Challenging the "trade off theories"?

The links between Financial and Social Performance

Empirical evidence from INCOFIN and CERISE

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→ **CERISE and INCOFIN**
→ **Social Performance Task Force**
→ **Madrid, June the 2nd 2009**

CERISE

The Context

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Context

➢ Most of the microfinance literature indicates that there is a trade-off between financial and social performances. This would result in the believe that MFIs have to make a choice between social and financial objectives.

How real is that?

➢ CERISE and INCOFIN have developed two social performance assessment methodologies: CERISE SPI and INCOFIN ECHOS ©
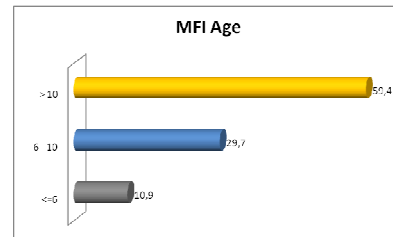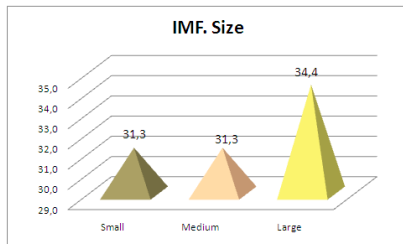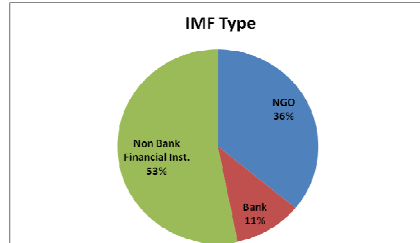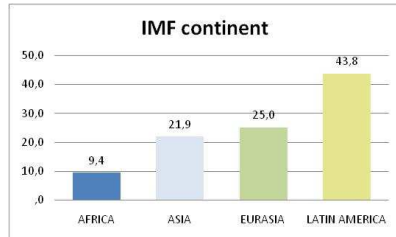
Both organization have their own dataset on Social Performance and were Interested in exploring the links between Social and Financial Performance

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Part 1: Empirical evidences from INCOFIN

INCOFIN Sample: 64 Social Performances With MFIs in 27 countries

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IMF continent

AFRICA	9,4
ASIA	21,9
EURASIA	25,0
LATIN AMERICA	43,8

IMF Type
- NGO 36%
- Bank 11%
- Non Bank Financial Inst. 53%

IMF. Size
- Small 31,3
- Medium 31,3
- Large 34,4

MFI Age
- >10: 59,4
- 6 - 10: 29,7
- <=5: 10,9
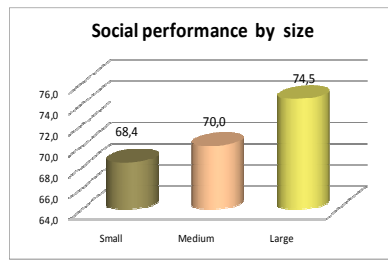
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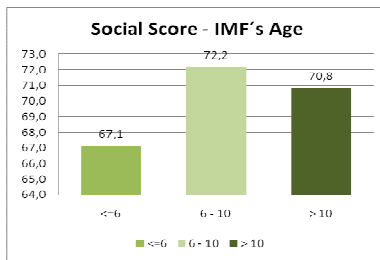---

The Sample: SP FP Indicators

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SOCIAL PERFORMANCE INDICATORS	FINANCIAL PERFORMANCE INDICATORS
5 social performance dimensions and 50 individual Indicators	1 compound indicator and 24 individual indicators
Source of Info: Due diligence (INCOFIN ECHOS ©) Dec 2008	Source of Info: Due diligence and audited reports - Dec 2008
Dimension 1: Mission and Vision Dimension 2: Outreach Dimension 3: Customer Service Dimension 4: HR Dimension 5: Environment and CSR	CRS Compound Index (7 dimensions) ROA, ROE PAR Productivity Portfolio Yield OER

IMPORTANCE ON DATA VALIDATION

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Social Performance by categories

SOCIAL SCORE - CONTINENT

- AFRICA: 66,4
- ASIA: 69,5
- EURASIA: 70,3
- LATIN AMERICA: 72,8

Social socore by Type

- NGO: 69,7
- Bank: 75,5
- Non Bank Financial Inst.: 71,1

Social Score - IMF´s Age

- <=6: 67,1
- 6 - 10: 72,2
- > 10: 70,8

Social performance by size

- Small: 68,4
- Medium: 70,0
- Large: 74,5
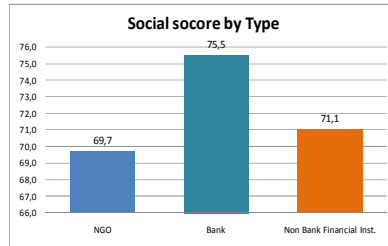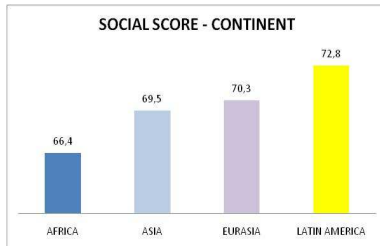
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Trade-off or not?

