**Summary Report of the Work of the Solidarity Finance Workshop**
**(April 2005)**

sented by multilateral institutions such as the United Nations, the
strategically important tool for development in the South, more
e perverse effects of such practices (Amouroux, 2003; Guérin,
they serve to embed financial practices that mimic and reinforce
seeking to make a profit from providing disadvantaged
population groups with access to basic financial services (savings and credit), does microfinance not risk appearing to be just a segment of the international financial market that happens to target the least well-off?

In such a context, several actors and institutions have reacted by reaffirming the importance of microfinance's political and social objectives in terms of development and the sustainability of microfinance institutions (MFIs) themselves, as well as the need to recognize and value these objectives. Partisans of solidarity finance, they seek to prove that the construction of social ties and capital between local institutions and actors is not merely a factor in medium-term viability but is also a factor in the sustainable development of the populations concerned.
What remains to achieve is to demonstrate this fact using appropriate management and evaluation tools and mechanisms. For this reason the Alliance's Solidarity Finance Workshop working with other organisations such as CERISE and CGAP has set up an action research project that seeks to test social performance indicators and criteria in several countries with the aim of highlighting the specific characteristics of solidarity finance practices as opposed to conventional microfinance. In a more general sense, the purpose is to highlight the societal impact of these practices.

**Introduction**

Historically, microfinance has met with real success as a tool for the inclusion of those excluded from the traditional banking system. At present it is thought that throughout the world 60 million families have access to microfinance services.

In order to respond to this desire for inclusiveness, the operational bases of microfinance institutions (MFIs) have been founded on social links and proximity to beneficiaries:
1) Solidarity and involvement: these mechanisms can be found in the workings of joint surety groups; in cooperative systems, each individual is a member and is involved in the management of the institution; in village banks the whole village is a stakeholder and is responsible for the correct operation of the fund for the good of the village, etc.
2) Services for the excluded: services have been designed for and adapted to the needs of an economically or socially marginalized population (small sums, regular repayments, targeting of activities carried out by poor households, direct contact with local credit agents, etc).
3) Services are based on proximity to the beneficiaries: geographical proximity through the development of rural agencies or "mobile banker" services where the banker travels to meet clients; social proximity seeking to reduce the barriers between clients and institution (local agents, services that are suited to the cultural and religious context, etc); temporal proximity reflected in frequent contact between the institution and its clients via regular repayments or frequent training and discussion sessions. Proximity increases confidence, reduces information imbalances and minimises social barriers between clients and institution.

In the 1990s attempts to make MFIs sustainable focussed attention on issues of financial and institutional viability. Financial analysis tools were thus adapted but MFIs' social performance was taken as read. The march towards financial autonomy, pushed to extremes by certain donors, contributed to turning numerous MFIs away from their social vocations.

**Findings of the FINSOL working group**

Solidarity finance actors meeting in the FINSOL working group note the following: there is an urgent need for a distinction between different types of microfinance according to the practices pursued by the MFI.

Two broad categories of institution can be identified:
1) Microfinance that sees its role as that of a financial services provider or a loan operator. These institutions in general start out in a niche neglected by banks and lending establishments, that of "non-bankable clients".
Seduced by professional and reassuring talk, many funding providers have ultimately subscribed to this technocratic view of the sector. Donors don't like risk either! It is this form of microfinance that advocates institutionalisation into commercial banks in order to gain access to the money market, for greater profitability to attract private investors. It could be called "pre-banking microfinance".

2) Microfinance that sees finance as an effective tool, but one that can be used to help humanity and society to develop. For these microfinanciers the way services are provided makes all the difference. Because it puts people and their social links at the centre of its work, this type of finance will always work in harmony with its context and environment, and will seek to understand these in order better to serve them and improve them. Finance of this sort aims to impact on clients' social capital and their autonomy, which in their turn will impact on the sustainability of the institution. It could be called "Solidarity Finance".
Just as banking is a profession, so solidarity finance is another profession, a new profession that needs to be promoted and to gain recognition.

On the basis of this and of the report on initiatives and innovations in the field of solidarity finance, FINSOL actors in 2002 drew up a list of proposals that have now led to a number of advances, thanks to joint work with the Social Performance Indicators Initiative (SPI) initiated in 2002 by the Argidius Foundation and financed jointly by the FPH and Swiss Development Cooperation (SDC).

**I – Concepts, definition and process**

At the time of writing, a wide range of findings have been examined as part of the process of discussing social performance indicators at the macro-economic and organisational levels; microfinance has been examined as part of this process. Below we summarise the background to our work on social performance indicators and illustrate the approach through work carried out by the FINSOL workshop and the CERISE network and their partners on a definition of a social performance indicator tool capable of taking account of the work of solidarity finance institutions. We set out both our conclusions at this time and the future prospects for solidarity finance actors active in the field of social performances.

Research into social or societal performance is predicated on a series of questions:
- Faced with globalisation and the risks of inequalities, what are the consequences of economic activities?
- In the global, frontier-free economy, what governance structure, itself transcending frontiers, is capable of inciting organisations to develop activities whose results will be beneficial socially, environmentally and economically?
- Faced with the problems of corporate governance, shareholders and other stakeholders expect ever higher standards in terms of ethics and transparency.

