Social and Financial Performance

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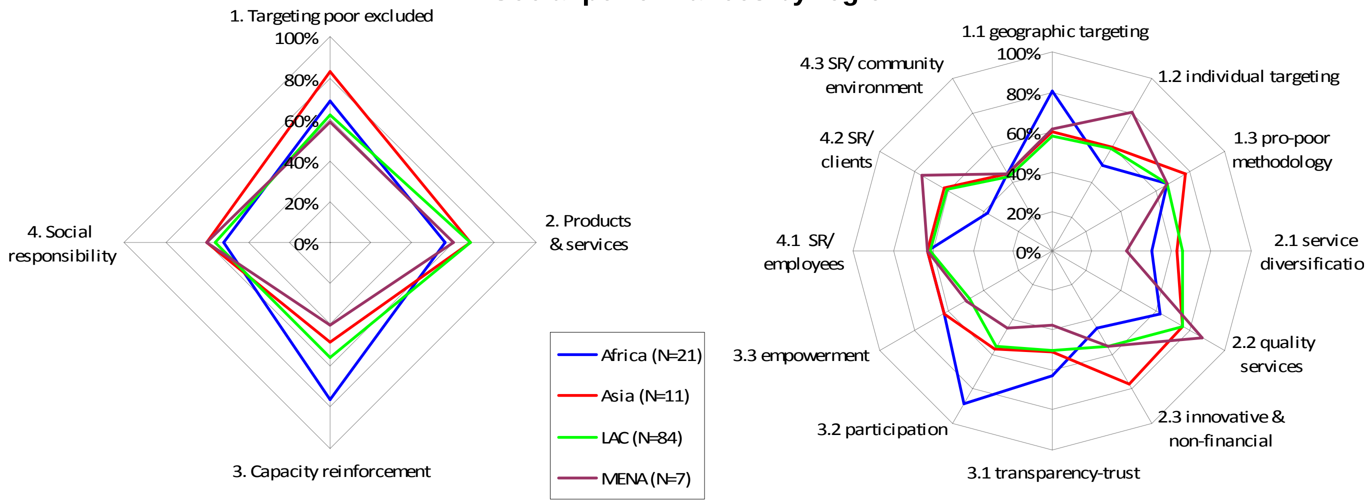
The relationship between social and financial performance in microfinance

Microfinance is driven by two objectives, social and financial: Contribute to the development of marginalized populations with sustainable financial services. And yet, we still know very little about the relationship between these two objectives: is strong social performance a business asset, an unproductive expense, or a fashionable term with no effect on financial viability? This brief summarizes an in-depth analysis of this question based on social and financial data from 126 MFIs (data on SPI audit tool and financial performance of a representative range of MFIs worldwide).

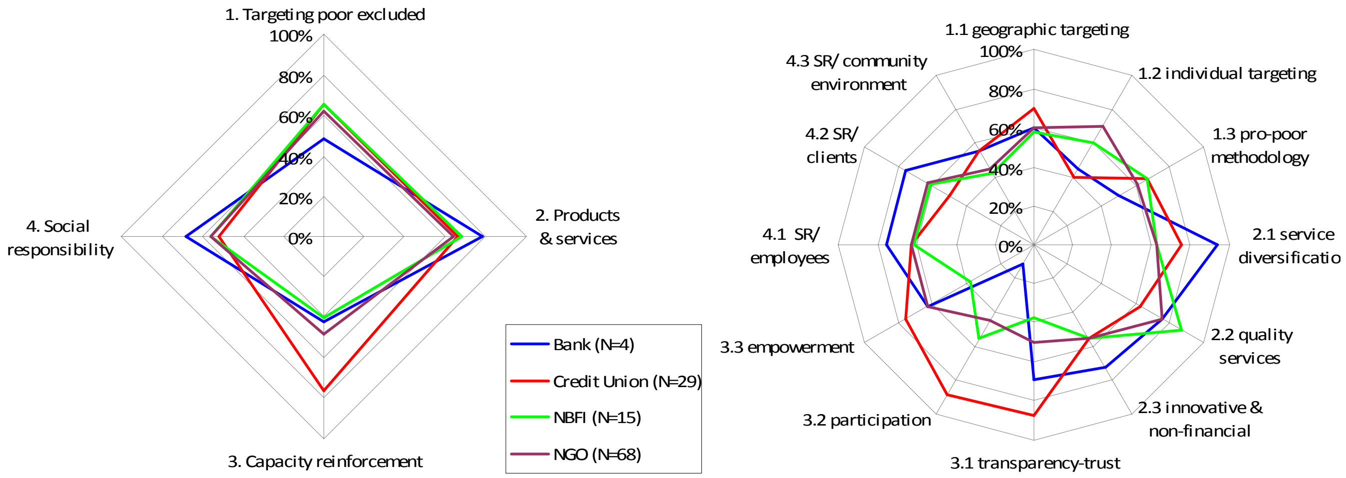
Social and financial results of 126 MFIs

