WHITE PAPER
SEPTEMBER 2017

MANAGING & MEASURING SOCIAL PERFORMANCE

Insights on definitions, practices and solutions

symbiotics

This paper was written by Roland Dominicé and Ramkumar Narayanan in early 2017. Its intent is to share knowledge and experience on years of practice in the field of social performance management at Symbiotics, both with microfinance institutions and microfinance funds and investors. It served as a discussion paper in our 2017 corporate week and owes much to the many colleagues who have commented on it. The text was reviewed by Vincent Dufresne, Todd Farrington, Yvan Renaud, Jérôme Savelli, Daniel Schriber and Daniel von Moltke. The publication was coordinated by John Staehli and designed by James Atkins Design Ltd. We wish to acknowledge the exchange and learning on this topic over the years with Alan Doran, as well as with Annette Krauss and Julia Meyer, and more recently with Bernd Balkenhol. Special thanks also go to Safeya Zeitoun and Christian Bauwens for spearheading a newer internal initiative on impact measurement theory and practice, as well as to Lore Vandewalle for supervising those efforts.

Symbiotics has been active in pioneering social performance management since its inception in 2005. This is what drives our mission and what our investor clients expect from us. We believe that by framing and measuring this goal we will help ensure ongoing socially responsible financing to micro-, small and medium enterprise clients in markets that are expected to drive global growth in the coming years. We also hope that this white paper will serve as a discussion base upon which to advance the concept of social performance management across the industry.

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LIST OF ACRONYMS

AVPN	Asian Venture Philanthropy Network
BOP	Base Of the Pyramid
CGAP	Consultative Group to Assist the Poor
CPP	Smart Campaign's Client Protection Principles
DFI	Development Finance Institution
EIB	European Investment Bank
EMFP	European Microfinance Platform
ESG	environmental, social and governance
EVPA	European Venture Philanthropy Association
FMO	The Dutch Development Bank
GIIN	Global Impact Investing Network
GLP	Gross Loan Portfolio
GNI	Gross National Income
IFC	International Finance Corporation
IPO	Initial Public Offering
MFI	microfinance institution
MIV	microfinance investment vehicle
MSME	micro-, small and medium enterprise
NBFI	non-bank financial institution
NGO	non-governmental organization
OECD	Organisation for Economic Co-operation and Development
RCT	randomized control trial
REGMIFA	Regional MSME Investment Fund for Sub-Saharan Africa
SDG	Sustainable Development Goal
SECO	Swiss Secretariat for Economic Affairs
SFG	Sustainable Finance Geneva
SME	small and medium enterprise
SMP	Swiss Microfinance Platform
SPM	social performance management
SPTF	Social Performance Task Force
SSF	Swiss Sustainable Finance
UN	United Nations
USD	United States dollars
UNPRI	United Nations Principles for Responsible Investment
UNSGSA	United Nations Secretary-General's Special Advocate for Inclusive Finance for Development

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INTRODUCTION

BACKGROUND AND RATIONALE

The success and attraction of microfinance to investors is founded on its ability to meet and manage its stated double-bottom line objective: a sustainable business model generating positive financial returns along with an explicit pursuance of social goals. While microfinance financial performance measurement is an easily understandable concept that relates well to analyzing performance in mainstream finance, social performance measurement remains an evolving conversation. In recent years, industry stakeholders have made multiple efforts to formulate social performance measurement tools and to standardize social performance indicators. Yet none have emerged that are as strong and concise as the single net financial return figure for financial performance.

This is in part understandable given that the theory of change behind financial performance is quite simple; its causal chain is much more direct and tangible, and thus its narrative is much easier to test and falsify or validate. Microfinance investors understand that they are investing in a fund, that the fund is making loans to microfinance institutions (MFIs) with, all other things being equal, average gross interest rates in local currency of 10–12%, which translate after hedging costs to about a 7–8% return in U.S. dollars (USD), from which management fees (1–2%), provisioning costs (up to 2% on average) and the impact of cash drag on performance (up to 1%) are deducted, inducing a performance expectation of about 3% net in USD[1]. Similarly, investors understand how the return they are seeking for their investment fits within the MFI business model, which may typically generate a 30% portfolio yield (income from microcredits over the outstanding total credit portfolio) from which a relatively labor-intensive operating cost of 15% on the microcredit portfolio is subtracted, as well as a 10%–12% cost of funds. The net margin of this simple model yields 3%–5% for the MFI. Given that its portfolio essentially constitutes its assets and that it leverages this return four to five times, the investor in equity can typically expect a 15%–20% return on investment.

The theory of change behind social performance is much more complex: its causal chain is much less direct and tangible, and thus its narrative is much harder to test and falsify or validate. The relatively simple and direct logic of finance gives way to more complex relationships, many of which (unlike, for example, operating expenses) are out of direct control. It nevertheless remains fundamental for social investors. If microfinance funds have gained importance in mainstream investment portfolios due to stable absolute returns, low

1 Consultative Group to Assist the Poor (CGAP) and Symbiotics (2016), Microfinance Funds: 10 Years of Research and Practice.

volatility and low or negative correlation of returns with more traditional asset classes, they have also gained prominence through *impact investment* making the largest contribution to meeting the United Nations (UN) Sustainable Development Goals (SDGs)[2]. They also promote the idea that one can generate attractive risk-adjusted returns while positively contributing to socio-economic development for a population usually not included in the virtuous economic cycle of financial integration through payments, savings, credit and insurance.