- Enterprises are more explicitly vulnerable to customer and consumer expectations, driven by increasing media coverage, in areas relating to their contribution to sustainable development.

In this environment governmental requirements and incentives are growing fast, expanding the conventional scope of the financial reporting function to include non-financial information. Partly encouraged by the growing demand for social and ethical investment funds by institutional and private investors, new indices of social responsibility are appearing every year (see Global Reporting Initiative, 2002, http://www.globalreporting.org/).

Furthermore, external pressures aside, these organisations have undertaken work to define and incorporate ideas of social responsibility into every area of their operations, and at times their experiences appear to support their idea that social responsibility can have a positive impact on economic performance: for local areas it increases social cohesion and participation, reinforces security, limits environmental deterioration; for businesses, it reduces operating costs, improves reputation and brand image, increases sales and strengthens customer loyalty, improves productivity and quality, increases the ability to attract and retain staff, provide better access to capital, etc. (see the Business for Social Responsibility website, http://www.bsr.org/).

These investigations into social performance indicators simultaneously concern the macro-economic level, via the question of representations of wealth, and the corporate level via the notion of social responsibility. These are all issues addressed particularly by the Indicators Workshop.

The solidarity finance sector is also examined as part of this work. Work has already been carried out to attempt to measure the social effects of microfinance institutions aside from mere financial performance. This has resulted in, amongst others, the creation of a number of poverty evaluation tools.

From these perspectives microfinance has met with genuine success and many project and initiatives, tested in many countries, have grown strongly. The growth and multiple-experiment phase has provided proof that is possible to serve non-bankable clients. MFIs now usually express their missions in terms of combating poverty, integrating the excluded into the economic machinery and restoring their dignity. However, social performance was taken to be a given, something intrinsic to MFIs' way of working. At this stage, the question of the impact (especially economic) on beneficiaries is posed essentially in the form: “How much does the loan of a dollar yield in terms of additional revenue to the beneficiary?” But methodological problems encountered in assessing impacts led to evolutions in the analyses, moving from proof of impact to — more pragmatically and concretely — evidence of improvement and the suitability of the services to the target population.

The period of consolidation and the process of permanently embedding MFIs served to focus attention on questions of financial and institutional viability.
Financial analysis tools were adapted and designed for the purpose of tracking MFIs' financial and economic performance: the series of technical tools established by the Consultative Group to Assist the Poor (CGAP) address IT and management systems, operational scheduling, financial modelling and external auditing of MFIs. MFI financial performance indicators were harmonised (Micro-Rate and Inter-American Development Bank, 2003) in order to improve tracking and financial transparency.

Internationally, however, at the time of writing, the social objectives espoused by the solidarity finance movement are often subject to questioning: Which population group is actually impacted by MFIs? How is it possible to combine social objectives with objectives aimed at MFI sustainability? What are the risks of deviating from the initial mission? How can the actual work of the solidarity finance movement be identified and its worth highlighted?

Investors (backers and ethical investors) require financial institutions to provide accountability. Certain institutions operating in the solidarity finance sector have also shown the foresight to grasp the fact that in the medium-term, social performance can strengthen an institution's solidity and financial performance.
A number of initiatives have thus come into being, seeking to identify a handful of indicators that would truly reflect the social dimension of solidarity finance.

The work carried out by FINSOL and Cerise aimed to signpost directions capable of answering these new challenges. The second phase of the SPI (Social Performance Indicators) initiative was finalised in June and has resulted in a social performance assessment questionnaire and users' guide being made available to MFIs and other interested actors.
This work is part of a larger process involving various actors engaged with the question of social performance in microfinance (in particular Imp-Act, CGAP, CERISE, the Solidarity Finance Workshop, certain European microfinance networks, etc.) and that want to work together to advocate assessment techniques and promote social performance.

** Context*
Since 2002, members of the Solidarity Finance Workshop (http://finsol.socioeco.org) have been working with the CERISE network (http://www.cerise-microfinance.org) and other partners in Europe (including the Fondation Argidius, the FPH, the University of Göttingen and the Coopération Suisse), the USA (CGAP), and countries of the South (a group of MFIs) in order to define a social performance indicators tool.
Today, following an extensive trial phase with twenty-odd MFI partners in Africa, Asia, Latin America and Europe, a questionnaire has been brought up to date and the results presented in the form of social performance indicators.

** SPI tool framework: Performance versus Impact, Social Performance and Reaching the Poor*

Examination in Paris during March 2005 of the different approaches at that time working on social performance indicators led to the drawing up of a joint impact and social performance framework, which fits the SPI tool perfectly.

<u>MFI activity chain</u>
The operation of an MFI follows a logical chain:

intention/mission => action => effect/impact

An institution's overall performance is defined as the results achieved in each of these phases as a function of the impact hoped for and the means of reaching these objectives employed by the MFI. Overall performance can be expressed as economic and financial performance, and as social performance.

