

How can we define responsible financial performance? This is the last article in a four-part series covering our current state of knowledge about the relationship between key financial and social performance indicators, produced as a prelude to the [annual meeting of the Social Performance Task Force](#), June 19-24 in Den Bosch, Netherlands. Prior installments covered [growth](#), [profits](#), and [efficiency](#).

Assessing non-financial performance

In the previous installments in this series on [growth](#), [profits](#) and [efficiency](#) we highlighted that the performance of an MFI must be analyzed in context, as the environment in which an MFI operates is key to understanding the individual institution's operations. Nevertheless, there are principles of fairness, transparency, and accountability that apply to all contexts and should guide the analysis of the effectiveness of individual MFIs.

Data on social performance management lets us connect an MFI's financial performance to these principles: does growth expand outreach in under-served areas, do profits translate into better services and is improved efficiency balanced by appropriate staff incentives and salary?

In this article, we will explore some of the aspects of social performance management as reported to MIX by 405 microfinance institutions from 73 countries in 2009 and 2010 to highlight key facts and trends on the current state of practice as well as current challenges in social performance data collection and reporting.

MFIs have an array of policies and strategies available to them to assess and monitor the progress towards their social mission. These policies are at the core of good social performance management and can trigger a virtuous circle by improving financial performance as well, thus better positioning the MFI to be both more efficient and sustainable in the long run. This article will explore some of these linkages.

Linking financial and social performance indicators

Social performance encompasses the entire set of processes implemented by an MFI to generate positive outcomes for its clients and for the communities it serves. Thus in order to assess an MFI's social performance and the linkages with financial operations, we should be looking at the systems and procedures MFIs have in place and the effectiveness of these institutions at monitoring progress towards organizational objectives.

The regular assessment of social performance metrics is not yet common practice in the industry, although data collected by MIX from over 400 MFIs offer a first glance. MFIs have a variety of social missions and should be assessed based on the execution of the mission as defined by management and the board of directors. So what is the board buy-in level in regard to measuring and monitoring social performance?

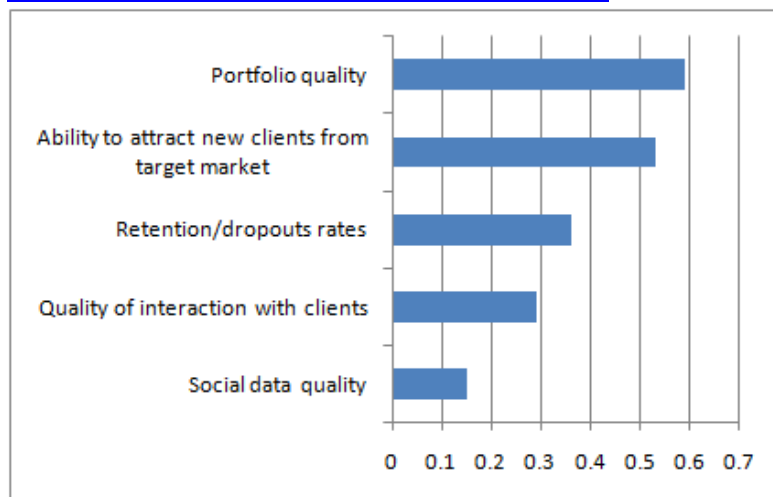
As social performance management (SPM) plays an increasingly important role among socially-oriented MFIs, board involvement in SPM monitoring is becoming more and more common. Looking at how board members are committed to, and involved in, reviewing social performance information, we find that the majority of MFIs reporting social data to MIX (77 percent) ensure that social performance issues are identified as components of the MFI's strategic and business plans. For more in-depth commitments, 45 percent of MFIs reported organizing staff and client visits for board members, while just 21 percent of MFIs reported having a standing social performance committee that regularly reviews social performance issues.

Governance Indicators/MFIs reporting by legal status	Banks (33)	Cooperatives (42)	NBFIs (157)	NGOs (160)	Rural Banks (13)	Total (405)
MFIs with a standing social performance committee that regularly reviews social performance issues	21%	19%	22%	21%	23%	21%
MFIs that organize staff and client visits to help board members understand how operations are achieving the mission	48%	24%	47%	46%	62%	45%
MFIs that ensure that social performance issues are identified as components of the MFI's strategic and business plans	73%	76%	76%	81%	46%	77%

So how do MFIs secure the board and management buy-in on social performance assessment? Training is certainly an important component. Of the MFIs reporting social performance data to MIX, 75 percent conducted staff training on areas related to social performance, such as: mission orientation, development goals, over-indebtedness prevention and communication with clients about prices. Social performance training is more widespread among management (63 percent reported such training) and half of the MFIs also train loan officers on social performance related issues. However only 28 percent of MFIs reported having board members trained on social performance management. This suggests that MFIs are increasingly receiving and delivering training on social performance issues but that the board has still a passive role when it comes to monitoring these areas.