A further complication for social performance measurement is that the core focus of the sector we are in and, in a sense, its terminology, have evolved over the years. In the 1990s, the narrative referred to 'microcredits' intended to serve poor individuals, followed in the 2000s by a broader 'microfinance' offering focused on small financial institutions. From 2010 onwards, the main paradigm aimed at 'financial inclusion', integrating global financial systems, as well as that of 'impact investing' focused on positively impactful themes, sectors and activities. Lately, emphasis has been put on a broader catch-all 'access to finance' discourse, moving for some towards a focus on digital innovation and artificial intelligence in financial services for the wider masses. The terminology and investment universe evolves but the intent, value chain and target audience remain unchanged—financing the base of the social pyramid in emerging and frontier markets, reaching low- and middle-income households (LMIH) and micro-, small and medium enterprises (MSMEs) through local financing intermediaries.

Measuring social performance is additionally complex given that the impact narratives of microfinance have also evolved over the years: from a simple increase in income and consumption capacity, to providing financial security or safety nets, to fostering job creation and entrepreneurship opportunities. Some additional confusion has come from mixing up output—pushing savings surplus to credit needs with a margin or return, with the outreach—targeting underserved poorer economies, and with the outcome—increasing payments, savings, credit and insurance within targeted business and household clients. Others have explained impact beyond its direct outcome, linking access to financial services to reduced poverty rates.

Finally, another complexity is that social performance can be measured at various levels: micro (small businesses and low-income households); meso (local intermediaries and financial institutions); and macro (funds and global capital flows). This leaves the microfinance investor with a wide web of

2 CGAP and United Nations Secretary-General's Special Advocate for Inclusive Finance for Development (UNSGSA) (2016), *Achieving the Sustainable Development Goals, the Role of Financial Inclusion*.

narratives, underlying theories of change, and indicators to be defined and monitored accordingly.

Symbiotics has engaged over the years in defining, measuring and monitoring various indicators, as well as contributing to the social performance discourse by offering a number of tools and solutions to its clientele. But different stakeholders measure different social added value, which explains the need to acknowledge and embrace the complexity of social performance management (SPM) before engaging in designing a single methodology with a final single digit result easily understandable by or meaningful for anyone.

This white paper is less about what should be done than about what has been done and what worked in order to measure and communicate the social contributions of microfinance investments.

CONCEPTS AND DEFINITIONS

The concept of 'social' can be defined as: 'of or relating to human society, the interaction of the individual and the group, or the welfare of human beings as members of society'[3]. Similarly 'performance' can be defined as 'the execution of an action, something accomplished, the fulfillment of a claim, promise or request'[4]. Social performance refers to the degree of fulfilment of an intent to increase (or decrease) the interactions of individuals within a group. The higher-order intention is to increase net well-being.

Many organizations involved in the sector that are working to achieve an industry-wide consensus have developed widely accepted definitions of social performance and SPM. Most notably, the Social Performance Task Force (SPTF)[5] defines social performance as 'the effective translation of an institution's mission into practice in line with accepted social values'. In other words, 'social performance is about making an organization's social mission a reality, whatever that mission is'. Managing that process is about finding measures that prove the concept and its underlying assumptions. For CGAP, SPM is 'the process of managing an organization to achieve a social mission'.

At Symbiotics, our underlying assumptions for what constitutes positive social performance are derived from a quite simple theory of change, which itself is anchored in our core corporate values: we believe that the more we invest, upstream, into micro-, small and medium enterprise (MSME) markets, the more we positively impact, downstream, the base of the pyramid (BOP) population. We believe that we can gauge our level of social performance by the volume of capital we channel into underserved economies, how far and how deep it reaches, and how well we operationalize responsible investment guidelines in doing so, all with the intention of contributing to positive socio-economic development.

We view social performance as being understood in the context of stories and narratives, by the intentions realized through the actions implied by these narratives, and through reporting on outreach and outcome of these actions down the line. We thus conceptualize social performance along four dimensions, all differentiated by the end goal they set out to achieve: stories, intentions, outreach and outcome.

3 Source: https://www.merriam-webster.com/
4 Source: https://www.merriam-webster.com/
5 The Social Performance Task Force (SPTF) is a non-profit membership organization with more than 3,000 members, engaged in developing and promoting common standards of social performance management. See http://sptf.info/

The way we organize our various SPM tools can be framed in the following four dimensions, each having a certain number of tools, reports and indicators:

Figure 1
Four-Dimension SPM Framework

1. Stories	2. Intentions	3. Outreach	4. Outcome
1.1 Beneficiaries	2.1 Mission	3.1 Markets	4.1 Financial security
1.2 Practitioners	2.2 Norms	3.2 Investees	4.2 Household consumption
1.3 Endorsers	2.3 Practices	3.3 End-clients	4.3 Employment and entrepreneurship

Stories are developed at the micro level in terms of end-clients and their achievements (i.e. beneficiaries), at the meso level in terms of institutional change and innovation in delivering products and services (i.e. practitioners), and at the macro level through industry initiatives, standards and reference endorsements of the system-wide cause (i.e. endorsers).