Using this chain as a basis, the institution's internal organisation becomes apparent (principles and action, upstream from the chain) and the effects, at the end of the chain, on the MFI's environment (clients, non-clients, local community, etc.).

<u>Impact and its measurement</u>
Impact is generally defined as the set of changes attributable to the action of the MFI. It covers the client, the group to which he or she belongs (family, community) and the socio-economic

environment.
Impact lies at the end of an MFI's activity chain as the final element in the overall performance.

Impact analysis consists in understanding, assessing and evaluating the effects of an action. It requires information gathered from outside the MFI (the situation of clients and non-clients, the community, etc.).

Social performance and its measurement
The social performance of a microfinance institution is the actual expression of its social mission in practice (actions, corrective measures, results tracking).

In general, an MFI's overall social objective is to:
- durably improve living standards of its impoverished and excluded clients and their families;
- broaden the range of socio-economic opportunities available to the community.

In order to reach this overall objective, the MFI's social mission is usually founded on the following principles:
- service an increasing number of the poor and excluded;
- improve the quality and suitability of the services offered to target clients;
- improve clients' social capital and ties;
- engage the institution's social responsibility vis-à-vis its staff, clients and the community in which it is operating.

Social performance, which is an expression of the fulfilment of the MFI's social principles, occurs downstream of the MFI's activity chain and is an element in the final impact made by the MFI.

Evaluation of social performance consists in understanding and evaluating the means employed and their effectiveness in meeting the social objectives that the MFI has set itself. The process relies essentially on internal information (founding principles and texts, mode of action and business plans, IT and management system, etc.).

Impact and social performance analyses are therefore complementary methods for the evaluation of the MFI activities.

The SPI tool
The questionnaire created as part of the SPI initiative seeks to evaluate the social performance of an MFI using information that is simple and accessible at the MFI level. It is constructed around four dimensions that are considered to be revealing in terms of the social performance of microfinance:

· Dimension 1: Outreach to the poor and the excluded

In general, MFIs seek to reach populations excluded from the commercial banking sector. MFIs may also seek to target impoverished or socially excluded populations, or simply to offer financial services in a region where there is no other banking system or to people rejected by it (who are not necessarily impoverished or socially excluded)

The questions concern the MFI's outreach (targeting on a geographical basis, individually or via the lending methodology) and the results of the strategy in terms of outreach.

· Dimension 2: Adapting services and products to the target population

It is not enough to decide to reach a target population. Microfinance services are too often standardized: small loans, weekly repayment, group solidarity, etc. The MFI must learn about the target population and work on designing its financial services so that they fit clients' various needs and constraints.

The questions concern the diversity and quality of services (rapidity, proximity, transparency, matched to need) and access to non-financial services.

· Dimension 3: Improving clients' social and political capital

Trust between the MFI and its clients can reduce transaction costs and improve repayment rates. It can thus foster collective action and reduce free-riding, opportunistic behaviour and risks. For clients, strengthening their social and political capital can enhance their social organization (collective action, information sharing, political lobbying, etc.). Self-confidence can also help them to engage in sustainable and profitable activities.

The questions concern trust and sharing MFI information with clients, client participation in decision-making at various levels within the MFI, and MFI actions intended to strengthen clients' social capital.

· Dimension 4: Social responsibility of the institution

Social awareness is a necessary prerequisite for socially responsible corporate behaviour. Social responsibility requires a suitable human resources policy, adaptation of the MFI's corporate culture to its cultural and socio-economic context, and concern for the impact of actions on clients and on the community in which it operates.

The questions essentially concern the MFI's human resources policy, its actions that express its social responsibility vis à vis its clients (impact studies, etc.), or vis à vis the community (for example, reinvestment in community services).

The questionnaire is in three parts:

1. The first part of the SPI questionnaire is based on management discussions and declarations and will allow a better understanding of the strategy, logic and evolution of the MFI in terms of social objectives. It helps to set the social performance indicators – collected in the second part – in an historical, geographical and socio-economic context and to facilitate interpretation of the second part.

2. The second part address social performance indicators, structured in accordance with the four dimensions cited above.

3. The final part concerns a handful of financial performance indicators and helps to make links between social performance elements and the MFI's financial and institutional performance.

The SPI initiative aims to achieve the realisation of a simple, fully operational tool for reporting social performance; a tool to be used regularly by MFIs for self-evaluation (annually, for example), one that is accepted by the entire sector and that is capable of being externally audited.

* *Applications for the tool*

Various MFI partners have continued with testing the latest version of the tool. Used internally, it has aided the process of defining, achieving and developing the social missions the MFIs have set themselves. Via their management teams, Vola Mahasoa in Madagascar (see box), AMUCSS in Mexico and Bina Swadaya in Indonesia are all FINSOL partners; the CREAR project in Ecuador, supporting savings and credit cooperatives, and the Albanian Savings and Credit Union in Albania, are both MFIs that have used the SPI process to drive forwards their social policies and to define the outlines of their actions in terms of solidarity finance.

