11] Cf. CGAP, at the level of the World Bank, conference of the CNUCED in 1998, world-wide summits on micro credit held in February of 1997 and 1998 in Washington, in June of 1999 in Abidjan and in October of 2001 in Oaxaca (Mexico), etc.

3. MICROFINANCE IN MOZAMBIQUE

Mozambique is a country of Southern Africa, with frontiers with Tanzania, Malawi, Zimbabwe, Swaziland and South Africa. The capital city is Maputo. Other major cities are Beira, Nampula and Quelimane. The official language is Portuguese. The local currency is the Metical (plural Meticais). With 781.466 Km2, it has 19.24 million inhabitants. In the ranking of the IDH it is positioned at the 171st place in a list of 178 countries. The income per capita is of US$ 348 (2006 data), and around 54 % of the Mozambican families lives below the line of the poverty[12]. However these numbers are subvalued given the importance of the informal economy. In 2003 the international donation per capita represented more than 54 USD [13].
In the last 4 years the country has been presenting an annual growth of the GDP, between 7.5 and 7.9 %. With a GDP of US$ 6.4 billions, the agriculture represents 21 % and employs 78 % of the population, the industry 31 % and the services and commerce 40 %. An important part of the growth of the GDP is caused by the FDI megaprojects in the industry of aluminium, natural gas, etc.

Mozambique remains an agriculturally based economy, while industrial developments are starting to take off from a low base as result of the civil war that destroyed the transport and other infrastructures. The country also has considerable mineral resources as well as oil and gas. Mozambique has the natural resources to sustain the development of agriculture, forestry, fishing, energy and tourism industries. The Mozambican government has a solid politics in the struggle against the poverty, which is implemented in the PARPA - Plan of Action for the Reduction of the Absolute Poverty. In order to do such, it has been receiving the support of the international community. In the PARPA there has been reaffirmed the importance of a National Policy for Microfinances, which final version was presented in June of 2005.

To Fion de Vletter (2006), the earliest linkage to microfinance in Mozambique can probably be traced back to creation in the 1989 of the Urban Enterprise Credit Fund established as one of the components of the World Bank's Urban Rehabilitation Programme and executed by the Office of Employment Promotion (GPE) in Ministry of Labour. This programme provided small loans for a variety of urban activities,

[12] Household Budget Survey: 2002-2003.
[13] World Bank Development Indicators, 2003.

including restaurants, bars, beauty salons, carpenters, fishermen, etc. This was the first attempt to establish a non-bank fund (although loans were distributed through the state bank (Popular de Desenvolvimento) (BPD)) and charge commercial interest rate.

In 1992, with German unification, almost 18,000 Mozambican contract workers were repatriated. The German Government through its technical assistance agency "Gesellschaft für Technische Zusammenarbeit (GTZ) established a training and credit programme to assist repatriated workers, and housed the programme with the GPE. This programme soon split the training and credit activities. The credit programme then opened the doors to all existing micro-entrepreneurs in Maputo and Beira and established seeds of eventually became the commercial bank SOCREMO.

The signing of the Peace Accord of 1992 marked a new era for Mozambique and sparked considerable debate about the role of microfinance in the reintegration process of demobilized soldiers. The process of demobilization started when microfinance was still in its nascent period and involved a myriad of organizations with a variety of views on how to approach reintegration. Much discussion was centered on whether the demobilized were to receive credits or grants. Many suggested that the GTZ-GPE repatriated model was the path to follow but providing vocational kits as credit instead of cash, following prerequisite training. Reality showed that the demobilized soldiers had no intention of repaying, considering the training and kits as part of their rightful compensation for years at war.

In 1993, World Relief announced plans to establish "village banks" for the poor market women in Chokwe area of Gaza Province. Because the scheme was so ambitious and the methodology unconventional (at the time), this initiative has generally been hailed at the first microfinance initiative in the country. Impressive results were reached, including repayment rates approaching 100%, consequently attracting various high-powered government delegations to visit the programme. These first impressions were lasting and were probably instrumental in the positive support that the financial sector has enjoyed from the government. In 1993 the

French consultancy company IRAM[14] started to undertake a comprehensive series of studies in preparation for its Caixas Comunitarias de Crédito e Poupança (CCCP) project.

