Assessing Microfinance: Striking the Balance Between Social Utility and Financial Performance

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1. Introduction

Microfinance was designed as a development tool, but remains firmly anchored in the market economy, creating an ambivalence that blurs the traditional distinction between the political and economic, the public and private, the commercial and social. Its hybrid nature makes it unique among development tools: microfinance benefits from financial, fiscal and regulatory support, while maintaining relative independence from governments and donors and their fluctuating agendas. The result is a heterogeneous and complex sector that articulates different scales: the local, given it is microfinance, and the national, as states closely supervise retail-banking activities. But it is also a global field, involving various transnational actors: NGOs, cooperation agencies, investors, private entrepreneurs, multilateral agencies, and so on.

Operationally, the simultaneous pursuit of financial and social goals puts microfinance in a unique dialectic. A school of thought promoted by influential multilateral organizations has gained momentum since the late 1990s, based on the idea that building large-scale inclusive financial systems depends on making microfinance a profitable commercial sector linked to international finance, so as to access more capital and involve banks. The result has been a rise in regulatory mechanisms, the standardization of practices, an emergence of partnerships with commercial banks, increased access to refinancing on financial markets and the calling into question of subsidized support and non-financial services. Credit with education, business development services
and health-related trainings were pushed off the agenda even if poverty alleviation was still the overall goal.

The market approach gave rise to assessment methods and information systems intended to bring microfinance into the global financial market (Littlefield and Rosenberg, 2004). But they offered only a partial picture of operations. From time to time, in-depth studies attempted to assess whether microfinance was achieving its social objectives, yet they appeared marginal compared with efforts to perfect and systematize financial assessment methods. The introduction of more rigorous management in MFIs was critical to their growth, but we will see that it has also had the effect of limiting their ability to meet some of their development objectives, increasing the risk of mission drift (Christen, 2001). It has induced the danger of deteriorating the quality of services, in particular in terms of proximity to clients, exposed the sector to the vagaries of the macrofinancial system, and threatened to tarnish the hereto positive image that has allowed it to benefit from the goodwill of regulators, donors and the general public. This context validates calls to make finance more responsible, and has led to a ramping up of efforts to assess the social dimension of microfinance.

Our purpose is to show how assessment methods reflect different visions of what microfinance should be (or is capable of doing). Despite these at times competing views, there is now an overall complementarity for balanced management of MFIs to improve practices and sustainability. Our research was conducted within CERISE, a microfinance network comprised of technical assistance providers and research institutions that is directly involved in the creation of indicators and assessment methodologies. In Section 2, we begin by describing the factors that led to the systematization of financial assessment in microfinance. We will show that despite its heterogeneity, the sector has been governed by increasingly standardized criteria for metrics, management systems and governance principles. In Section 3, we describe how the emergence of social assessment methods has served to counterbalance this approach. We argue that both the normative content of these methodologies and the way they are applied have diverging implications on the way the microfinance sector can grow. In Section 4, we will describe several innovative approaches for assessing the social performance of microfinance institutions, in particular the social audit tools such as the CERISE Social Performance Indicators (SPI) that are now widely used by social investors, networks and microfinance institutions. We will also analyse how assessment methods influence regulatory frameworks and