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# Analysis of Social Indicator Performance and Correlation with Financial Performance

The experience of INCOFIN Investment Management  
SDC Meeting - Bern June 2010



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- INCOFIN Investment Management
- Regional Director / Latin America

# Social Performance within the Investment Process

## SOCIAL PERFORMANCE ASSESSMENT



**Origination**

**Screening**

**Term Sheet**

**Due Diligence**

**Investment  
Committee**

**Disbursement  
Process**

**Monitoring**

**INCOFIN ECHOS®**

- INCOFIN ECHOS®
- SOCIAL RATING REPORTS

# Incofin Social and Environmental Performance Indicators (43 in total)

## Dimensions

### 1. Mission and Vision



- Scope of MFI's mission/vision
- Commitment to MFI's mission/vision
- Measurement of MFI's Social Missions

### 2. Outreach and Access



- Outreach: Growth in Number of clients & expectations
- Depth of outreach: Min Loan size, average loan size
- Accessibility of services: No unnecessary barriers

### 3. Quality of Customer Service



- Client desertion measurement
- Products & service offer and adequacy
- Speed of transaction
- Customer protection Principles

### 4. Human Resources



- Quality of HR policies
- Quality of capacity building (new/existing staff)
- Staff compensation
- Staff retention measurement, labor climate
- Non discrimination of staff

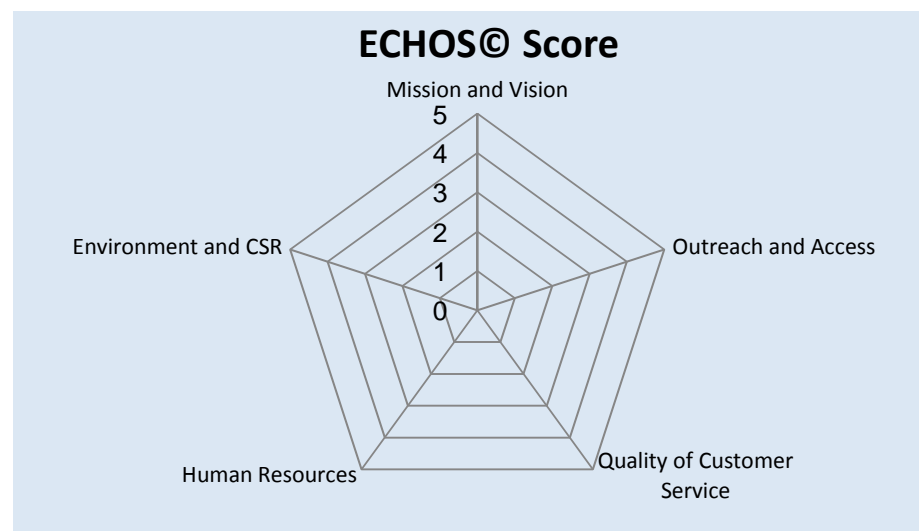
### 5. Environment and CSR



- Use & scope of exclusion lists
- Linkages with Non financial services
- Support to community activities

# Incofin ECHOS©

Dimensions	Weight
1. Mission and Vision	10%
2. Outreach and Access	25%
3. Quality of Customer Service	30%
4. Human Resources	20%
5. Environment and CSR	15%



**Grade Ranges**

91-100	Excellent Performance
81-90	Very Good Performance
71-80	Good Performance
55-70	Fair Performance
< 50	Refusal

# Incofin ECHOS©

*Pragmatic*

Reliable

Comprehensive

*User friendly for investors (add half day during due diligence)*

*Indicators are easy to collect and to verify*

*Based on Incofin own assessment (no dependence on third parties)*

*Limited room for subjectivity*

*No self-assessment of MFIs and bias associated with that*

*Holistic approach*

*Includes most dimensions of social performance*

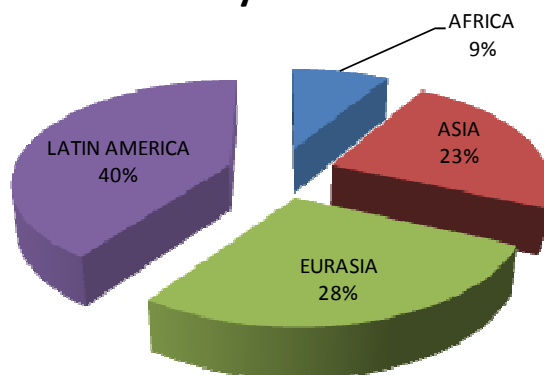
*Includes Environmental aspects & Customer Protection principles*