With the expectation of the GTZ-GPE programme in Maputo and Beira, microfinance in the mid-1990s was largely driven by international NGOs with experience in microfinance. These microfinance operations did not immediately target the more accessible and concentrated market of Maputo-Matola with estimated 70-80,000 market traders. In 1995, CARE International approved their first loan (based on the solidarity group methodology) through its programme Crédito Sustentável para o Crescimento de Empresários (CRESCE)[15] with mainly market traders in Chimoio and Gondola (Manica Province). World Vision was at about the same time looking for microfinance opportunities in Tete, Nampula and Zambezia (later focusing on the latter province).

The earlier years of the microfinance were dominated by the presence of small (mainly rural) international NGO initiatives introducing microfinance as one of the several components for their integrated usually rural) programmes. Microfinance was very much the development buzzword of this time and there was a prevailing assumption that it could be managed with much greater facility than was eventually experienced.

The natural magnet for microfinance activities was Maputo and, to a lesser degree, other cities. In 1995/6 the BCI and the FDC started a pilot project with Swiss funding that was the precursor of the first cooperative exclusively devoted to the microfinance, named Tchuma. Tchuma significally expanded its lending activities in 1999. In 1997 Mennoite Economic Development Associates (MEDA) was the first international NGO to establish itself in Mozambique with the primary purpose of setting up an exclusive or, as the CGAP-inspired expression put it, a "minimalist"[16] microfinance programme in Maputo. This programme started its credit operations in

[14] Institute de Recherche et d´Application des Méthodes de Développemt.
[15] Sustainable Credit for Growth of Entrepreneurs.
[16] The term "minimalist" was used to describe programmes that only undertook microfinance operations vs. maximalist, term used to describe microfinance operations at the time that commonly had supplementary components such as training, health, education, etc, attached to them.

1999. In 1997, IRAM launched its CCCP programme in Maputo and Chokwe on behalf of the Bank of Mozambique using a village bank type methodology of associations of solidarity groups called "*caixas*". In 1998, SOCREMO was the first microfinance programme to become a registered financial institution. In 2000, NovoBanco, managed by German consultancy firm Internationale Projekt Consult (IPC), started in form of the newly created institutional category of microbanco. NovoBanco forms part of the world wide ProCredit network. In Nampula, the exclusively female targeted *Caixa das Mulheres de Nampula* (CMN) was established in 1994 with subsequent support by Cooperation Canada-Mozambique (COCAMO).

Much of the microfinance debate during the later half of the nineties focused on the financial sustainability.

Since the liberalization, the financial Mozambican sector registered a quick growth. In 2004, according to the Mozambique Central Bank, 13 commercial banks, 45 MFI, several exchange agencies and other financial societies were licensed. The business concentration is high, with the 4 bigger banks representing 93% of the total assets, (KPMG, 2003). Around 45 % of the 219 bank agencies are located in the capital, Maputo, and almost all of the others in the provincial capitals. The bank covering of the country is low, 1 agency for 82 thousand inhabitants or one for 3.782 km2.

Province	Nr Agencies	Nr Agencies	Nr Agencies
	1995	2004	2005
Maputo	93	109	114
Gaza	20	15	14
Inhambane	15	10	12
Sofala	16	19	22
Manica	33	7	12
Tete	11	8	8
Zambézia	16	10	10
Nampula	23	16	16
Cabo Delgado	14	7	7
Niassa	8	3	4
Total	249	204	219

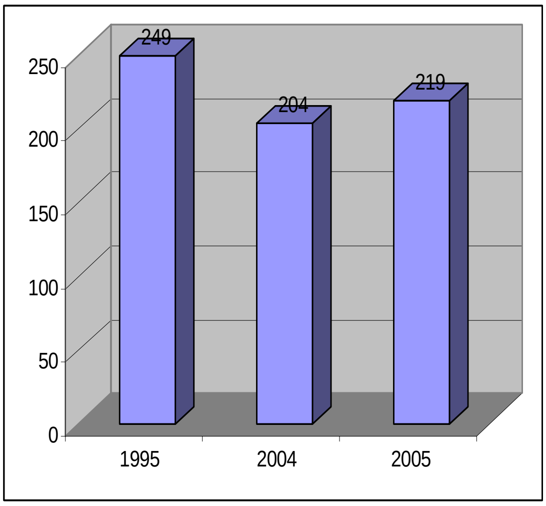

Figure - Geographical Distribution of commercial bank agencies

Source: Supervising Department of the Bank of Mozambique.