Assessment and diligence to determine *intention* are often based on an organization's culture, history, background and identity (i.e. mission); in terms of its by-laws, charters and other constitutive documentation (i.e. norms); and in terms of its actual behavior, with respect to social responsibility, reflected by its policies, processes and procedures and their implementation (i.e. practice).

The measurement of results, framed at two levels — *outreach* and *outcome* — is a quantitative response to our core mission and, to a certain level, derived from elements of our theory of change. Outreach, in terms of breadth and depth, measures how far and deep scale is produced when money is supplied where it normally does not flow. Outcome, a more challenging measurement metric compared to outreach, looks at whether the intention of the narrative is realized through measures of financial security, household consumption, and employment and entrepreneurship.

1. STORIES

While storytelling is one of the oldest and most deeply rooted means of human learning and advancement, it does not lend itself to the falsification paradigm of scientific academic research[6]. Nevertheless, irrespective of cultures and periods, stories are one of the most compelling mechanisms by which humans can grasp complexity, can turn noise into music. Investors, as others, connect emotionally and intuitively to an argument that serves as a metaphor, a shorthand narrative, and thereby to a much wider and complex set of relationships and outcomes.

Compelling stories are thus formative in terms of investor expectations and reporting. Symbiotics puts a strong emphasis on telling these stories to investors, whether at the *beneficiary level*, in terms of individual life trajectories through the use of microfinance services by end-clients; at the *practitioner level*, telling how the intermediaries providing microfinance services innovate in building their products and offering; and at the systemic level, putting forward *endorsers* and endorsements of high standards and credibility to promote the industry to the general public and media.

Taking this customer-centric approach to investor expectations has led us to:

1. *Develop client story factsheets*, at the beneficiary level, illustrating through onsite pictures and interviews the reality of single client cases, irrespective of all else.

2. *Launch social innovation briefs*, at the practitioner level, through partner institution achievement narratives, updated monthly and documenting how their research and development efforts enhance their customer service through better offerings that are tailored to the specific needs of the base of the pyramid population.

3. *Endorse industry standards, policy bodies and sector champions*, as a proof of concept for our investor base, recognizing known figures and norms and thus better connecting to the big picture narrative they put forward.

6 Falsifiability was introduced by Austrian philosopher and scientist Karl Popper in his writings on the theory of demarcation (separating science from pseudo-science), in which falsifiability defines the inherent testability of any scientific hypothesis.

1.1 BENEFICIARIES

Beneficiary stories, or end-client stories, are impact cases/illustrations where an entity isolates a single client and story to illustrate the impact of its objectives, practice and output on a given situation.

At Symbiotics, we adopted this approach early on, illustrating in short story format the business of an end-client financed by one of our investee companies and how it has influenced his/her situation. We engage in this practice on a quarterly basis for our investor clients' fund factsheets, with a view to putting forward the benefits that the investee company's output has generated for its client, on a case-by-case basis.

The client stories stem from the 'microcredit' approach of the 1990s, in the evolution of the microfinance narrative. This micro-level or individual-level approach, adopted historically by non-governmental organizations (NGOs) and non-profits active in the sector, has continued to be the most compelling storytelling for retail investors, whether through crowd-giving platforms or more recently through the growing number of crowd-investing initiatives. Investors do not necessarily channel funding directly to a single end-client but are compelled by a single story, embracing then the larger cause. Platforms such as Kiva.org have pushed this approach the furthest. More recently, thanks to technological and regulatory improvements, some platforms actually allow investors to connect directly with single story investments.

In terms of our own practice, our investment analysts on the ground regularly visit end-clients as part of their due diligence, be it a micro-entrepreneur or, more recently, small and medium enterprises (SMEs), to get a better understanding of the type of clients our investees work with and to whom ultimately we allocate our investor capital. The investment analysts interview small-scale entrepreneurs, take pictures of their working environment and bring back these stories from the field, which serve, for internal purposes, as illustrative case studies included in our investors' factsheets.

So far, we have produced more than 100 client stories for our investment funds, highlighting over 40 emerging and frontier markets and nearly 75 investees, past and present. The theme of the stories usually differs, covering such aspects as microcredit, SME financing, energy-efficiency products, leasing/factoring, women's empowerment, unattended rural locations, etc. These stories do not assess in detail the intent of the capital flow, nor do they scientifically measure the causal chain of its outcome. They simply tell the story, corroborating our general underlying big picture narrative.

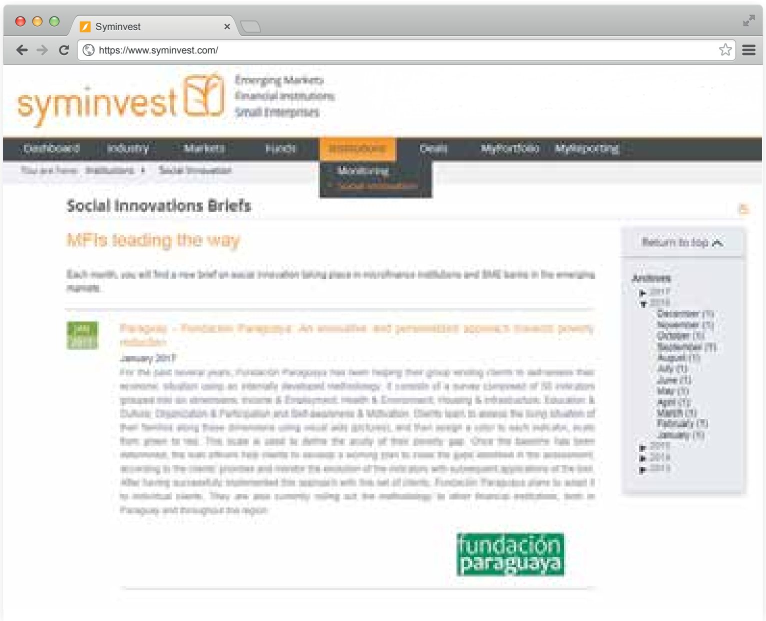
Figure 2
Beneficiary Stories – Illustration