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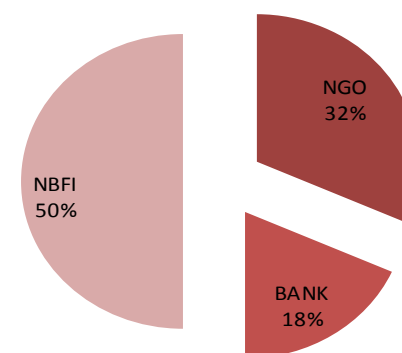
# The Sample: INCOFIN portfolio as of May 2010

# The Sample: 80 MFIs from 36 countries (May 2010)

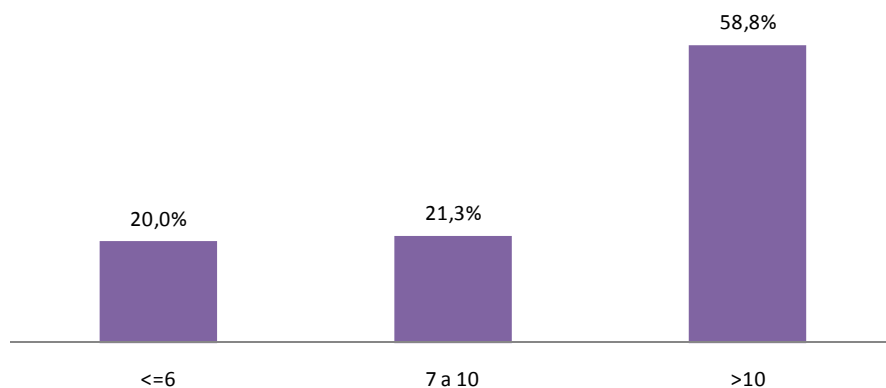
**MFIs by Continent**



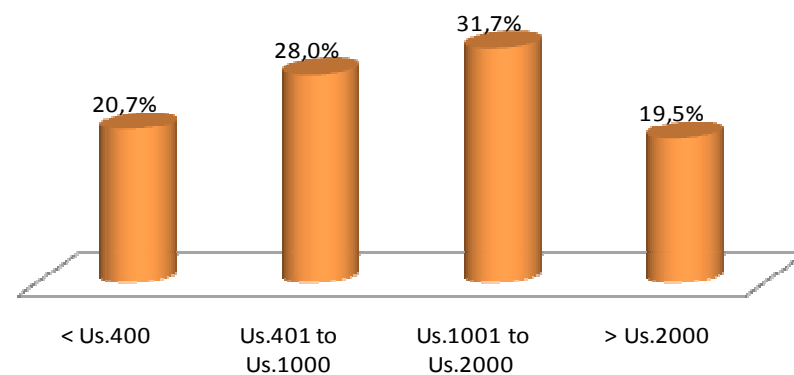
**MFIs By Legal Status**



**IMF by Age**



**MFIs by Average Loan Size**



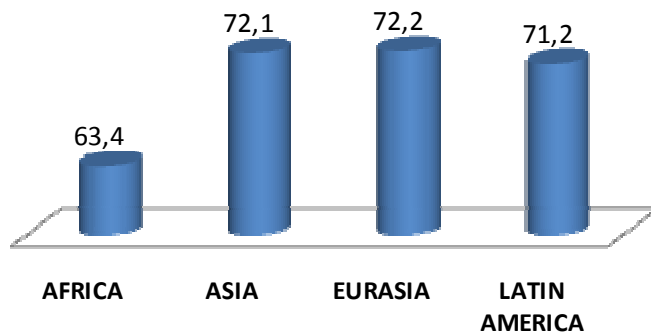
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# Findings on Social Performance



