

# Why Social Performance Management? A Note for Investors, MIVs, and Donors



Investors and donors stand to benefit in several important ways from encouraging and/or requiring sound social performance management (SPM) practices and reporting among investees and partners. Investors and donors recognize that investment in microfinance does not automatically produce social returns. Many want to know how to systematically improve and demonstrate the social outcomes of financing/funding. The microfinance industry has identified social performance management as an approach that addresses this need. Investors engaged with the social performance of their investees benefit from:

- 1. Making prudent investment decisions:** Investors see extensive links between financial and social performance, and therefore want thorough information on both. Investors can use complete information to avoid financing MFIs suffering from mission drift: the pursuit of wealthier clients or lack of focus on client protection.
- 2. Investing in true performance:** Investors and donors want to put their money behind the best institutions, not the best storytellers. When investors do not require systematic measurement of financial and social practices, anecdotes can be used to mask true performance.
- 3. Adhering to a social mission:** Investors promise to generate both financial and social returns, and need to track, measure and communicate both. Social performance data collected from MFIs can help investors gauge their progress towards stated investment strategies and social objectives.

## Investors' Stake in Social Performance:

"We want our investments to go to the best problem solvers, not the best storytellers."

- Brian Trelstad,  
Acumen Fund

- 4. Understanding the local context:** Satisfied microfinance clients are more likely to repay their loans and become repeat customers. Clients are the lifeblood of the MFI, and their success will determine the institution's ability to repay loans and satisfy donor requirements. Investors and donors are unlikely to hear about client progress and concerns unless express social performance systems are put in place to measure, monitor, and report client-level indicators.

- 5. Gaining a competitive fundraising advantage:** Transparency and accountability to stakeholders are valued in the microfinance sector and may provide investors and donors with a competitive fundraising advantage. For investors, this may mean the ability to attract larger fund allocations with more attractive

Building on past efforts, **Oikocredit** established a Department of Social Performance and Financial Analysis in 2009. The department sets social performance goals, monitors progress towards those goals, and uses SP information to improve the organization's performance. The global financier believes that microfinance itself does not assure poverty alleviation, and success often requires express social performance strategies such as tailor-made services for diverse client segments.

In addition to screening and evaluating MFIs based on financial and managerial risk analysis, **Incofin** uses a social and environmental risk analysis called the Incofin Echos®. The holistic system is used to evaluate MFIs not only during the investment decision process, but also during ongoing monitoring of the investment, and when reporting to investors and the broader community of stakeholders. In this way, Incofin targets double bottom line return on investments.

terms. For private donors, this may improve fundraising and increase loyalty from the donor base.

**7. Improving partnerships with investees:** Gaining a comprehensive understanding of an MFI—including its mission, services, and social objectives—strengthens the investor-investee or donor-partner relationship and can provide a competitive advantage over other prospective investors or donors. Furthermore, if an MFI feels its social purpose is valued, it is more likely to discuss problems openly and to build trust and loyalty.

**8. Reducing reputational risk:** The microfinance industry has come under increased scrutiny. Stakeholders from microfinance clients to funders to governments demand greater transparency and measurable results that demonstrate the effects of microfinance on the poor. This rising wave of scrutiny will only grow stronger; it is essential that MFIs, investors, and donors are able to legitimately demonstrate their commitment to the social outcomes of their work.

**9. Promoting funding diversity:** MFIs with strong social performance management and reporting are increasingly touted as industry trendsetters for their commitment to transparency. They are more likely to attract multiple investors or funders, thereby creating less risk for investors through funding diversity.

### Why Investors & Donors?

Investors and donors may question why *they* should be the actors exerting pressure on microfinance institutions to adopt SPM. MFIs may not be able to justify the cost of implementing social performance management unless they can demonstrate its direct link to financing or funding. Additionally, an investor's expectations for social performance may spur the institution to consider new strategies and initiatives that will increase responsiveness to clients and improve client retention, for example.

In short, investors and donors have considerable power over the MFIs they support, and can use it to promote social performance management, including: client protection, a focus on the double bottom line, and increased monitoring and transparency around social outcomes.

**Investors and donors interested in supporting social performance among microfinance institutions may consider:**

- Promoting, requiring, and/or incentivizing strong social performance management among partners, borrowers, and investees;
- Considering social performance during due diligence/ partnership consideration processes; and
- Tracking and reporting social performance measures alongside financial performance dimensions.

**BlueOrchard** is increasingly focused on social performance, having appointed a Senior Investment Analyst to head all SPM initiatives, assisted by an internal SP Working Group. An in-house social performance due diligence tool complements standard financial and operational analyses, and incorporates SPM indicators into the semi-annual reporting requirements for investees. The tool indicators reflect the company's desire to quantify the social returns offered to investors, and ensure that investments are concentrated on client-centered MFIs.

**The Social Performance Task Force** consists of over 600 leaders from all over the world from every microfinance stakeholder group: practitioners, donors and investors (multilateral, bilateral, and private), national and regional networks, technical assistance providers, rating agencies, academics and researchers, and others. Created in March 2005, the Task Force has been charged with clearly defining social performance and addressing questions about measuring and managing social performance.

For more information, visit the Social Performance Task Force website at [www.sptf.info](http://www.sptf.info) or contact Social Performance Task Force Coordinator Laura Foose at [lfoose@alternative-credit.com](mailto:lfoose@alternative-credit.com)

Among investors and donors with relatively rigorous social performance standards for investees are: responsAbility, Triple Jump, KIVA, Triodos, Calvert Foundation, Alterfin, KfW, SIDI, Ford Foundation, and the Michael & Susan Dell Foundation.

**Grameen Foundation's Pioneer Fund** uses a social performance scorecard during the due diligence process to ensure that the fund is targeting institutions strong in SPM. The fund is also piloting a program to offer a social performance discount based on an MFIs use of client-level evaluation tools.

**Deutsche Bank (DB)** is concerned with ensuring that MFIs are lending responsibly and taking both social and financial performance into account. As a result, DB has incorporated the Client Protection Principles into its due diligence process and encourages the MFIs to which it lends to endorse the Smart Campaign for client protection. DB also includes social performance indicator data—including mission and board engagement with SP—as a part of its routine monitoring and seeks to use this information to evaluate how successfully MFIs are accomplishing their missions.