Staff training is a key component of SPM that can have a positive effect on the efficiency levels of an MFI, especially when accompanied by progressive human resources and staff incentives. Happier staff and staff retention go hand-in-hand and has positive effects for client retention as well. Overall, the median staff turnover rate in 2009 for reporting MFIs was 15 percent. When a staff member leaves to work for another MFI, he or she often brings his or her clients along, which increases the loss for the MFI. In Latin America, for each staff member who leaves an MFI, [roughly 150 clients do not have their credits renewed](#). MFIs tend to reward staff on the basis of portfolio quality and the ability to attract new clients, but indicators of high client retention, such as 'quality of interaction with staff' and 'quality of social data,' are not commonly linked to staff incentives (Graph 1). MFIs that are more proactive in offering staff incentives [exhibit higher staff productivity and better portfolio quality](#).

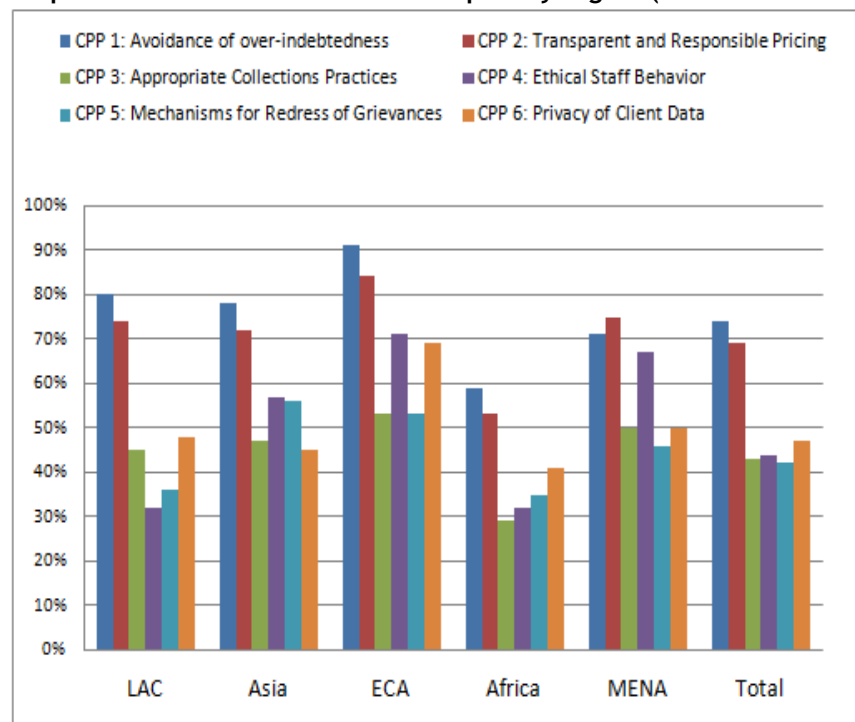
Graph 1: Staff incentives for social performance



We often use portfolio quality as a proxy for client satisfaction, even if we know that a policy of [zero tolerance for PAR](#) may also be a cause for unethical debt collection practices. Another indicator to assess client satisfaction is client retention rate. Retention rates have been stable from 2008 to 2009 (between 77 to 80 at the median), although there have been declines in countries with slower economic growth or where the industry as a whole is experiencing problems, such as in Nicaragua or Bosnia. While client retention is a good indicator for assessing individual MFIs, this again needs to be put into context as external factors can play a role in determining retention rates.

One of the most relevant areas of social performance assessment for MFIs and funders is consumer protection, as it has the most potential to hinder the trust, brand value and financial sustainability of an MFI. Only 15 percent of the MFIs reported having all of the six [Smart Campaign consumer protection principles](#) in place. These principles focus directly on concerns about high costs and transparent disclosure. Data on consumer protection is currently self-reported so it must be taken with due caution, although the Smart Campaign is working on certification for the principles which should increase reliability of this data.

Graph 2: Consumer Protection Principles by region (2008-2009 data collection)



Social performance reporting and its enabling factors

The previous section has highlighted areas in which common practices are emerging and some internal drivers (such as an SPM focus point and buy-in from top management and boards), and where trends are still weak. In this session, we identify some external drivers that can be considered enabling factors for a proper level of uptake of SPM among MFIs.