# Insights on Social Performance Scores

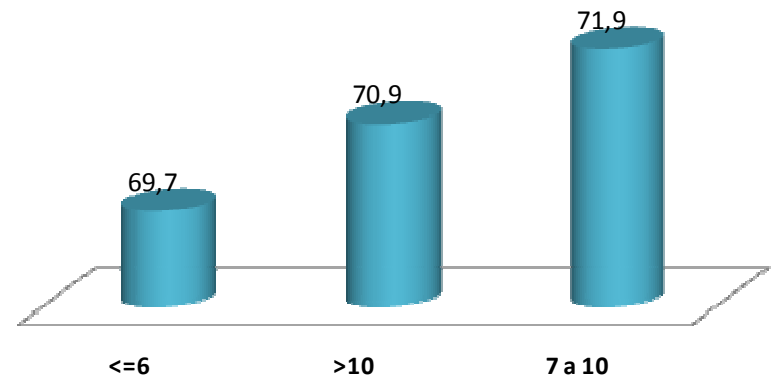
### Social Performance Score by Continent



Not much difference across continents

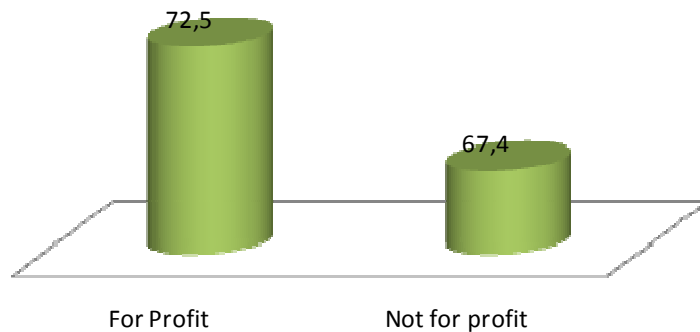
MFI more mature show higher Social Performance score

### Social Score by Age



# Insights on Social Performance Scores

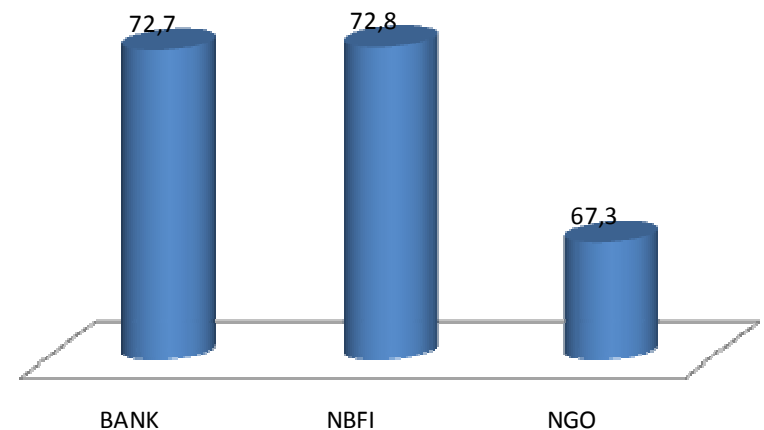
### MFIs Social Performance score By Profit Profile



For Profit show higher social performance scores

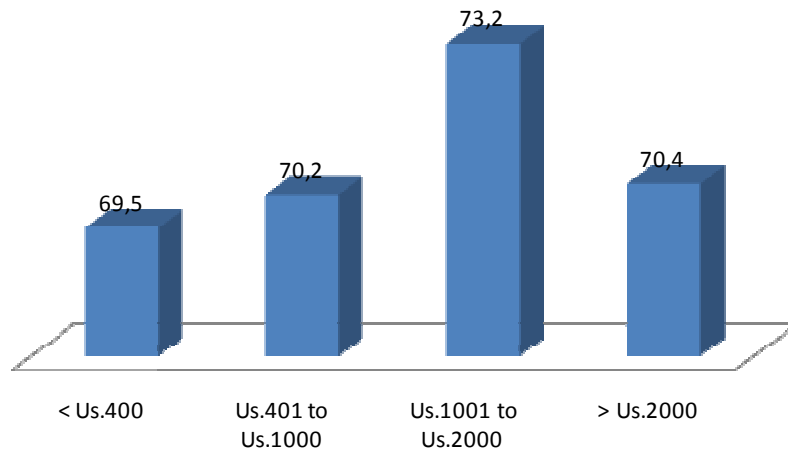
NBI and Banks show a higher social performance score