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INCOFIN Results when testing Correlation between SP and CRS

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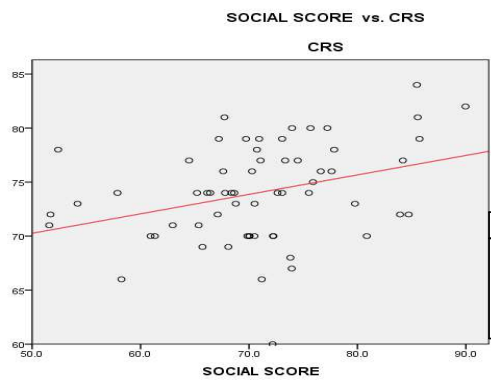
SOCIAL SCORE vs. CRS

Positive correlation between SP and CRS scores at 5% significance level

Correlations

			CRS	SOCIAL SCORE
Kendall's tau_b	CRS	Correlation Coefficient	1.000	.232**
		Sig. (2-tailed)	.	.010
		N	62	62
	SOCIAL SCORE	Correlation Coefficient	.232**	1.000
		Sig. (2-tailed)	.010	.
		N	62	64

**. Correlation is significant at the 0.01 level (2-tailed).

SPS (Social Performance Score)

- Social Mission (10)
- Outreach and access (25)
- Quality of customer service (30)
- Human Resources (20)
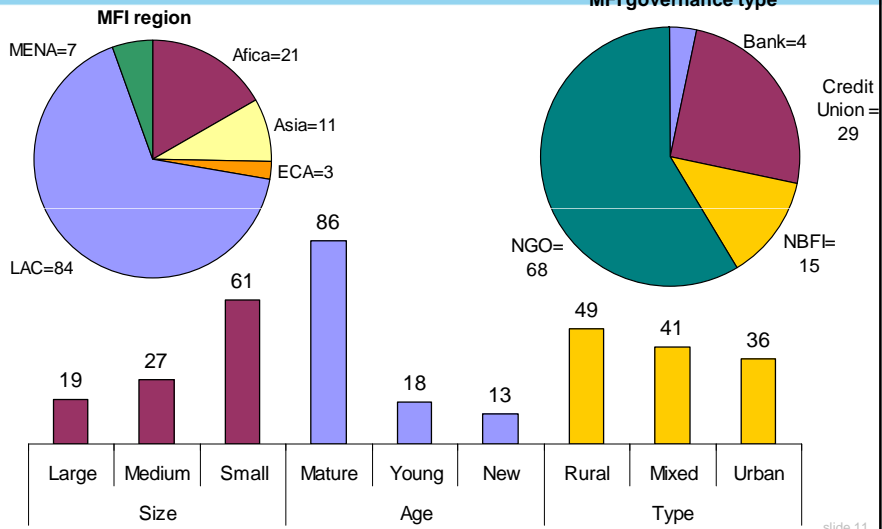- Environment an Social Corporate Responsibility (15)

CRS (Financial Score)

- Profitability and efficiency
- Financial Structure
- Portfolio Size & Quality
- Governance and context

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Part 2: Empirical evidences from CERISE

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CERISE Sample: Social Performances of 126 MFIs from 39 countries

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MFI region
- MENA=7
- Afica=21
- Asia=11
- ECA=3
- LAC=84

MFI governance type
- Bank=4
- Credit Union = 29
- NBFI= 15
- NGO= 68

	Size			Age			Type	
Large	Medium	Small	Mature	Young	New	Rural	Mixed	Urban
19	27	61	86	18	13	49	41	36

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The Sample: SP FP Indicators

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SOCIAL PERFORMANCE INDICATORS		FINANCIAL PERFORMANCE INDICATORS
4 social performance dimensions, 12 criteria, 60 indicators		1 compound indicator and 24 individual indicators
Source: SPI audits (2006-2009), verified by peers, networks, support organization, investors		Source of Info: Mix martek

1. Targeting
   1.1 geographic
   1.2 individual
   1.3 pro-poor methodology
 	
3. Capacity building
   3.1 transparency-trust
   3.2 participation
   3.3 empowerment
	2. Products & services
	   2.1 diversification
	   2.2 quality
	   2.3 innovation &. non fin.
	