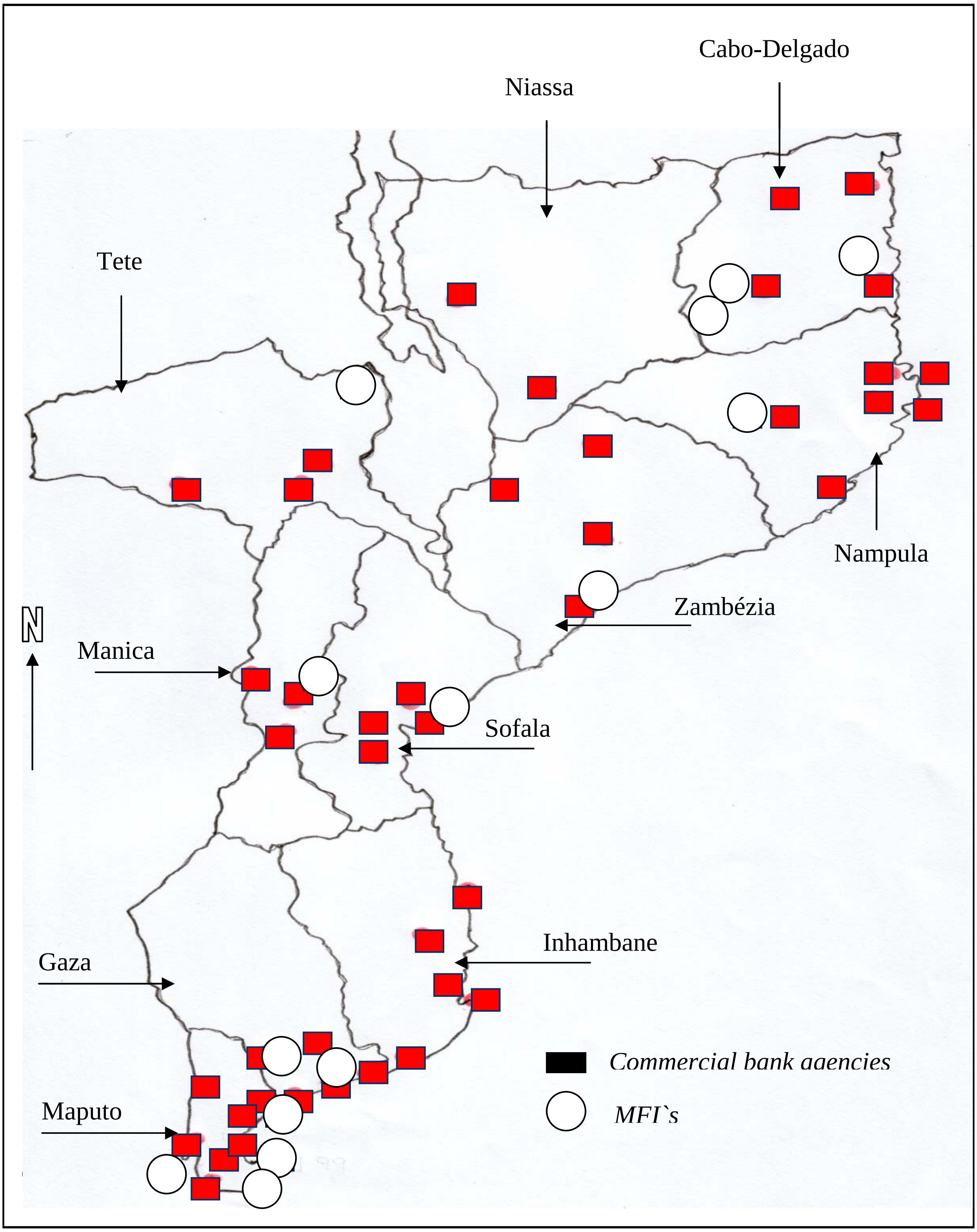

Chart – Geographical Distribution of commercial bank agencies and MFIs

Source: Supervising Department of the Bank of Mozambique.