### MFIs Social Performance by Legal Status



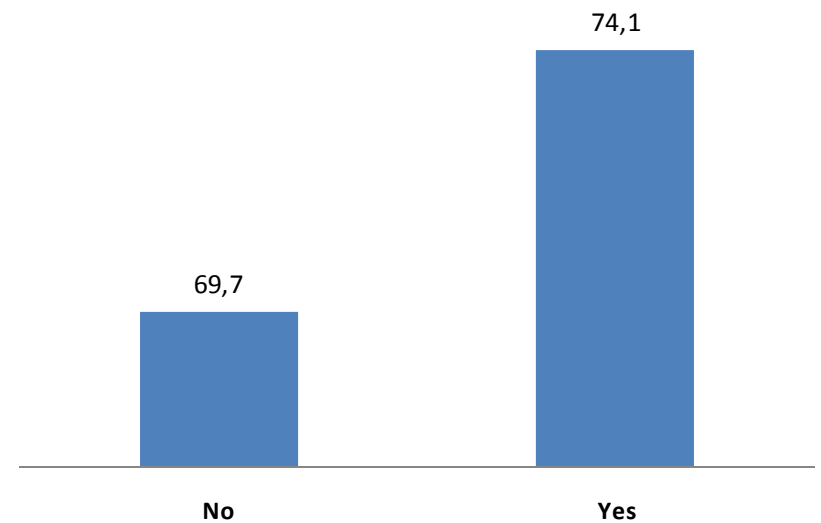
# Insights on Social Performance Scores

**MFIs Social Performance Score  
by Average Loan Size**



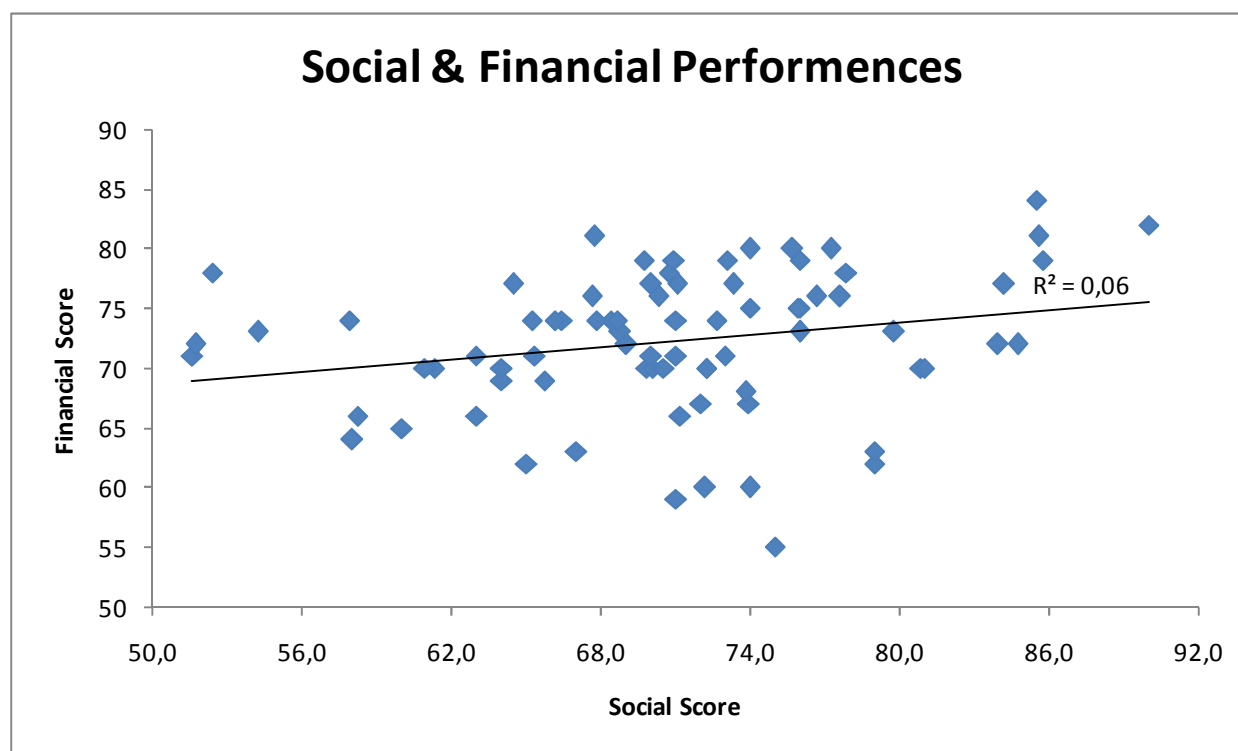
Smaller average loan size do not imply better Social Performance Score