1.2 PRACTITIONERS

At Symbiotics, we tell stories about practitioners in the form of social innovation briefs. These briefs, like client stories, are isolated individual narratives; however, they put forward product innovation within financial institutions, emphasizing an improved social benefit for their end-clients.

In contrast to client stories, which work at the micro or individual level, the social innovation briefs are an intermediary, meso level description, more inclined towards the 'microfinance' narrative of the early 2000s, focusing on practitioners (i.e. financial institutions), providers of financial services themselves, and the products and services they provide, rather than who uses them.

Figure 3
Practitioner Stories – Illustration



Each month, we choose one or two new briefs from our investment analyst teams who bring these practitioner-related stories from the field. We post these briefs on our social innovation blog and they are available for and used by our investor customers. We launched this tool in January 2013, pursuant to a fund client request emphasizing the need to convey such stories to its own investor customers. We have produced over 45 such briefs thus far.

The social innovation briefs are available on our Syminvest platform[7] and are among its top visited pages. The most recent briefs include:

- Vision Fund, Mongolia *Measuring socio-economic progress to increase sustainable livelihoods*
- SA Taxi, South Africa *SA Taxi sets example to reduce carbon emissions in the transportation sector*
- Banco Solidario, Ecuador *Offering special loan programs to stimulate micro-enterprises after earthquake*
- MTBank, Belarus *Innovations in generating more local retail business*
- CFPA, China *Catering mobile technology to micro-entrepreneurs' needs*

7 Syminvest is a product of Symbiotics and the largest online research and brokerage platform for inclusive finance. See www.syminvest.com

1.3 ENDORSERS

Generally speaking, an endorser openly approves the cause, expresses support or recommends an object. Stories from these stakeholders are at the systemic level and, similar to stories on beneficiaries or practitioners, they are short narratives where a trustworthy source enforces the legitimacy of an entity's mission statement without further scrutiny, outsourcing or delegating of due diligence for the investor.

These kinds of storytelling are a source of inspiration and commitment for microfinance investors. This approach may be more closely linked to the *building inclusive financial systems* microfinance narrative that emerged in the second half of the 2000s and early 2010s as a step away from beneficiary-level or practitioner-level storytelling.

Beneficiary-level storytelling was assimilated a bit too far with non-profit claims early on, while practitioner-level storytelling was sometimes assimilated too far with profit-making claims, linked partly to the initial public offering (IPO) of Compartamos in 2007 and of SKS (later renamed Bharat Financial Inclusion) in 2010. Systemic claims offer a more holistic hands-off approach to short narratives used by global or regional policy makers.

Today, industry narratives are moving towards *impact investing*, which puts less of a focus on individuals, institutions or systems, and more on activities—where and how the money is put to work. With the increasing relevance of digital technology and artificial intelligence, impact investing takes less of a customer-centric approach and less of an institution-building approach. Its focus is less on a big picture capital allocation story and more on transaction costs, scaling and mainstreaming the industry, fostering market access to goods and services of first necessity.

All are valid, but these systemic endorsers—industry-level champions—convey a necessary big picture story and remain the most needed anchors for microfinance investors in grasping valid business models in a changing market and environment.

Well-documented stories about endorsers, with sector champions, leading global policy-makers, highly esteemed individuals or industry associations and groups include the following:

- The United Nations declaring 2005 as the international year of microcredit and Muhammad Yunus and the Grameen bank winning the Nobel Peace Prize in 2006.

- More recently, CGAP formally linking microfinance and financial inclusion as key contributors to the 2030 United Nations Sustainable Development Goals (SDGs).
- On a more individual level, in 2010, for instance:
  - HRH Princess Máxima of the Netherlands was appointed as the UN Secretary-General's Special Advocate for Inclusive Finance for Development (UNSGSA).
  - In a landmark donation to the industry, the Bill & Melinda Gates Foundation granted a record USD 38 million to six leading microfinance networks.
- They also include the multiple investor associations, practitioner associations, government agencies, labels and certificates being developed for the industry.

At Symbiotics, we actively contribute to those big picture systemic actors, in particular through memberships or contributions to the following initiatives:

- AVPN, the Asian Venture Philanthropy Network
- EMFP, the European Microfinance Platform
- EVPA, the European Venture Philanthropy Association
- GIIN, the Global Impact Investing Network
- LuxFlag, the European investment fund social label
- SFG, the Sustainable Finance Geneva association
- Smart Campaign, promoting client protection principles (CPPs)
- SMP, the Swiss Microfinance Platform
- SPTF, the Social Performance Task Force
- SSF, the Swiss Sustainable Finance association
- UNPRI, the United Nations Principles for Responsible Investment.