As of December 2010, MIX had received and published reports on the social performance from 405 MFIs located in 73 countries. Latin America is the most active region in reporting social performance data and also the region best represented in terms of commitment to 'double bottom-line assessment', with 51% of MFIs with a MIX Market profile reporting both financial and social data. On a country level, the MFIs most active in reporting social performance across regions were located in the following countries:

Countries of operations	Number of MFIs reporting	Number of borrowers
Ecuador	27	464,893
India	25	13,224,032
Peru	23	1,265,659
Azerbaijan	18	405,090
Philippines	16	1,262,684
Pakistan	15	923,011
Indonesia	14	260,678
Colombia	13	453,131

Given these disparities, can we identify some enabling factors that lead MFIs to track social performance data? MFIs that reported social performance data were more likely to have:

- Support from strong local or international networks: The countries that report social performance data the most completely to MIX are those where data collection is facilitated by local associations - such as [Access](#) in India, [MCPI](#) in the Philippines, [AMFA](#) in Azerbaijan, [RFR](#) in Ecuador - who often provide technical assistance and training on social performance management.
- Socially responsible investors: Almost half of MFIs reporting social performance data receive funds from socially responsible investors. An increasing number of funders are starting to include social metrics in their reporting which further incentivizes MFIs to track these indicators.
- High levels of market competition: Competitive pressures in some countries have emerged as drivers for MFIs to expand the range of their services and distinguish themselves from other competitors by focusing on ways to improve client and staff retention and risk assessment.
- Enabling regulation: The financial crisis has added importance to tracking consumer protection and prompted policy makers to investigate deeper into issues of responsible and ethical finance and over-indebtedness. In countries where the regulatory environment has focused on client protection, the 'do-no-harm' principles of consumer protection have played an important role.

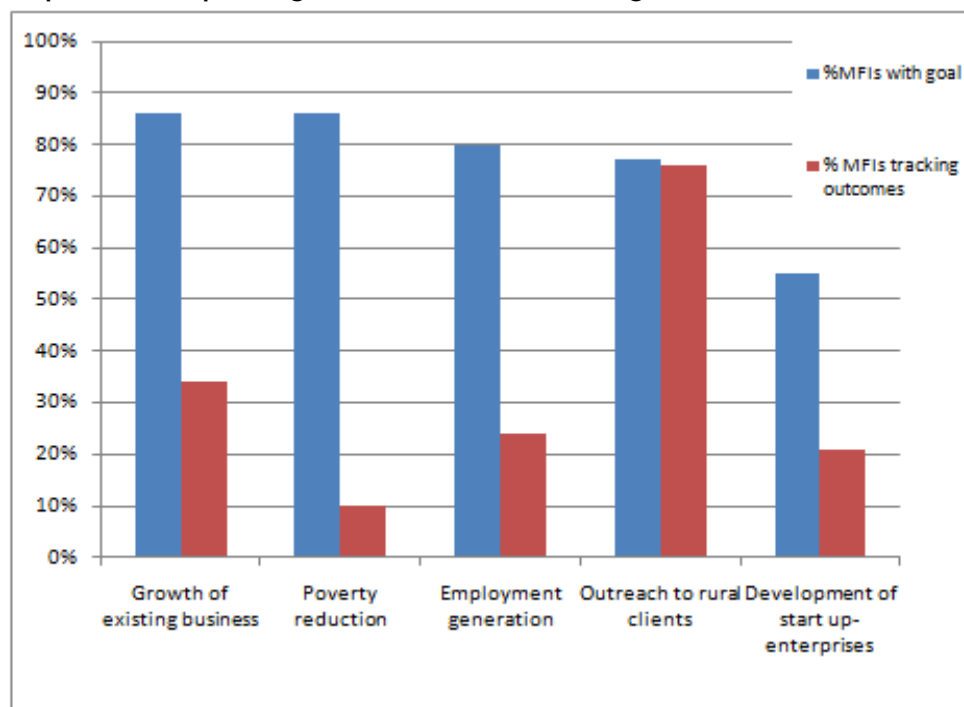
Given that we can find linkages between social indicators and financial performance, it is important to take into account the enabling factors that can help increase our knowledge about targeted areas of social performance management.

Do we have numbers to back up microfinance's social claims?

The strategies and systems on social performance covered in the previous sections should guide the institution to achieve the development goals spelled out in its mission. In terms of 'double bottom-line' this means ensuring that an MFI is sustainable and, at the same time, delivering on its social mission.

While social performance management is on the rise globally, reporting on tangible results related to the mission is more challenging. MFIs agree about most development goals for their institution, but very few of them can actually state whether their goals are met. An emblematic example is given by poverty reduction, defined as a goal by 84 percent of MFIs. But, when it comes to reporting the progress out of poverty for clients, only 10 percent of MFIs could provide this information.