**MFIs Social Performance Score by Social Rating status**



MFI conducting social ratings have better social performance scores

# Correlation between Financial and Social performance



**Positive correlation between Incofin IM's two scores (Echos© and Incofin Financial Score) at 5% significance level (0,23 is the Pearson correlation coefficient)**

# Factors explaining this correlation

## **SOCIAL PERFORMANCE TOOL USED BY INCOFIN (ECHOES)**

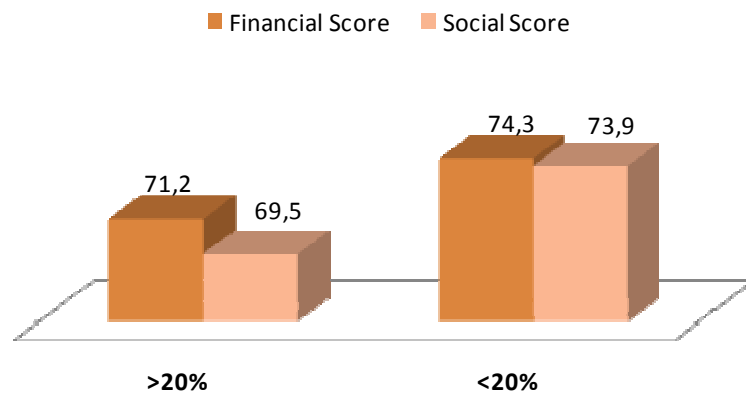
Appropriate HR Management is good for FP & SP