We also actively engage with government agencies and development banks in building public-private partnerships, promoting innovation, and establishing track records and risk mitigating pathways into the industry to facilitate financing by private sector microfinance investors. Most importantly, beyond their risk mitigating contributions, development finance institutions (DFIs) also convey a moral guarantee, in terms of social performance for private sector investors, as industry champions. Several DFIs also go beyond the simple messaging and enforce both upstream intention guidelines and policies and downstream measurement requirements.

Among the many public-private partnerships Symbiotics has engaged in, two stand out in terms of pursuing the extra mileage on intent and measurement:

- REGMIFA, a syndicate of leading public sector investors, including the International Finance Corporation (IFC), the European Investment Bank (EIB), and government agencies from Austria, Belgium, France, Germany, the Netherlands, Norway and Spain creating a track to follow into sub-Saharan microfinance investments for foreign private investors. The fund has invested over USD 300 million into African MFIs and works with upstream exclusions lists, social responsibility ratings and social covenants, as well as downstream measurements through independent social impact reports and technical assistance reinforcements.
- More recently, the Swiss Secretariat for Economic Affairs (SECO) is providing risk carriage to Swiss bank UBS on their first financial inclusion fund, the SME Finance Loans for Growth Fund (LFG). It includes a built-in facility to produce onsite impact measurement at the SME level[8].

These examples serve as compelling cases and stories for microfinance investors to grasp the validity of microfinance investments in terms of the social performance narrative.

8 For more information about this impact measurement endeavor, please refer to Appendix III.

2. INTENTIONS

Intention is the effort to turn the narrative behind stories into a mission, norms and practices in order to produce the intended outreach and outcome. As investment analysts working for microfinance investors, Symbiotics assesses the intentions of the various actors in the value chain, whether at the microfinance investment vehicle (MIV) level or the MFI level. Typically, we will look at the input upstream into the value chain, diligently reviewing and scoring key inflows. The diligence will measure the likelihood or probability of a pattern to deliver on a narrative. While the outreach and outcome measurement approaches are a quantitative result-based approach, intentions are a qualitative behavioral approach to social performance measurement.

Assessing intentions at the upstream—in other words at the pre-investment level—is the most labor intensive part of impact investment assessments, as by definition it is not automatable and requires the investment analyst to elaborate an informed judgement. This effort can be conceptualized into three sub-dimensions:

1. *Assessing the mission of an entity*, whether at the MIV or MFI level; it focuses on history, background, key people, motivations, values, vision, and strategy statements.
2. *Assessing the norms of an entity*, whether at the MIV or MFI level; it focuses on rules, policies and guidelines, restrictions, exclusions and eligibility criteria that form the implementation social charter of the strategy.
3. *Assessing the practices of an entity*, whether at the MIV or MFI level; it focuses on investment processes, procedures and flows, decision-making triggers, and incentives, i.e. how the delivery of the strategy and charter actually takes place.

Whether aggregated through a scoring system with a final grade or analyzed more qualitatively, each of these steps provides investors with a key view of intentions as a basis for their judgment and decision-making prior to investing.

2.1 MISSION

The social mission of an entity can be extracted and understood by closely looking at its founding history and rationale, as well as its organizational culture and its founder's motivation and background. This assessment will take place through key stakeholder interviews and through a review of key documents, with a particular focus on the following elements:

- Vision and mission statements, strategy claims
- Unique selling proposition and brand promise
- Governance setup and incentive structures
- Corporate values and standards
- By-laws and offering memorandums.

For Symbiotics, the following elements would apply:

- *Rationale behind creation:* The firm was setup in late 2004 as a spin-off from several pioneering initiatives linked to the preparation of the UN 2005 International Year of Microcredit in Geneva.

- *Corporate identity statement:* '(Sym'bi·ot'ics) Science refers to symbiotics as the study of different species of organisms that are interdependent, gaining benefits from their mutual relationships; life sciences refers to symbiotics as the study of human evolution based on social networking and bonding rather than natural selection; social sciences refers to symbiotics as the art of associating humans for the purpose of establishing, cultivating and conserving social life among them.'

- *Vision statement:* 'Our vision is to positively impact low- and middle-income households in emerging and frontier economies in areas such as job creation, food and agriculture, housing, and energy.'

- *Mission statement:* 'Our mission is to contribute to sustainable development in emerging and frontier markets by providing traditionally underserved businesses with increased access to capital and financial services. We aim to do this by offering specialized investment solutions that connect socially responsible investors to micro-, small and medium enterprises and value chain development projects in low-income economies in Africa, Latin America, Eastern Europe, and South-East and Central Asia.'

- *Strategy statement:* 'Our strategy is to be a leading investment company dedicated to inclusive and sustainable finance in emerging and frontier markets.'

- *Corporate values:* ‘Our corporate values are focused on the principles of independence, integrity and innovation: independence towards our clients and partners with regards to our investment strategies and choices; integrity of our staff and work; and innovation in our products and services. Moreover, we pride ourselves on delivering high-quality products and services and are strongly committed to the building of solid human relationships with all our stakeholders.’
- *Brand promise:* ‘Reaching out through investments.’