Moreover, other partners have enriched the dialogue with MFIs during workshop sessions and discussions about social performance and the use of SPI: SIDI and IRAM in collaboration with partners such as Crédit Rural from Guinea and Morocco's Al Amana; Planet Finance offered a social rating, in addition to the institutional and financial rating offered by the GIRAFE system, to ten or so MFIs.
The ongoing use of SPI in these applications will be of use in further developing the concept and in continuing to improve these tools and render them more operational.

## Vola Mahasoa, Madagascar: SPI Usage

1. Short presentation of Vola Mahasoa
Vola Mahasoa (VM) is a group credit type institution operating in the southwest of Madagascar, one of the declared poorest areas but with fairly considerable development potential. The population is largely illiterate. Economic activity consists essentially of agriculture, livestock and small businesses.

VM currently has “project” status while awaiting the publication of the Malagasy law regulating microfinance. It will be established as a limited company and recognised as a financial institution.
VM’s objective is to improve the quality of life of male and female clients of different social categories, of low and middle income, by offering them group microfinance services which are durable, local, competitive and of high quality.
Currently, in 2005, VM has 6.600 clients, divided into guarantee groups (GCS) of 5 economically active people, federated in “inter-groups”. Inter-groups can be composed of villagers or of professionals operating in a rural context. Inter-groups in an urban context (Tuléar – a city) are called Credit Associations. The distinguishing feature of a Credit Association is that the group guarantee operates at its level rather than at the level of GCS groups, to minimize the number of members defaulting.

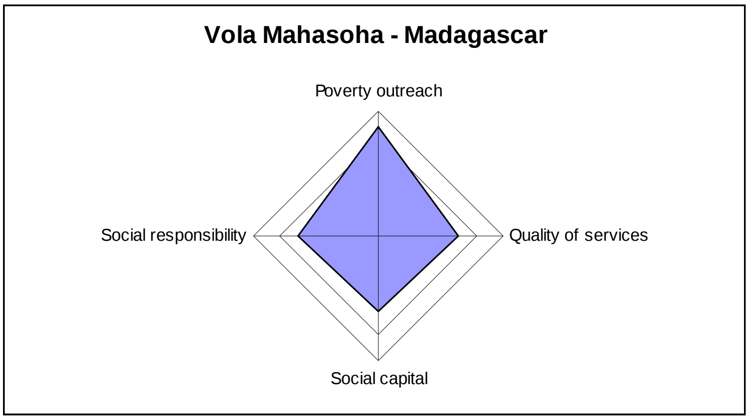
Principal services offered by VM :
VM offers production loans (for agriculture, livestock, crafts/processing, small businesses), educational loans (CAE), storage loans (shared barn for the village), hire-purchase of equipment and microenterprise credit (MEC) for "emerging" clients. Non-financial support deals with structuring guarantee groups, managing credit associations / inter-groups, project set-up, self-confidence, management of sales and poor sales and management of funds (for MEC).
Loans range from 25 USD to 100 USD, or around 1000 USD for MEC, with a monthly interest rate of 3.5% for a period of less than a year.

2. Why use the SPI?

Observing its experiences since its entry into the microfinance sector in 1993, VM has noted that one way to improve its performance in general is to take account of the social aspect. For this reason it has played an active role in testing the SPI tool (Social Performance Indicators – see Tool N°2, Annex VIII).

Results of SPI use:
The SPI system is articulated in 4 dimensions: poverty outreach, quality of services, social capital and social responsibility. VM’s results are shown in the following diagram:

| | Score | % |
|---|---|---|
| Poverty outreach | 22 | 88% |
| Quality of services | 16 | 64% |
| Social capital | 15 | 60% |
| Social responsibility | 16 | 64% |
| **Total** | **69** | |




3. Opinion of users regarding the utility and legitimacy of the tool (staff testimonies)

VM's staff are convinced of the utility of the SPI tool. It has allowed them to reflect on VM's positioning vis-à-vis its social mission. Some indicators gave VM positive feedback on its strategy. Others led to questions being raised regarding the action and direction that the institution should take.

Dimension 1: Poverty Outreach

This section proved helpful in taking stock of the institution's targeting. VM was reassured that despite the pressure of financial autonomy and the abandonment of part of the lowest stratum (non-bankable because very deprived) the institution in general adheres to its original mission by targeting current guarantee groups while directing an active stratum of the clientele towards microenterprise.

Reflection on the use of the targeting tool has focussed on improving the tools used by VM. It is proposed, therefore, to enrich the existing tool with other tools such as the Participatory Wealth Ranking index. A participatory index allows the population to contribute to the actual definition of poverty and of the group who should be targeted for microcredit. It is important, however, to be wary of manipulation of the notion of "poverty", which in the local cultural context signifies "dishonour".

Regarding guarantees, the SPI tool offers other forms of "social" guarantee (beyond the group guarantee used by VM). This led to an internal move to improve loan security by integrating these types of guarantee with certain types of loan. By way of example, for loans to microentrepreneurs, the guarantee of a third party who is not a group member (the salary of a microentrepreneur's spouse) or of an organization for training clients to overcome commercial, organizational and economic risks, is taken into account when analysing loan dossiers. This has enriched the methodology for finance products. To date, loans taking these aspects into account have been fully reimbursed, hence the idea that thinking about social performance contributes to improving financial performance.