Better Customer Service is good for FP & SP

Easier Access to customer enhance SP & FP

# Factors explaining this correlation

## Customer Service and Financial & Social performance (client dop-out rate)

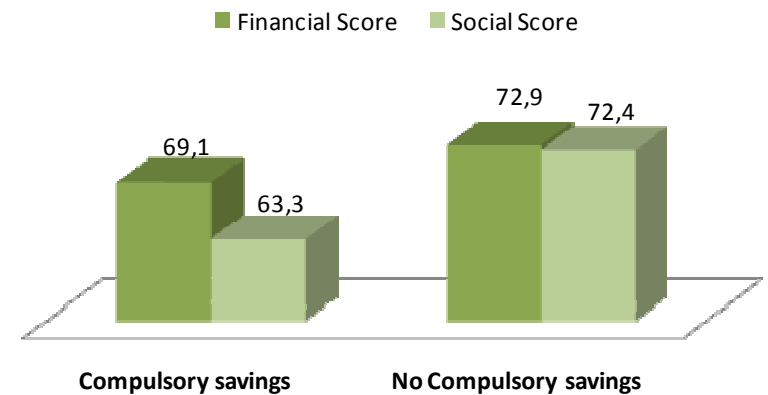


Good customer service is good for both social and financial performance

Easier access support higher social and financial performance

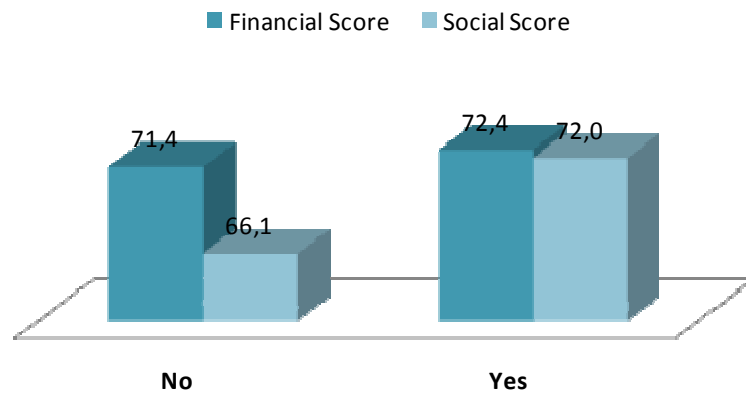


## Links between easier access to Finance and Financial and Social performance



# Factors explaining this correlation

## Financial literacy & Social performance and Financial performance

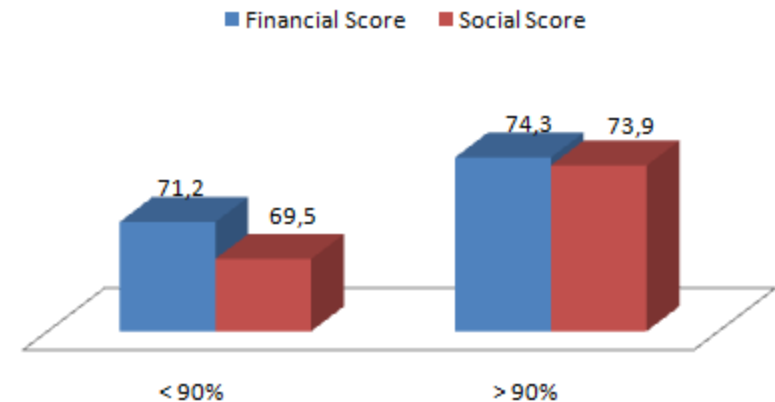


Financial literacy has positive impact on social and financial performance

Sound HR management policies are positive for Financial and social performance

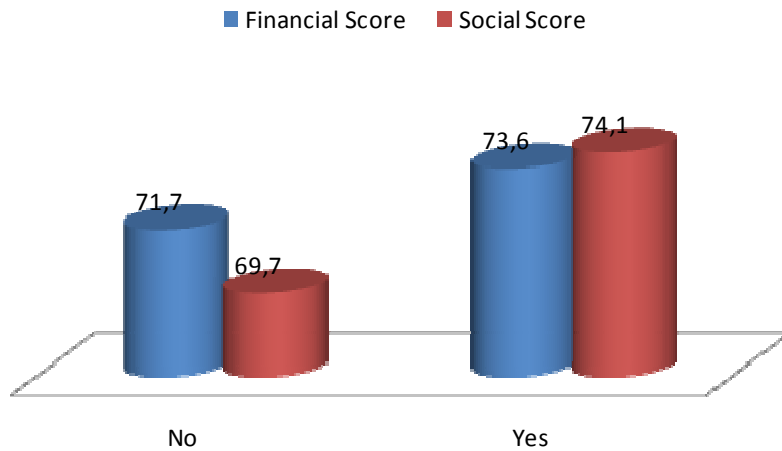


## Good HR Management and Financial & Social performance (staff retention rate)



# Factors explaining this correlation

**Social Audit and Financial & Social performance**



➔ Social Audit / rating is positively linked with both financial and social performance

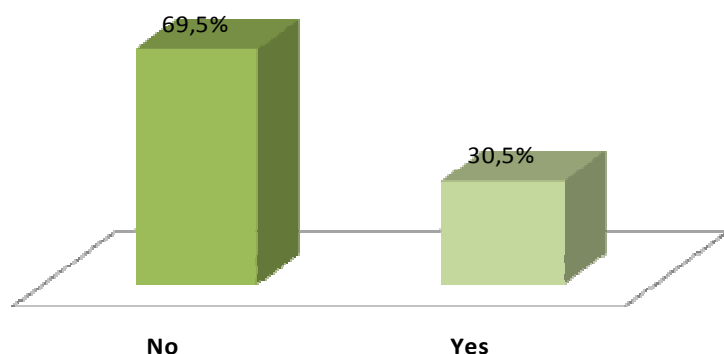


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## Other findings

# Depth of outreach & Social Ratings

**MFIs conducting Social Ratings**

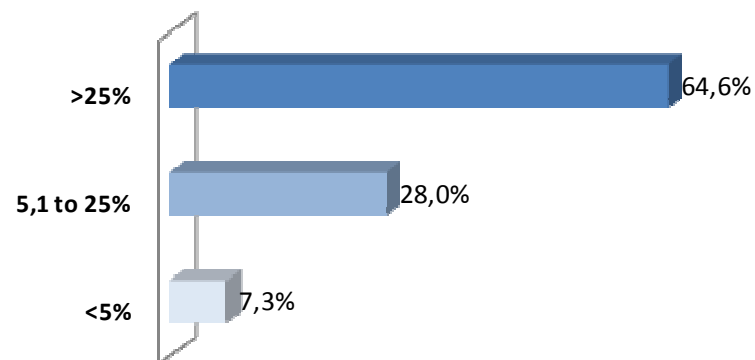


Growing interest on Social ratings  
(from 8% in 2007, 28% in 2009 and 30,5% by May 2010)

64% of MFIs has expand their breadth of outreach in the past 3 years by more than 25% p.a.