2.2 NORMS

The social norms of an entity consist of a set of guiding principles that embody and define its behavior, identity and strategy. If not clearly stated, this behavior, identity and strategy may sometimes be constructed or extrapolated from an analysis of its financing or investment policies and guidelines by looking at the entity's:

- Investment universe and target market definitions
- Selection criteria for eligible entities and instruments
- Investment guidelines, restrictions and limitations
- Minimum certification, grading, scores for decision-making
- Pre-defined social incentives and measurements.

Symbiotics has put into place a minimum framework for norms that clearly delimits the firm's investment universe and strategy and by which all investments must abide. Together, these norms constitute our social charter statement, which overarches all other MIV- and MFI-level guidelines and expectations.

Each investment Symbiotics makes needs to comply with the following criteria:

- Target domestic markets in emerging and frontier economies
- Invest in the real economy, promoting the social function of finance
- Pass a social responsibility rating using environmental, social and governance (ESG) norms, and seek long-term value creation
- Positively impact low- and middle-income households, and/or micro-, small and medium enterprises
- Foster job creation and/or access to primary goods, such as access to homes, food and energy.

Each underlying MIV and MFI will have its own charter and norms, further clarifying the social strategy it puts forward.

2.3 PRACTICES

An organization often expresses its social responsibility intention as an internal set of practices, including principles, policies, processes and procedures put in place to follow and further its goals. Symbiotics looks at actual practice over time to determine compliance.

Understanding how an entity implements its social mission and drives its social norms helps us assess social performance management. The investment analyst will focus on the following elements, whether at the MIV or MFI level:

- The existence of a social responsibility rating, weighing on the decision-making process, and the relevance of its methodology, focusing on practice rather than statements.
- The general adherence to ESG norms, and the balancing of multiple stakeholder interests along the value chain in its control, and in its decision-making and risk management.
- The actual application of exclusion lists, in particular in relation to ESG norms, in the design of products and services.
- The actual application of social covenants in loan agreements and investment documentation.

Symbiotics' investment practices have been shaped by the needs of systemic industry initiatives and by customer requests or expectations. In recent years we have offered the following three practice tools as behavioral guidance to intention in our value chains.

SOCIAL RESPONSIBILITY RATINGS

As Symbiotics works for funds investing in MFIs, it has developed a social responsibility rating focusing on the MFI level. For MIVs, these can be aggregated to form an opinion at the portfolio level. Our social responsibility rating was developed in 2008 and has been applied systematically to all investment decisions since 2010. The goal of the rating is to assess the likelihood of an institution contributing positively to sustainable development and social impact. Its methodology is organized in seven dimensions and is based on approximately 100 indicators that are about evenly split between qualitative questions and quantitative measures. These dimensions are defined as social governance, labor climate, financial inclusion, client protection, product quality, community engagement and environmental policy[9]. The rating compiles all indicators into a weighted aggregated score that grades the institution from 0 stars (lowest) to 5 stars (highest).

9 For a detailed description of Symbiotics' social responsibility rating methodology, please refer to Appendix 1.

Since the inception of this practice, we have produced a total of nearly 850 social responsibility ratings, with yearly aggregate scores from 3.5 to 3.75 stars, based on a weighted average of our portfolio.