As the chart shows, the majority of the financial institutions (bank’s agencies and MFIs) are located in Maputo Province and Maputo City. Meanwhile, in the other provinces there are a few financial institutions which are concentrated in the capital cities instead of the villages. By the way, only 28 villages out of 128 have financial institutions.
In Inhambane, Gaza Sofala and Zambezia provinces, financial institutions are in the coast and there are not microfinance institutions in the interior areas.
There are two provinces (Niassa and Tete) where the microfinance institutions do not exist. However, Niassa is the biggest province in term of area. Like in many other parts of the World, finances services in Mozambique have largely been available in urban areas; the same applies to microfinance.

In parallel to the formal finance sector, there is an important informal activity. As in any other place, the family and the neighbours are the first resource and the loan sharks the last resource. However, there are organized informal systems that include a large part of the population. Namely: the "xitique", the form of compulsory savings inside a group from 4 to 10 persons, in which the monthly savings of each one, who can reach 30 % of the income, reverts rotativelly on behalf of one the elements; funeral Associations and familiar Associations that are informal systems of solidarity in which the members, individuals or families, hand over a monthly value. The fund covers funeral expenses, disease or even university fees with the agreement of all.

The regulation of the microfinance institutions was approved only in 2004 (Dec 57/2004 of 27/10), though the institutions were already practising this activity before. 45 microfinance institutions were registered.

The 3rd Conference on National of Microfinances, the Directorate of the MFI in Mozambique and the Microfinance in Mozambique show the sector portrait in the end of 2004, (de Vletter, 2006). There were more than 50 thousand active clients in the 20 biggest MFIs (from the 32 active MFI), 58% were women. The loans were between US 20 $ and US$3 000, with a 1 year term. They were for commerce (57%), agriculture (18%), industry or craftwork (15%) and services (10%). The growth rate in clients' number was 40% yearly between 2001 and 2003.
According to the MFIs Directory of 2005, the 50 microfinance institutions clients' number practically stagnated between 2003 and 2005, probably due to the closing of

CRESCE and FCC, two important microfinance institutions. The trading book was of approximately US$ 15.5 millions, ten times superior to the 2002 estimated value, representing around 2.7% of the commercial banks trading.

The microfinance institutions funding comes essentially from bilateral cooperation agencies (AECI, AFD, USAID, DANIDA, etc.), multilateral institutions (IFAD, BAD, and PNUD), NGO (ACCION, CARE, OXFAM, etc.) and others institutions. The Mozambique State participation, through several Funds, is significant. The presence of banks and other private actors is reduced, but it is growing. The cooperation agencies have contributed with more than € 24.74 millions, of which 82% for support of the microfinance institutions and 18% for the development of the sector. Of this funding: 21% are donations for support to the initial establishment costs and investments, 5% is equity capital, and 59% are loans and the remaining for various supports. The global value of the financing of the multilateral institutions to the microfinance institutions is not known. However, in 2005, they contributed with 28.9 M€ for the rural microfinancing.

The big 5 microfinance institutions, with more than 80% of the clients, are: CCCP, with 11.500 clients and an active trading[17] of US$ 0.84 million; NovoBanco[18], with more than 10.000 clients and US$ 6.6 millions; Tchuma and Socremo with more than 5.000 clients and US$ 1 million; FCC, with more than 5.000 clients and US$ 0.82 million. Following there are 6 middle institutions, which represent 18 % of the total, with 1.000 to 2.000 clients each and a trading not much superior to US$ 0,5: The Banco Oportunidade of Mozambique, the Karela, The Hunger Project, the GGLS, the Male-Yeru and the Ophavela, in other words, 6 institutions are of this type and they serve 18% of the clients. The small microfinance institutions totalize the remaining 2%.