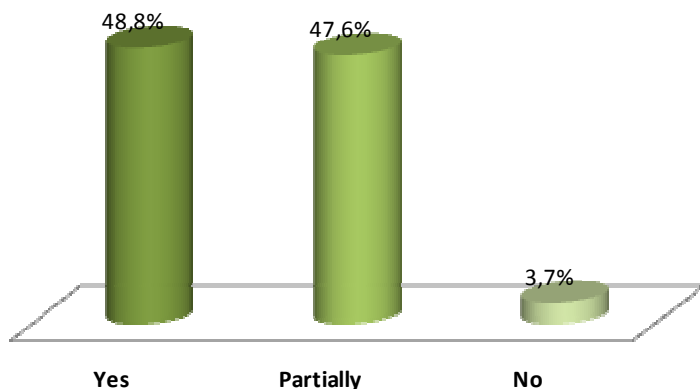


**MFIs Breadth of outreach**  
(Growth in number of clients in last 3 years)

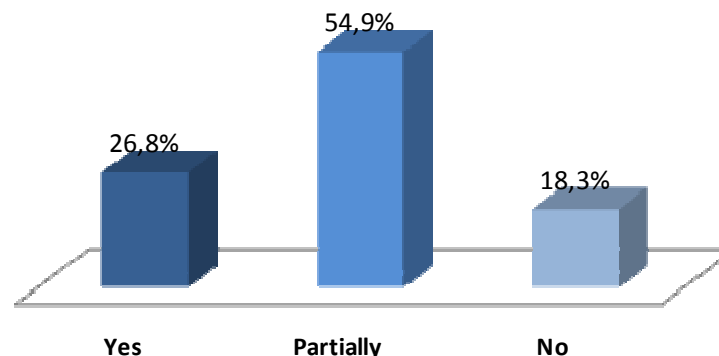


# Responsible Finance & Customer Protection Principles

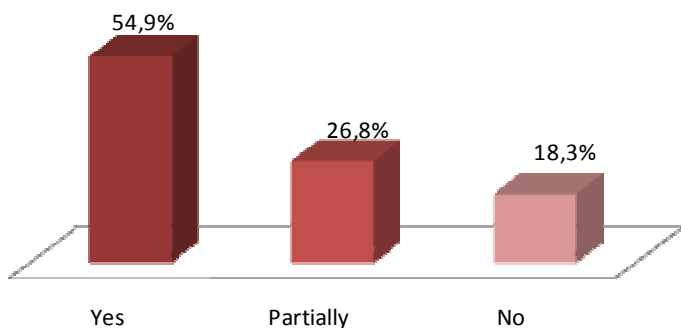
### MFIs Information Transparency



### MFIs with guidelines to prevent abusive debt collection practices



### MFIs with list of activities that cannot be financed for Enviromental and Social reasons



Still important work to be done in terms of implementing consumer protection principles

# Most relevant variables to measure SP

(Kendall's statistical association test)

DIMENSIONS	DISCRIMINATING INDICATORS
1. Social mission & vision	Measuring its mission
	Clear promotion of its mission and Vision
	MFI conducts social scoring
1. Outreach and Access	Size of average Loan /GNI per capita
	Does not request mandatory savings as collateral
	Applies nondiscrimination policies in credit granting
4. Quality of the Service	Transparency of the information
	Clear customer protection policies
	Clear collection guidelines
	Clients' complaints management mechanisms in place
4. Human resources	HR department in place
	Code of Ethics in place
	Delegation culture in place
4. Environment and CSR	It applies a list of exclusion for polluting activities
	Policies for the promotion of activities that protect the environment
	Clear environmental policies in place

16 indicators out of 43

4 out of the 6 Customer protection principles

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