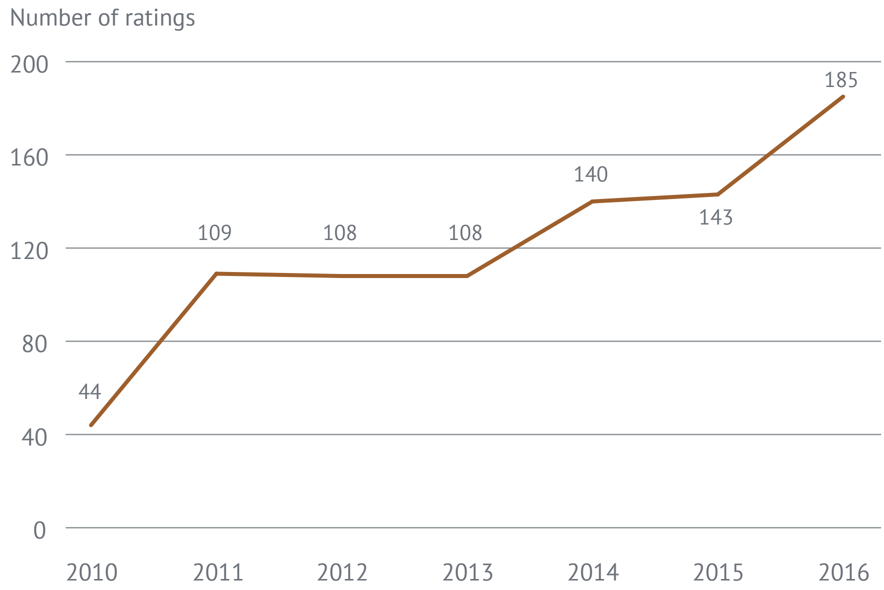


Figure 4:
Number of Social Responsibility Ratings per Year

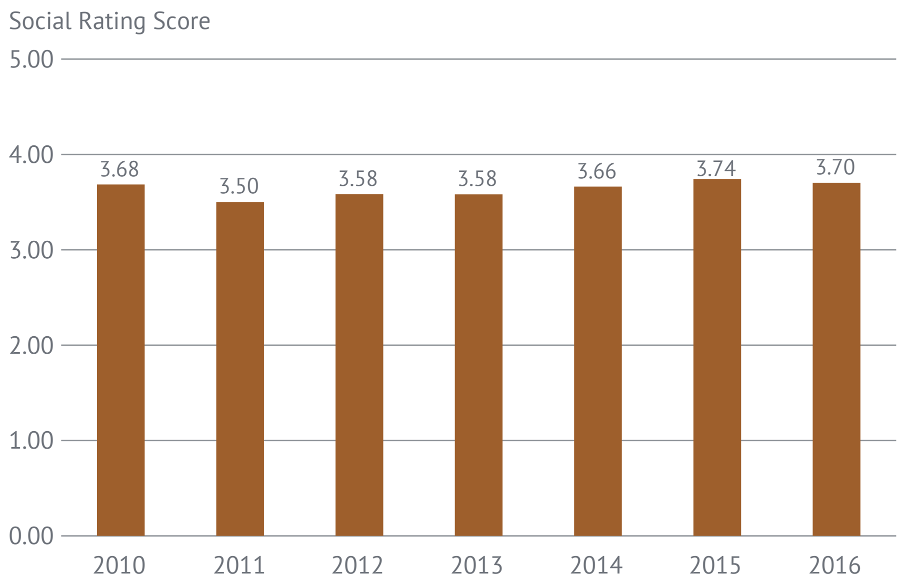


Figure 5:
Social Responsibility Ratings – Weighted Average Scores

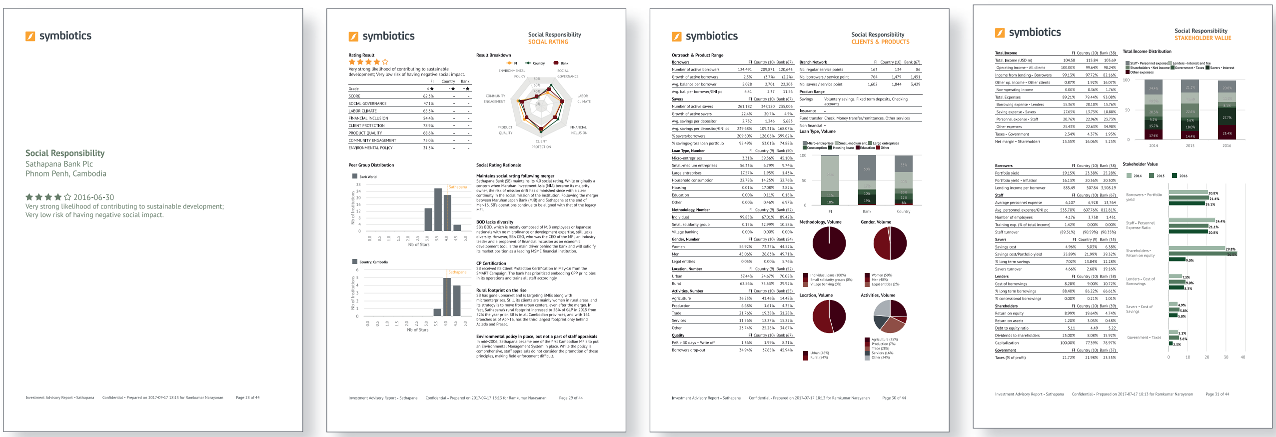


*Figure 6:
Social Responsibility
Rating Report – Extract*

SOCIAL EXCLUSION LISTS

Private sector investors are increasingly adopting development bank environmental and social exclusion lists that are influenced by international standards, treaties and protocols. Symbiotics has started applying such exclusion list in all our promissory notes, using the IFC and Dutch Development Bank (FMO) versions as templates. Such a list will at a minimum include the following elements or restrictions:

- Alcohol, drugs, tobacco
- Asbestos fiber, cement
- Drift net fishing
- Forced and child labor
- Gambling, casinos
- Hazardous chemicals
- Land grab and indigenous people’s rights
- Radioactive material
- Weapons, munition
- Wildlife protocols

They may include a much larger variety of topics and sectors. In general, exclusion lists remain representative based on warranties made by the investee, but in certain cases they may be audited or periodically reported on. More often, they serve as lists to pick specific deals and extract the bad ones in less granular loan pools in the construction of an SME loan portfolio.

SOCIAL COVENANTS

Lenders and regulators are also increasingly emerging with tentative social covenants to be included in loan or investment agreements in order to ensure and maintain the balance of the industry's double bottom line. These may include limitations on interest rates or other financial profitability measures, as well as more sophisticated or operational criteria to create incentives for certain practices or behaviors.

Those most commonly used include:

- Earmarked activities
- Impact-related sector eligibility criteria
- Maximum on-lending amounts
- Outcome reporting
- Outreach reporting
- Smart campaign principles
- Use of fund restrictions
- Ring-fenced or pledged portfolios

They are best put in the context of a specific jurisdiction, market or intent from a specific lender or regulator, as none have emerged as widely accepted universal standards. Symbiotics uses a range of these tools, depending on client expectations, requests and jurisdictions. All MIV prospectuses clearly define investee eligibility criteria, with minimums on underlying end-clients. Many also include maximums in terms of loan amounts.

