

Executive Summary

There has been a remarkable increase of public and private resources invested in the microfinance sector over the last years. The entry of private investors would be the most notable change in the microfinance investment marketplace.

It is now agreed that microfinance institutions have to reach financial and social performance. Many private investors, not only the so-called “social” ones, have this double bottom line objective: social goals are formulated in their mission statement. We also often hear about “socially responsible investments”.

The criteria to measure and report on financial performance are well known and are widely agreed upon: return on equity, operational and financial self-sufficiency, etc.

The concept of social performance was first met with reservations because, among others, no one definition of social performance existed and it was not possible to have standardized measures of social performance.

Today, there is an agreed definition of social performance that is, in short, “a process making an organization’s social mission a reality”. Moreover, a “brand new” consensus has been reached and a Social Performance Standards Report with 22 indicators has very recently been set up and made at the disposal of microfinance institutions on the MIX website. Examples of social indicators are: mission and social goals, range of products and services, drop-out rate, poverty assessment of clients, social responsibility to clients and other “stakeholders”, clients outreach, geographic and women outreach.

The focus of the research is the link between social performance and the decision to invest in microfinance by some private investors. In other words is the social performance of a microfinance institution taken into account in the investment, contracting and later in the monitoring processes of these investors? It is rather an innovative subject as social performance and “double bottom line” approach also are.

The research questions were answered based on some case studies, i.e. five private investors’ practices. The study was thus largely qualitative.

The sample was composed of varied private investors specialized in microfinance having social goals formulated in their mission. Relevant information was collected in the investors' websites and publications and in some cases through a questionnaire answered by the investors' representatives.

The conclusions that could be drawn from the research are the following ones.

First of all, all selected private investors clearly have social ambitions formulated in their mission statement: "considerable social impact", "socially responsible investment", "double bottom line return", "breaking the vicious circle of poverty", etc.

On the other hand, it is observable that these investors have varied approach to social performance in their investment, contracting and monitoring processes.

Social performance is taken into account in the investment, contracting (i.e. favorable terms and conditions for socially performing microfinance institutions) and monitoring processes for two selected private investors: the investor presenting himself as a "social investor" and another investor having expressed his intention of being consistent with his mission ("simply investing in MFIs is not enough to qualify as "social investor"). One significant investor, the first commercial investment fund in microfinance, has showed his intention of taking social performance more into account in his investment, monitoring and reporting processes. We were surprised by the lack of transparency of two private investors, more specifically one being a member of a major player in the microfinance sector who communicates a lot about his work on social performance and his "socially responsible investments".

Three analyzed investors use or will be using their own tool to assess social performance of microfinance institutions. Most of them want to score social performance with the exception of the "social investor" who favors qualitative analysis and inclusion of contextual matters. Social performance indicators that are most commonly addressed in the investment process are in general also included in the Social Performance Standards Report.

Ultimately, is the single fact of investing in microfinance sufficient to demonstrate poverty reduction or social impact? We can reasonably think that private investors will be more and more asked to give not only evidence of financial performance but also of social returns, aligned with their own (social) mission statement.