	4. Social responsibility
	   4.1 towards employees
	   4.2 towards customers
	   4.3 towards
		ROA, ROE
		PAR 30
		Borrowers/staff
		Operative expense ratio
		Operational self sufficiency

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Option1: Social score by peer group example: by governance type & region
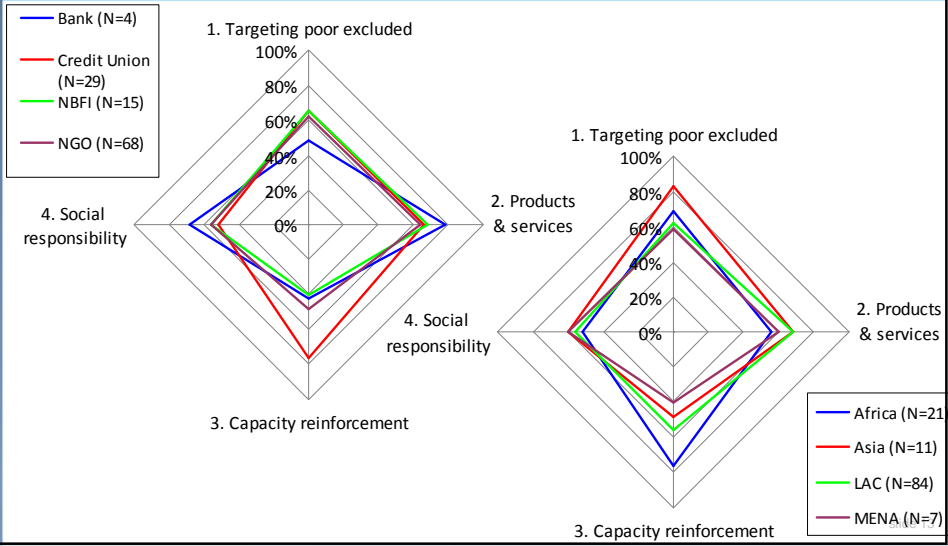
Option2: Social score by peer group example: by governance type & region

Trade-off or not?

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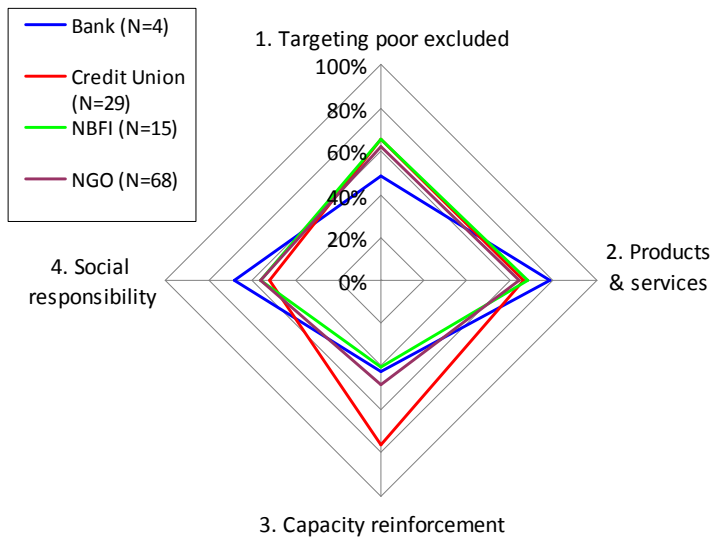
Poverty targeting can be costly but other SP dimensions have positive effects on FP

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Pearson correlation test						
	Borrowers/ staff	PAR 30	Op. exp ratio	OSS	ROA	# active borrowers
1. Targeting	++	ns	-	ns	ns	ns
1.1 geographic	++	ns	ns	ns	ns	ns
1.2 individual	ns	ns	- -	ns	ns	ns
1.3 pro-poor methodology	+	ns	ns	ns	ns	ns
2. Products & services	ns	ns	+	ns	ns	ns
2.1 diversification	-	ns	++	ns	ns	ns
2.2 quality	ns	ns	ns	ns	ns	++
2.3 innovation &. non fin.	ns	ns	ns	ns	ns	ns
3. Capacity building	+	ns	+	ns	ns	ns
3.1 transparency-trust	ns	ns	+	-	-	ns
3.2 participation	ns	ns	ns	-		ns
3.3 empowerment	ns	ns	ns	ns	ns	ns
4. Social responsibility	ns	++	ns	ns	ns	++
4.1 towards employees	ns	+	ns	ns	ns	+
4.2 towards customers	ns	ns	ns	ns	ns	+
4.3 towards community	ns	+	ns	ns	ns	++
Total social	++	ns	ns	ns	ns	++

Significant convergence   **++ / - -**   Correlation is significant at the level 0.01 (2-tailed)

Significant divergence   **+ / -**   Correlation is significant at the level 0.05 (2-tailed)

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General Conclusions

Conclusions

➢ INCOFIN found no correlation between SP and individual Financial Performance Indicators but significant correlation with compound index

➢ CERISE had no compound FP index. Global SP converge with staff productivity. Results per dimension:
  - ➢ Individual targeting diverge with cost efficiency
  - ➢ Service adaptation and capacity building converge with efficency
  - ➢ Social responsibility converge with good repayment

➢ Next steps:
  - ➢ Deepen analysis
  - ➢ Explain the direction of causality
  - ➢ Modeling: DEA, stochastic frontiers, etc.

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