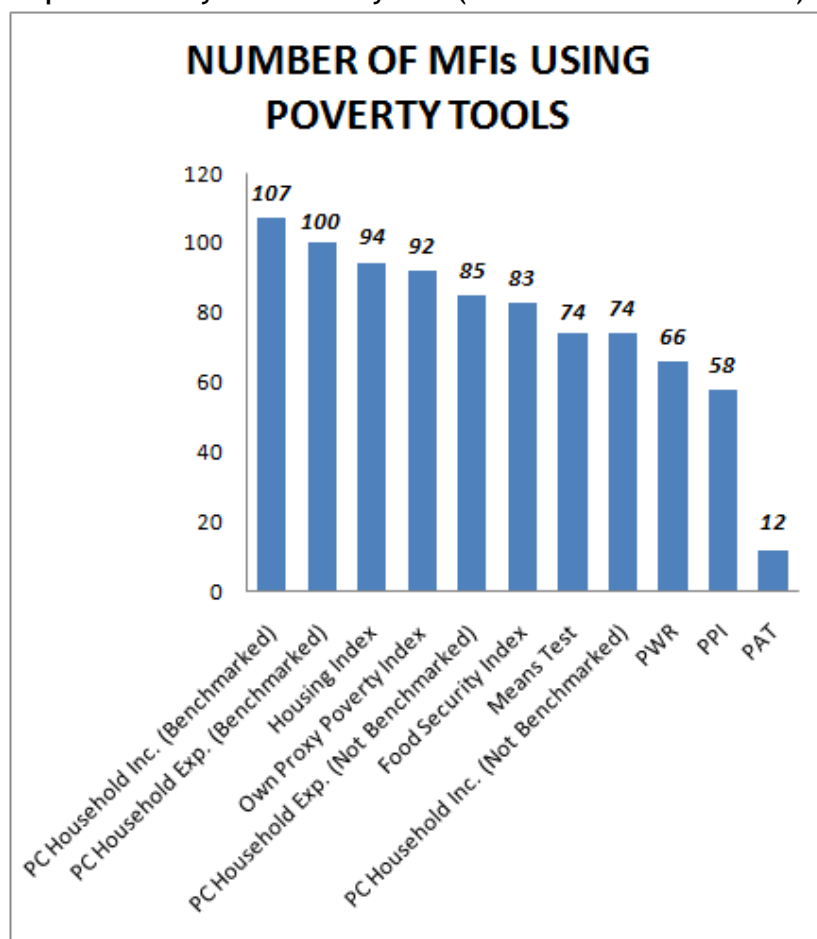
Graph 3: Development goals and outcomes tracking



Microfinance is often seen as an important tool for reducing poverty levels and MFIs whose mission is reducing poverty should be able to provide such information. Nevertheless poverty is a very complex area of analysis, especially if an MFI wants to adopt a multidimensional approach to assess the well-being of its clients, by looking at education or health, besides the economic factors. Coming up with easy-to-use metrics to assess changes for clients can represent a big challenge and cost. Consequently, very few MFIs are currently able to report poverty figures and the development of performance standards should take into consideration the resources needed in terms of training and time spent to assess poverty data. We thus lack evidence about whether most MFIs are fulfilling their development goals, which presents challenges to any attempt to link financial and social performance. Tracking and reporting social data is recent to the industry and social performance management is a work in progress.

We also need to take into account the mission of the organization. Not all MFIs have a mission to reach the poor. Of all MFIs reporting social performance data, 57 percent have a goal of specifically targeting the poor, and only 31 percent reported targeting the very poor.

Graph 4: Poverty tools used by MFIs (data collection 2008-2009)



Note: Some MFIs might be using more than one poverty tool

Towards the development of standards for good performance

Takeaway:

- **Do pursue a double bottom-line approach:** Social performance is not a separate area of an MFI's operations, but is very much linked with financial performance. However, we need more data on how MFIs achieve their mission to be able to create meaningful benchmarks for the industry.
- **Do consider the operating environment and enabling factors.** MFIs need an enabling operating environment, including technical assistance and appropriate monitoring, to perform at their best. These elements support the must be taken into account when setting performance standards.
- **Do focus on creating the right incentives.** Responsible financial performance is best enhanced by taking social performance management seriously. Best practices on social performance from both funders and MFIs have to be identified, supported and rewarded so that good standards of performance can be truly achieved. Standards create incentives for compliance, and if they incentivize the wrong activities they can lead to worse outcomes for clients. We have evidence that capping growth or profits can place clients at risk, and we believe that increasing efficiency may adversely affect staff and clients. Standards should reflect this body of knowledge and seek to 'do no harm' as a key priority.

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