Of the 26 microfinance institutions with more than 100 clients and a regular activity, 50% are located in the capital Maputo, which has only 11% of the population and the lowest rate of poverty, 6.6% in the PNUD indicator. In counterpart, the poorest provinces, with rates of poverty superior to 80%, cases of Inhambane and Tete, which have 15% of the population, have 1 and 0 microfinance institutions.

[17] The active trading is defined as the balance to pay for all the current loans. It is also the loans trading.

[18] Which, from 2007, is designated ProCredit Bank.

In terms of clients or value of the loans, the distribution is even more unequal. The three bigger microfinance institutions (NovoBanco, the Socremo and the Tchuma) that represent 47% of the clients and 80% of the active trading concentrate all of their activity in the principal regions of the country. Maputo/Matola alone represents 72% of the trading of the NovoBanco, 58% of the Socremo and 61% of the Tchuma.

4. ARE THE MFI TARGETING THE POORS?

In the nineties, it was assumed that the MFIs were targeting the poorest active people of the society. Therefore, the central preoccupation it was that of the impact in the life of the beneficiaries and of the financial sustainability of the MFI.

Several instruments of financial analysis were conceived and/or adapted, to attend to the MFI specifities. The *Consultative Group to Assist the Poor* (*CGAP*)[19] developed a set of guidelines and instruments relating the management information systems, the operational planning, the financial modelling and the external auditing. The *Inter-American Development Bank*[20] and the *MicroRate*[21], a rating agency specialized in microfinance, standardized the financial performance indicators. Today, the standardized systems analyse four main dimensions: (i) sustainability and profitability, like the edges and the ratios of return on investments; (ii) of management of assets and debt, like the indicators of liquidity and profitability; (iii) of portfolio quality, through the classification of risk and the provisioning; (iv) of efficiency and productivity, like loan costs or the clients for employee.

The impact of the acting of the MFIs ("prove") towards the beneficiaries was focused in the question “how much is a borrowed dollar worth as a supplementary income for the beneficiary?” Countless studies were effectuated, in general using interviews or case studies.

[19] www.cgap.org
[20] www.iadb.org
[21] www.microrate.com

Freedom From Hunger[22], for example, is concentrated in the progress in terms of MFI clients' childrem health and nutrition. This evaluation method of the social impact tries to calculate the return on the investment to those who finance the MFIs.
The next step was of the social performance, in terms of translation in the field of the social mission of the institution ("improve"). One of the main questions is the real targeting of the poorest (*"depth of outreach"*), (Henry et al, 2003).

If the MFI are instruments against the poverty, then their clients must be poorest people, and the structure and the processes of the organization must be conceived in their function. Since 2002, the USA government requires, under the "Microenterprise for Self Reliance Act", that 50% of USAID funding allocated to microfinance, is directed to very poor businessmen. Until then, the indicator was the average value of the loans (maximum: US 1 $000 in Europe and in the Middle Orient; US 400 $, in Latin America; US 300$, in the rest of the world) which per se does not guarantee that the beneficiary is poor.

Each MFI will establish in a creative way his positioning in the triangle of the microfinances - directioning for the poor persons, financial viability and social impact (Zeller and Meyer, 2002).

However, the social performance exceeds the focus on the poor persons to analyse the way the MFI develop its social mission: integration of the excluded ones, improvement of the conditions of life of the clients, integration of the institution in the community, etc.
The *CGAP- Consultive Group to Assist the Poor,* rates the social performance of MFIs, from the main 5 dimensions of the Millenium Development Goals:

- Proportion of clients below the line of the poverty;
- Improvement of the savings of the clients;
- Improvement of the presence in the school of the children and reduction of the illiteracy;
- Improvement on the access to the services of health; and
- Progress in terms of women empowerment.

[22] Freedom From Hunger (2003), from dollars Invested to Lives Saved: Demostrating Impact with SROI Modelling.

In 2003, the foundation Argidus, the CERISE and several European researchers developed the initiative Social Performance Indicators (SPI). It is conceived like an instrument of analysis, which can stimulate the internal reflection on the MFI or between its managers and their stakeholders as for the social objectives and the realizations and perspectives of the institution.