Dimension 2 : Quality of services

Current Malagasy law does not permit VM, as a non-mutual MFI, to collect savings. Nonetheless, by observing this indicator and comparing it to real issues (pressure for clients to find a way of securing their savings other than buying zebus which are always being stolen), staff have realized the importance of voluntary savings (which are an additional tool for assessing clients' seriousness). The current provisional solution is to set up a "savings guarantee" called a "guarantee fund" to secure repayment.  It has been confirmed that this helps to improve repayment levels (either because it is tapped to make up for the missing money, or because some clients make an effort to repay in order to avoid the loss of their savings which have been put in guarantee).

As a non-mutual MFI, power was concentrated in the hands of the employees. At one point this created an outstanding payments crisis because the staff were not in the habit of taking clients' requirements into account. They had to be made to participate in the system to avert disaster. Given the workload on the ground, consulatations had been carried out according to staff availability.  The observations of the SPI on client involvement in service and product definition led staff to become aware that client consultation is not only important but must also be regular. This is one of the measures of VM's improving financial performance. It is also what the clients want. The main tool, called the "methodological loop", has been modified and refined to take this involvement into account. It is now confirmed that in cases where the tool is properly applied the repayment level is excellent (near 100% at payment date).

The indicator on client dropout gave VM pause for thought and pushed it to step up satisfaction studies and surveys (beyond the use of statistics): qualitative analysis, surveys from non-clients, etc. Quantifiable aspects of tools relating to this are currently being integrated into the management and information system.

VM is convinced that non-financial services are necessary for limiting loan risks, above all for the types of clients targeted in southwestern Madagascar. Nonetheless, VM has been obliged to admit that it cannot do everything, given the high workload borne by loan agents. On observing this indicator it was decided that rather than abandoning non-financial services (which are vital to financial performance), the management would look for other on-site development partners who would be able to take charge of training clients with regard to the idea of federalism, and who had a link to credit provision.

Regarding transparency, client access to accounts is rather difficult to realize. VM has nonetheless examined ways of simplifying them so that they can be understood by illiterate clients, especially with a view to the time when clients take their places on the Managing Board as VM's shareholders.

Dimension 3 : Improvement of clients' social capital

Client representation indicators have reinforced VM's conviction of the need for clients to participate in the system. Likewise, the SPI tool highlights the opportunities offered by the "inter-group" approach chosen by VM. Beyond this, VM has confirmed that certain clients are increasingly confident and are taking power in their community. Women are increasingly respected in their households. The notion of "empowerment", taken into account by VM, is an indicator that acts as a "bridge" towards the notion of impact. Complementary reflections have had a bearing on leadership training. This could provide a solution to certain management imbalances (the appropriation of power by managers at the expense of employees). This is currently a strong demand expressed by clients in the solidarity inter-groups.

Dimension 4 : Social responsibility of the institution

In human resources terms, employee involvement in strategic decision consultations has defused threats of strike action. Nonetheless, the fairly low salary level is still a cause of employees departing. Management therefore needs to keep a close eye on this issue and to adjust it in line with market rates, while at the same time respecting VM's budget stability. Taken as a whole, these indicators encourage VM to improve its human resources policy (career management, improvement of training, etc.).

Beyond this the SPI tool has also encouraged VM to improve its style of debt recovery (giving preference to the use of local authorities and local means over legal means of recovery). This has likewise been requested by clients and by others in VM's environment. The positive impact on VM's image is proven but the impact on repayment levels has yet to be confirmed in a significant way.

<u>4. Summary</u>

Using the tool has brought into focus the clear distinction and complementarity between the notions of impact and social performance.
In operational terms, the tool leads to methodological improvements which demonstrate that social performance cannot be dissociated from financial performance. Hence, for example, greater involvement of clients in the institution, properly implemented, can lead to a reduction in unpaid debts. The tool provides an MFI such as VM with the incentive to develop a flexible, open and innovative organizational culture. It helps to make explicit the underlying purpose of its actions on the social plane and to clarify its institutional mission. It is necessary, however, for personnel to be aware of social performance objectives and their monitoring. This means that a process of staff training and promotion of the SPI tool needs to be undertaken, leading to discussion and to the articulation of results around the 4 SPI dimensions.

It takes some days to gather the necessary information to put the tool to use, and for a process of internal discussion to work on its results. It does not, however, require a burdensome survey process and therefore can be considered as operating at low cost.

In terms of follow-up, VM proposes to integrate the indicators into its management and information system, and to aim to improve its methodology by taking better account of dimensions 3 (social capital) and 4 (social responsibility) of the SPI tool.
On the external front, it could be useful to organize communications sessions (meetings, a national media campaign) with backers, professional associations, the supervisory body (Commission de Supervision Bancaire et Financière), ministries, practitioners and MFIs. The usefulness of the SPI should be insisted on: as a tool for financial security, for making investments profitable, for benchmarking, etc.

