

SPI and financial performance

Brief N°7



Studies of links between social (SPI) and financial performance (Mix) for 42 Latin American MFIs

The challenge is to interface social and financial performance

To be an effective lever for development, microfinance must scale up and look at ongoing financial performance. For more than 10 years, most actors in the sector have supported these priorities and their efforts have borne fruit: A growing number of MFIs have successfully crossed the viability threshold, and commercial banks and private investors associate themselves with the sector. But this maturation process has sometimes created tension for the MFIs between their social mission (reaching the excluded, reinforcing their abilities, etc) and their financial goals (covering the supply cost of their services). Certain observers point to financial derivative practices that seem to be purely commercially motivated and unconcerned with the risks to clients and their limited, or even negative, social impact.

Although the challenge to measure and manage social performance has been sidelined for the last two or three years, many recognise it today as being crucial. Simple tools for social performance assessment, strategic analysis and management have been developed. They enable practitioners to take into account this aspect of their activity and create key instruments for promoting practices to ensure that a massive offer respects its clients and is sensitive to its impact. The Social Performance Indicators initiative (SPI) developed by Cerise and its partners, was the precursor of a method to measure social performance. The SPI tool works by assessing the "social process" (via a questionnaire and companion guide) based on four key dimensions: 1) Reaching the poor and excluded; 2) Adapting services; 3) Benefiting individual clients, reinforcing social capital ; 4) Social responsibility.

Analysis including 42 Latin American MFIs

It is essential that the social utility of MFIs can be increased without weakening their economic viability. To ensure a balance, CERISE and ProsperA run an analysis to better understand the link between social and financial performance. The relationship between social and financial performance can be negative (a "trade-off"), neutral (no significant relationship) or positive (synergies).

A study was carried out comparing the SPI results and Mix Market indicators of 42 Latin American MFIs, most of them members of Foro Lac Fr. These MFIs together service more than 600,000 clients, some of them in rural areas, some of them urban (see table opposite).

MFIs included in the sample				
	Urban	Mixed	Rural	Total
Argentina	1	1		2
Bolivia	4	3	6	13
Brazil			1	1
Ecuador	3	8	1	12
Guatemala	1	1	1	3
Honduras	1	1	1	3
Mexico			2	2
Nicaragua		1		1
Peru	1	1	1	3
Salvador	1	1		2
Total	12	17	13	42

The analysis methodology consisted of using Spearman ranking correlation coefficients to compare the results of the SPI assessments, per dimension, with key financial performance indicators: Return On Assets (ROA), Portfolio at risk (PAR), Operating Costs, Productivity (clients per employee). Correlations showing more than 95% statistical significance were retained as valid. In addition, care was taken to identify "hidden" correlations that interfere with the results; for example, correlations linked simply to the size of an institution.

Contrasting results

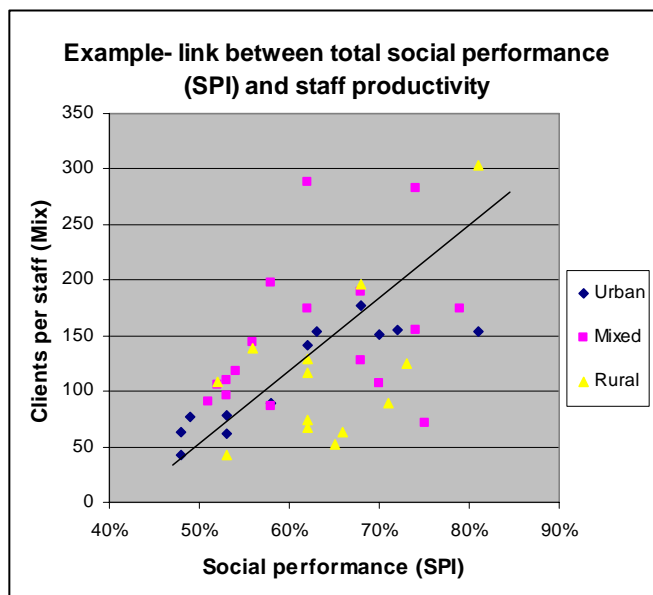
Statistical correlations between social and financial performance

Financial \ Social	ROA	PAR	Operating expense ratio	Clients per staff
Total SPI	n/a	n/a	n/a	+ (G)
Dim1: Targeting	n/a	n/a	+	n/a
Dim2: Services adaptation	n/a	-	-	n/a
Dim3: Social capital	n/a	n/a	-	n/a
Dim4: Social responsibility	n/a	- (G)	n/a	+ (G)

n/a: Not significant (accuracy at 0.95 level)
 (G): relationships linked to size, significant for large MFIs but not for small ones (<10,000 clients)

The results show that targeting the poor and excluded (Dim 1) tends to create higher operating costs. However, tailoring services to clients (Dim 2) has a positive effect in reducing bad debts and operating costs. Reinforcing social capital (Dim 3) also reduces operating costs.

In addition, staff productivity correlates positively with the total score for the SPI and its social responsibility, but the size of the institution interferes with this link: It is valid for large institutions (those with more than 10,000 clients) but not for small ones. In addition, again for large institutions, social responsibility correlates with the lowest bad debts.



Conclusion and outlook

These results confirm that the relationship between social and financial performance depends on the dimensions being considered: Targeting the poor and excluded does create additional costs (a "trade-off"), but other social performance factors such as providing adequate services or reinforcing social capital have a positive effect on results (synergies). In addition, it should be noted that certain aspects, such as the MFIs achieving critical mass, allows it to reconcile social performance in general plus social responsibility in particular, with high staff productivity and a low level of bad debts.

Extending the use of social performance indicators, via SPI in particular, will allow us to widen our research. Thanks to the number of responses we collected (from more than 100 MFIs in May 2008), we will be able to refine our peer group analyses and apply more sophisticated statistical analysis methods.

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