As in financial performance, social performance results generally correlate with each other. Nonetheless, there are some distinct trends. For example, MFIs that target clients geographically (rural areas, poor or underserved regions) systematically score well in areas of trust, participation and involvement in the community. This is not the case for MFIs that target social groups (women, the poor, socially excluded). Social performance profiles also differ according to peer group, depending on size, age, and area of operations. However, the most distinct differences come from geographic region and legal status.

Social performances by region



Social performances by governance type



Latin American institutions are relatively balanced in their social performance while Sub-Saharan African institutions are distinguished by their focus on geographic targeting and strong participation, and a lack of non-financial/innovative services and weak social responsibility to users. In Asia, targeting is methodological (*e.g.,* small loan amounts, social collateral); non-financial and innovative services (insurance, transfers) are well developed.

Analyses found credit unions the most invested in building client capacity, but they tend to not target the poor or excluded. Commercial banks score well on product diversity and social responsibility to clients and employees, but do not serve the poor nor encourage client participation. NGOs and NBFIs have relatively balanced profiles. The former stand out in terms of individual targeting, while the latter distinguish themselves with high-quality services.

Correlation between social and financial performance

Statistical analysis using Spearman's rank correlation coefficient was calculated for the data from all 126 MFIs. The results, summarized below, show correlation, deviation or no significance.

Relationship between social and financial performance

	Borrower/ Staff ratio	PAR 30	OER	OSS	ROA	# active borrowers
1. Targeting	***0,302***	-0,089	**0,259**	-0,093	-0,034	0,152
1.1 geographic	***0,381***	-0,027	-0,059	-0,111	-0,144	0,182
1.2 individual	0,014	-0,082	***0,422***	-0,09	0,027	0,02
1.3 methodological	**0,257**	-0,163	0,185	-0,038	0,017	0,052
2. Services	-0,166	-0,019	**-0,253**	-0,101	-0,098	0,138
2.1 diversity	**-0,237**	0,134	***-0,29***	-0,107	-0,158	0,074
2.2 quality	0,072	-0,047	-0,147	-0,102	-0,078	***0,255***
2.3 innov. non fin.	-0,038	-0,107	0,005	-0,016	0,028	0,038
3. Benefits	**0,216**	0,033	**-0,245**	-0,209	-0,131	0,11
3.1 transparency-trust	0,139	0,05	***-0,326***	**-0,22**	**-0,206**	0,101
3.2 participation	0,182	0,062	-0,196	**-0,255**	-0,185	0,027
3.3 empowerment	0,16	-0,008	-0,086	-0,062	0,113	0,145
4. CSR	0,199	***-0,275***	-0,109	0,109	0,078	***0,425***
4.1 SR/staff	0,153	**-0,200**	-0,143	-0,021	-0,042	**0,248**
4.2 SR/clients	0,017	-0,156	-0,017	0,146	0,042	**0,209**
4.3 SR/community	0,189	**-0,197**	-0,083	0,121	0,129	***0,363***
Total Social	***0,210***	-0,162	-0,141	-0,093	-0,055	***0,250***

Significant correlation
Significant deviation

Bold Italics Significance ≥ 0.01
Bold Significance ≥ 0.05

Key findings

- Institutions that actively target the poor tend to have higher operational costs. Individual targeting implies higher costs while geographic and methodological targeting are associated with higher staff productivity.
- Institutions with a diverse product mix have lower operational costs, but, by contrast, productivity is lower.
- Participatory institutions tend to have lower operational costs and higher productivity. In contrast, their Operational Self-Sustainability and Return On Assets ratios are lower.
- The institutions with stronger social responsability are larger and have lower default rates.

For more information, see the working paper by W. Angora, F. Bedecarrats, C. Lapenu (June 2009)

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