Charlot Razakaharivelo, Director, Vola Mahasoa, Madagascar, member of FINSOL

## II – What is the current position in relation to the proposals in the FINSOL Paper?

### 1. Research and the technical aspects of solidarity finance

**Reminder of the proposals**

***1. To strengthen the empirical basis on which a demonstration of solidarity finance's added value can be based***

Conduct deeper research into the impact microfinance has on social links.
Study the impact microfinance programmes have on social capital in a number of clearly defined cases (well-known MFIs), covering the differences between different types of approach.
Use these cases to identify the methods and tools that can strengthen or weaken social capital. Draw up performance indicators for the strengthening of social capital and social links.

***2. Analyse the costs and benefits of MFIs that strengthen social capital***

Analyse rigorously for MFIs the costs and benefits created by the strengthening of social capital.
Define the relevant scope for the application of solidarity finance in terms of public interest or social benefit.

***3. Define solidarity finance professionally***

Define solidarity finance in terms of specific skills, as a profession, and in terms of management and operational rules.
Translate these standards into professional regulations to create a new kind of financial institution within banking law.

Actors in the working group felt that the development of social performance indicators was a key step in the definition of solidarity finance. It is a strategically important step in strengthening solidarity finance because defining indicators may unlock progress on the working group's other proposals.

Working in parallel with the SPI initiative has allowed a precise framework to be defined, which solidarity finance fits into.
The working group's added value at this stage has been in close, constructive and very concrete cooperation with partners from the South, which gives the SPI tool the strength and credibility that it has at present.

The SPI tool is not only a set of indicators; it also allows solidarity finance to be defined:

Solidarity finance is one of the efforts being made to set social objectives and provide the means of attaining them in the following ways:

- Targeting the poor and the excluded
- Adapting services to the target population
- Improving clients' social and political capital
- The MFI's social responsibility

Continuing this work will feed into a database of the social performance results of solidarity finance actors, and will allow responses to be developed to the questions raised in the working group's proposals: what are the tools and methods that strengthen or weaken the social performance of solidarity finance? What are the costs and benefits of strengthening social performance? etc.
With comparable or similar financial results, the SPI tool will allow the MFIs that are committed to social objectives and are contributing to the creation of links and of social capital to be identified.
The SPI tool will also allow social performance to be defended, and will legitimise resorting to subsidies from public or private resources without the constraints of financial profitability detracting from social objectives in public policy: the fight against poverty, sustainable development, strengthening local areas, etc.

In their recent meeting from 15 to 18 March, FINSOL actors affirmed their wish, their need and their motivation to pursue their commitment within the workshop to further their work on these topics.

## 2. Lobbying

**Reminder of the proposals**

***4. Make the concept of solidarity finance emerge onto the international scene***

Dialogue with funding providers: raise their awareness of the concept, help them to differentiate between the different forms of microfinance (pre-banking or solidarity), raise their interest in solidarity finance and create initiatives to encourage MFIs to strengthen social capital. If necessary, encourage them to accept longer waiting periods for financial self-sufficiency to be reached in cases where the MFI is clearly working in the general interest.

***5. Obtain tax advantages for solidarity finance in national policy***

Grant tax advantages to solidarity savers and to solidarity financial instruments that boost initiatives by increasing social capital and working towards a sustainable society based on solidarity.

***6. Expand the network of "allies" of solidarity finance***

Continue dialogue in the FINSOL forum and use web tools, launch case studies in the forum.
Give "faces" to solidarity finance to facilitate the identification of practitioners.
Link this network with other networks with similar concerns.

***7. Promote solidarity finance to all actors***

Promote solidarity finance via publications and participation in international conferences and seminars.
Organise lobbying. Aim to reach decision-makers as well as practitioners to create alliances around quality finance.

The SPI tool also provides more than just a definition of solidarity finance and a set of technical indicators. It is the bearer of a social performance "culture" and of a message for funding providers, social investors and other actors in the microfinance world: an institution's social objectives can be clearly fixed, monitored and improved. Financial performance is important but is only one part of the institution's sustainability. The sustainable development of finance (both microfinance and the financial sector in the broad sense) is based on the pursuit of both financial and social objectives.

The FINSOL working group and the SPI initiative have already seen a change in the way donors and social investors approach the question of social performance. An example is Swiss Development Cooperation's initiative of asking its partners, such as the ResponsAbility network (a group of large Swiss banks investing in microfinance) to use the SPI tool to encourage their members to act in a social and responsible way. Another is FIDA, which will be using the SPI tool as the basis for dialogue with its partners on actions to be taken to improve social impact.

The meeting of 17 March 2005 at the World Bank in Paris brought together researchers (from English, French, Belgian and German universities), practitioners and donors and social investors, allowing the working group's actors to argue for a broader definition of social performance: enlarging it from the restrictive definition of targeting the poor to the four dimensions of the SPI tool.