5. METHODOLOGY

SPI Tool

Nowdays, microfinance institutions have to demonstrate (are obliged) that they have financial viability and they bring real social benefits to the community wherever they are.
SPI responds to this need by assessing the principles, actions and corrective measures implemented by an MFI to achieve its social aims.
For this empirical research we used the SPI indicators. The answers were taken from the MFI management board, which used the data gathered in the MFI management information system to answer questions in three aspects:

- The context and the social strategy of the institution;
- The indicators of social performance; and
- The elements of financial performance.

The analysis in topic 2 is about social performance indicators of the microfinance institution. The analyse is undertaken on 4 dimensions:

- Directioning for the poor people and the excluded ones;
- Adaptation of the services and products to the targeted customers;
- Improvement of the social and political capital of the clients; and
- Its social responsibility.

The meaning of the social performance indicators are as follow:

1. Outreach to the Poor and Excluded: Mission and Targeting Strategies. MFI have generally been developed to reach a population excluded from classical financial system. MFIs can have the objectives of reaching socially excluded

populations or the poor, or simply to offer financial services in a region where classical banking systems are absent. The depth of outreach of the MFI can be measured to evaluate its focus on the economically and socially excluded population.

2. Adaptation of the services and products to the target clients. It is not enough to decide to reach a target population. The MFI must learn about the target population and work on the design of its financial services so that they can fit with the needs and constraints of the clients. “Pro-poor” services are too often standardized. Social performance indicators can analyze the process leading to service definition and the extent to which the MFI knows about its client’s needs.
3. Improving social and political capital of clients and communities. For the MFI, trust between the MFI and clients can reduce the transaction costs and improve repayment rates. It thus can foster collective action and reduce free-riding, opportunistic behavior, reduce risks. For the clients, strengthening their social and political capital can enhance their social organization (collective action, information sharing, political lobbying, etc). Social performance indicators should measure the degree of the transparency, the effort of the MFI towards giving voice to its clients within the organization and beyond (community, local government, national government, etc).
4. Social responsibility of the MFI. Social awareness is a necessary pre-requisite for socially responsibility requires and adaptation of the MFI corporate culture to their cultural and socio-economic context, an adequate human resource policy, credit guarantees adapted to the local conditions, and balanced relationships between staff and clients (in particular in MFIs where are elected clients who participate in decision making).

Social performances of an MFI rely on these four dimensions.

Each of these 4 dimensions is scored in a scale of 25 points, for a total of 100 points. So it is possible to show the results graphically.

We used the questionnaire proposed by the CERISE[23] with some adaptations to the Mozambican reality.

[23]http://www.cerise-microfinance.org/pdf/En/spi_quest.pdf

Sample and Data

The sample is seven microfinance institutions (CCCP, NovoBanco, Socremo, Tchuma, FCC, Box of the Women of Nampula and Hluvuku), which represent 80% of the market trading of microfinances in Mozambique. They are identified by a code that goes from IMF1 to IMF7, not following the order of the quotation.

The questionnaire was sent to the microfinance institutions boards of directors and the answers were obtained between November 2005 and March 2006.

To confirm the validity of the questionnaire, in the Mozambican context, an analysis was held a posteriori to check if the answers were indicating as correct the division in 4 base dimensions of the SPI, informing if they measure or not the same concepts. In order to do such, several tests of internal consistency of the data were performed, like Alpha de Cronbach and the Factor analysis.

The results were positive and conclusive. The instrument is valid. The factor analysis shows that the first two dimensions (direction to the poor persons and adaptation of the products and services to the clients' target) explain more than 84.4% of the variance and, by itself, the direction to the poor persons explains around 60% of the variance.

6. RESULTS

Results in Mozambique

The next table summarizes the scores obtained by the seven Mozambican microfinance institutions evaluated by the *SPI* method.