The actors present (who were of course among the most convinced of the usefulness of the concept) defended the notion of social performance and defined an action plan together in which the working group's allies have a key role. This will be a significant development, driven by a number of MFIs and donors, after decades of brainwashing in which only economically successful microfinance was considered to be professional!

Alongside the concrete initiatives being conducted with various actors, the working group's role could be to provide dissemination and information tools: the working group's website and mailing list are operational tools that allow information to be exchanged, initiatives to be organised and participants to be kept up to date, feeding into debate and discussion to move the ideas and concepts of solidarity finance forward in the face of the ubiquity of financial performance indicators as the only means of evaluating microfinance at present.

The working group can also facilitate active participation and organise meetings at regional level that will promote the concept of solidarity finance to a broader public. A number of opportunities have already arisen for 2005: meeting of the MAIN network in Africa (Youndé – Cameroon – May), European meeting for the year of microlending (Paris – France – June), meeting of the ForoLac network in Latin America (Santa Cruz – Bolivia – October), meeting of the Asian network in the Philippines (Manila – Philippines – October or November), meeting of the North American SEEP network (Washington DC – USA – October), etc.

The working group has provided a superb space for the exchange and strengthening of initiatives and will be able to keep this role of catalyst and promoter of "good works" such as the production of information, of new standards and concepts, and of aids for their dissemination to a broader public directly involved in economic action.

## 3. **Cross-cutting issues**

**Reminder of the proposals**

*8. Make solidarity finance part of a systematic approach to the solidarity economy*

a) Make solidarity finance part of the global project of the solidarity economy
The solidarity economy offers a new perspective for social change, a perspective in which values play a crucial role. The key element here is the contribution of solidarity. Solidarity finance is therefore a natural part of this global project. It can contribute its understanding of social capital.

b) Make solidarity finance part of the economic chain (production, finance, distribution, consumption) made up by the various solidarity economy working groups.
There is a need for operational links that strengthen the work of each of the solidarity economy's actors by integrating the various levels of the economic chain.

c) Construct new relationships with political bodies, in collaboration with the other actors in the solidarity economy.
The role of institutional actors in the development of a solidarity economy and the necessary redefinition of relations with political institutions is common ground for the various actors in the solidarity economy.

The notion of social performance as defined by the working group's allies may go beyond the strict boundaries of solidarity finance and may be a basis for discussion and fuel debate in the Alliance's other working groups: vision, social responsibility, indicators, etc. The distribution of documents, tools and summaries of solidarity finance working group meetings will be a first step in the exchange, with cross-participation in the working groups' future work.
A number of areas are emerging where FINSOL working group actors want to take up local contact with the fair trade sectors or exchange ideas with the "Indicators" working group on concepts and goals.

The work undertaken may also offer the possibility of exchanges with other major actors in the financial system, such as pension funds, who are also asking themselves ethical questions about their investment policies and may be interested to know what is going on in the microfinance world.
Past and future work in FINSOL and SPI has been and will be carried out in close cooperation with academics and researchers working on economics and sociology on the concepts of sustainable development and social responsibility. These relationships not only allow a more coherent basis to be given to the concept of solidarity finance, they also feed into the thinking of economists and sociologists on the contribution made by solidarity finance to the notions of sustainable development and social responsibility.

## III Perspectives, strategies and alliances

** The meetings held in March in Paris: challenges and perspectives for social performance*

Various meetings were held in Paris during March 2005. These were attended by many actors engaged with the issue of social performance.

Two workshop days (15/16 March) were attended by members of FINSOL and the SPI steering committee (Fondation Argidius, Cerise, FPH, Coopération Suisse) as well as actors involved in monitoring the process and MFIs that had tested the questionnaire. The two days witnessed discussion on the utility, limitations and follow-up analyses to be made with tools of this type, through presentations of the experiences of a range of partners and through in-depth discussion of the questionnaire and its indicators. These discussions culminated in the finalisation of a new version of the SPI questionnaire and a more detailed version of the guide accompanying the questionnaire, setting out the hypotheses behind each indicator, clarifying the concepts and indicating the domains from which the information should be drawn.

There was a remarkable level of overall enthusiasm from southern hemisphere MFIs. For every one of the MFI cases presented, participation in the SPI initiative and utilisation of the SPI tool was an opportunity to implement a process of reflecting on and discussing social performance within the MFI itself, notwithstanding the fact that the questions asked in the questionnaire did not always properly reflect the realities of the local situation.
The process of reflecting on indicators was a way of giving shape to the concept of solidarity finance, of illustrating its reality and thus of recognising the work of institutions engaged in a social approach to finance, institutions whose worth was hitherto often obscured by concerns about financial viability.