Dimensions	IMF1	IMF2	IMF3	IMF4	IMF5	IMF6	IMF7	AVER.	STD
1- Outreach for the Poor and the Excluded	14	5	19	19	20	4	15	13,71	6,18
2- Adaptation of services and products to the targeted Clients	16	13	12	15	17	12	13	14,00	1,85
3- Improving Clients's Social & Political Capital	6	9	17	20	14	10	9	12,14	4,64
4- Social responsibility of the institution	11	10	14	14	16	2	18	12,14	4,85
Total (max 100)	*47*	*37*	*62*	*68*	*67*	*28*	*55*	52,00	14,22

Dimension Scale: 0-25 points

In a global evaluation, an average of 52 points is obtained, for the maximum value of 100. It is a low value. IMF3, IMF4 and IMF5 stand out for the positive. Taking into account that the maximum value in each dimension is 25 points, a negative attention in the dimensions of Social Capital Improvement and Social MFI responsability is noted.

If we classify the positioning of the various MFIs in each one of the dimensions we obtain the next table. IMF4 and IMF5 are distinguished by the positive and IMF2 and IMF6 by the negative. The IMF3 presents high social attention (dimensions 1, 3 and 4) but weak quality of service. The IMF7 presents intermediate levels of quality of service and of activity of improvement of the social capital of the beneficiaries.

Dimensions	IMF1	IMF2	IMF3	IMF4	IMF5	IMF6	IMF7	AVER.	STD
1- Outreach for the Poor and the Excluded	H	L	H	H	H	L	H	13,71	6,18
2- Adaptation of services and products to the targeted Clients	H	I	L	H	H	L	I	14,00	1,85
3- Improving Clients's Social & Political Capital	L	I	H	H	H	I	I	12,14	4,64
4- Social responsibility of the institution	I	I	H	H	H	L	H	12,14	4,85
Total (max 100)	*47*	*37*	*62*	*68*	*67*	*28*	*55*	52,00	14,22

Scale: H = above the average; I = between the average and the (average - standard deviation); L = below the (average - standard deviation).

International Comparison

Next, and thanks to the collaboration of the CERISE, we proceeded to the international evaluation of the mozambican MFIs comparing their results with the ones of MFIs from Madagascar, Albania, Guinea Conakri, Nicaragua, Ecuador (2 institutions). In all of them the same SPI tool was applied.

Dimensions	Moz	Madag	Alba	Gui	Nicar	Ecua 1	Ecua 2	Intern. Aver
1- Outreach for the Poor and the Excluded	13,71	22	13	14	17	17	19	17,00
2- Adaptation of services and products to the targeted Clients	14,00	16	14	14	18	20	21	17,17
3- Improving Clients's Social & Political Capital	12,14	15	19	20	15	20	15	17,33
4- Social responsibility of the institution	12,14	16	15	23	17	20	16	17,83
Total (max 100)	52,00	37	61	71	67	77	71	64,00

Note: The international average was obtained considering the results of the non-mozambican MFIs.

Comparing the results, one realises that the global average of the Mozambican sector is superior to that of Madagascar but inferior to all others. In all dimensions, the Mozambican average is inferior to the international average. For institution, we note that the best Mozambican microfinance institutions (IMF4 and IMF5) are well positioned internationally, with global values above the international average.

7. CONCLUSIONS

The measurement of the social performance of the microfinance institutions is in an embryonic phase.

Among the few existent methods of evaluation of social performance of the microfinance institutions, we adopted the SPI of CERISE, which seems to be more appropriate to the Mozambican context. In fact the questionnaire was easily understood and the analysis of the answers appeared solid with the intended objective. The results were subsequently compared with the data supplied by the CERISE and concerning the MFIs of Madagascar, Albania, Guinea Conakri, Nicaragua and Ecuador.

The current situation in Mozambique shows a high business concentration of the MFIs, in terms of clients and of active trading. It is also verified a high geographical concentration in the provinces with high levels of urban concentration. Sure, one reason is the poor road and telecommunications infrastructure network.

The results obtained with application of the SPI to seven Mozambican microfinance institutions, which represent 80% of the sector in value of trading, show that they need, in average, to improve their acting in all the dimensions, in special in the dimensions 3 and 4, Social Capital Improvement and Social MFI Responsability, respectively. Notice that these 2 dimensions are the ones in which the relation between the microfinance institutions and the local community is more evidenced.
By institution, we emphasizes that the best Mozambican microfinance institutions (IMF4 and IMF5) are well positioned internationally, with global values superior to the international average.

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