<u>On March 17</u>, the Argidius Foundation, the Ford Foundation and CGAP brought together leaders from various social performance initiatives in the microfinance industry to make an agreement on a common social performance framework and to develop an action plan to move social performance forward. Two working groups were formed as a result of this meeting – a Social Performance Task Force (SP Task Force) and a **CGAP Donor Working Group** on Social Performance. The SP Task Force will work to improve communication with the microfinance sector on what is understood by social performance, and to describe the various levels of analysis, and the identification of various questions that actors seek answers to through assessing and promoting social performance. The CGAP Donor Working Group, which is currently being constituted, will work on developing good donor practice in social performance and support the development of industry standards and benchmarks for social performance. These are open groups which interested actors are encouraged to join.
This meeting, to be followed by one in Washington DC on 24 October 2005, shows that recognition of social performance is starting to gain ground amongst actors previously primarily focused on financial performance and the development of 'pre-banking' institutions.
The consultation and discussion process is now underway, and donors and other actors are interested.
The Task Force set up in Paris on 17 March is working on the design of a website to host the work and findings of the various initiatives working on social performance. This site could be hosted by the Microfinance Gateway.

<u>On 18 March</u>, the steering committee of the Solidarity Finance Workshop met. The Solidarity Finance Workshop, under the aegis of the Alliance for a Responsible, Plural and United World's Workgroup on Solidarity Socio-Economy, comprises solidarity finance practitioners and, in 2002, it issued a Proposal Paper. This Paper attempted to promote and strengthen solidarity finance via 8 practical proposals. The Workshop has worked closely with the SPI initiative since 2002. The March 18 meeting was an opportunity to take stock of the state of progress and the prospects for the future The SPI initiative sets out a framework within which solidarity finance can distinguish itself. At present, the task is to promote the tool, to use it and to take from these experiences lessons regarding the challenges facing solidarity finance and, more broadly, to promote exchanges with other Alliance Workshops working in areas other than the solidarity finance sector.

** Prospects and partnerships*

A parallel can be drawn with the process of drawing up financial performance standards for the sector. It took a number of years before a consensus was reached on the indicators. Conversely, there is a real demand, both from MFIs and from donors and investors, for tools that will allow comparison and real-time monitoring of evolutions within an institution. Work should therefore continue with the testing and improvement phase.

The various partners working with FINSOL, Cerise and the other interested actors will be able to test the SPI tool, and following-up the tests will allow results to be collected using the new version of the questionnaire, to progressively improve the tool and to continue to promote it to all actors from the sector.
Following on from the March meetings in Paris, plans are afoot to strengthen links with other social performance initiatives currently being defined or promoted.

Promoting solidarity finance, and the social and solidarity economy in general, depends largely on capacity at local and national levels to prove their added economic and social value, principally in comparison with conventional financial institutions, to government, public opinion and the various other stakeholders in the microfinance system. In other words, the challenge of social evaluation lies at the very heart of strategies for the recognition and consolidation of the networks and other components that form the social and solidarity economy.
The fact remains that social performance analysis is a recent and little-known process. Following this initial experimental phase, efforts must now be made to spread the idea of this approach and to make it accessible. Moreover, these indicators have to be interpreted in each MFI's specific geographical, historical and institutional context, a situation that will require strengthened networks of appropriate organisations and experts.

**CONCLUSION: THE FUTURE FOR APPROACHES SEEKING TO EVALUATE SOCIETAL RESPONSIBILITY AMONGST MICROFINANCE INSTITUTIONS REMAINS UNKNOWN**

It is as yet too early to predict what will be the future of approaches to evaluating societal responsibility and social performance: a new form of marketing (or funding in the case of microfinance institutions) or a true top-to-bottom transformation of relations between the financial and the real spheres?

For some analysts (especially when observing behaviour on Wall Street), it is no more than an adaptation made by capitalism in order to win over argumentative grassroots citizens' movements, and thus little able to offer a profound transformation of reality. For others, it is in fact a powerful lever, one capable of bringing into being new forms of more contractual regulation able to alter the direction of globalisation.

The question is the same in the microfinance sector, and the range of possible developments remains open-ended. It will depend largely on the sector's own capacity to organise and the way in which its actors are able to make the approach their own. For example, the future will be very different if approaches are only built between the stars of the sector and major international investment funds and auditors or if, on the other hand, endogenous approaches initiating with national microfinance associations are recognised.

Finally, there is the recurring danger posed by the risk that the discourse surrounding social performance shifts, leading to the idea gaining currency that microfinance constitutes the single unique and effective answer to problems of poverty and exclusion, and setting it up as the “hare to be chased by the hounds” vis-à-vis financial liberalization and the disengagement of the state. Such a situation would both bring too much pressure to bear on the sector and risk laying the groundwork for painful future disappointments. A more plausible discourse implies both a fine analysis of the limitations of microfinance in terms of impact and, probably, a repositioning of the sector within the framework of general public policy, built around a more redistributive model and using, amongst other components, microfinance as a channel for reducing development's social inequalities. From this vantage point, approaches to social responsibility would not appear as substituting for the deficiencies of the state, but as a distinct tool able to increase the effectiveness of state action.

For further information:
All documents (reports, presentations about the March 2005 meetings) are now online via the CERISE website(1), and will shortly be available on the website of the Solidarity Finance Workshop of the Workgroup on Solidarity Socio-Economy (2).
(1) http://www.cerise-microfinance.org/publication/impact.htm
(2) http://finsol.socioeco.org