Within the SPTF, a group of 15 key institutional microfinance investors have elaborated a *Lenders' Guideline for Setting Covenants in Support of Responsible Microfinance*[10]. It includes: a set of guidelines on financial covenants; some social undertakings and commitments, if not encouragements to use certain norms and limits; and finally a guideline on behavior in case of covenant breach and defaults. The SPTF has also recently published its SPI4[11], the fourth version of its effort to standardize social performance indicators, from which lenders may extract certain inputs for extrapolating social covenants.

In all cases, as with exclusion lists, social covenants will be most useful accompanied by proof of concept reports or audits in conditions preceding closing deals, assessing the actual practice and compliance of such covenants.

10 For more information on these guidelines, see https://sptf.info/images/investor%20wg_2014%20lendersguidelines_reasonablecovenants_final_2014.pdf.

11 The CERISE SPI4 Assessment Tool is a social audit tool that can be used for reporting and performance management to assess the level of implementation of the Universal Standards. See http://www.cerise-spi4.org/.

3. OUTREACH

Relative to the intention assessment done at an upstream level, outreach measurement is more quantitative, more prone to scientific falsification or academic endorsement and more 'automatable'.

Arguably, any post-investment quantitative social measurement is more of a specialist's debate, as microfinance investors first and foremost need their decisions to be anchored in clear narratives plus well-formed intentions, so as to manage the risks of any downstream malpractice or unintended results. This is especially important given that invested capital is largely out of their control once it is out the door, in particular for lenders. Yet on an aggregated and on a recurring basis, outreach measurement provides a true and tangible verification of the stories and intentions behind microfinance investments.

The social outreach of an MIV or an MFI is its capacity to *push money to flow where it normally does not*, both in terms of breadth (how far, quantitatively) and depth (how deep, qualitatively) of outreach at the base of the population pyramid in emerging and frontier markets and underserved economies.

More precisely, breadth means assessing the number of markets, investees and/or end-clients reached. Depth implies an understanding of how far down into lower economic/income strata the investment portfolio is channeled, again in terms of markets, investees and/or end-clients. It is thus possible to produce outreach assessments at the end-client level, as well as at the MFI level, by aggregating client and institutional data, or at the MIV level, by aggregating client, institutional and market data.

Symbiotics focuses mostly on MFI level data, looking at an institution and its client statistics. The common understanding is that, all other things being equal, the larger the end-client headcount (breadth) and the lower its average loan amount (depth), the stronger the social outreach. However, it is necessary to be careful in comparing the social outreach of different entities as each will have its own investment mission, strategy and target segments. An investment fund or a financial institution with a focus on SME financing will generally have higher average loan levels, with such figures not necessarily implying a lower social outreach score.

Whatever the case may be, investor clients are increasingly requesting that Symbiotics assess fund or portfolio outreach, integrating market-level information into the evaluation. Ultimately, this allows the comparison of one investment fund with another in terms of social outreach, without losing sight of each mandate's core focus and objective. A common but somewhat subjective understanding is that funds engaged in lower income countries and smaller financial institutions imply a higher outreach effort (depth) by the financier.

Measuring social outreach also implies understanding the characteristics of the end-clients to whom the financing is channeled by the intermediary. This includes, for instance, end-client gender, location (urban/rural) and activity (agriculture, production, trade, services, other), and the credit methodology employed (individual loan, group loan and village banking). Assumptions can be made on grading client segments from hardest to easiest to reach. Another common but debatable understanding of these indicators is that women, rural, agriculture and large group-lending methodologies signal higher outreach efforts by the fund in terms of depth.

Overall, whatever the lens used to measure social outreach, it is necessary to draw conclusions carefully, incorporating any market specificities in the big picture narrative. Symbiotics believes that social outreach metrics remain valid observation points but that do not necessarily enable us to derive social outreach levels or scores. They serve the purpose of understanding portfolio and end-client dynamics over time and can be starting points for discussions around social outcomes.

A note on methodology

In the following sections, any trend line for the analysis of quantitative social performance metrics is determined using a constant USD exchange rate as of December 2005. This methodology eliminates the effects of any foreign exchange fluctuation that has taken place since 2006 in the countries where Symbiotics has been investing. The study sample that serves as a basis for our quantitative observations in the outreach and outcomes sections is our portfolio of investees, i.e. only those that Symbiotics has financed since 2005. The sample is variable over time and implicitly demonstrates how our investments and investees have evolved. It does not, however, profess to be representative of the entire microfinance industry.

3.1 MARKET OUTREACH

Looking at the aggregated market depth figures of all our client portfolios, on average Symbiotics unsurprisingly finances countries that are well below the GDP per capita of Organisation for Economic Co-operation and Development (OECD) countries but, more interestingly, whose spread below global world average GDP levels is widening at an increasing rate. Using banking penetration as a proxy (percentage of adults with an account at a bank or another type of financial institution), the average banking penetration rate of the countries of our client portfolios amounts to 42.6%, against a world average of 60.7% and an OECD average of 94%[12]. Finally, by looking at income buckets based on World Bank definitions, we largely focus on lower-middle and upper-middle income economies. While this measure needs further granularity as it is undifferentiated between high-income and underserved populations within a same country, it does provide a good basis for situating a portfolio in terms of outreach.

Figure 7: Market Outreach

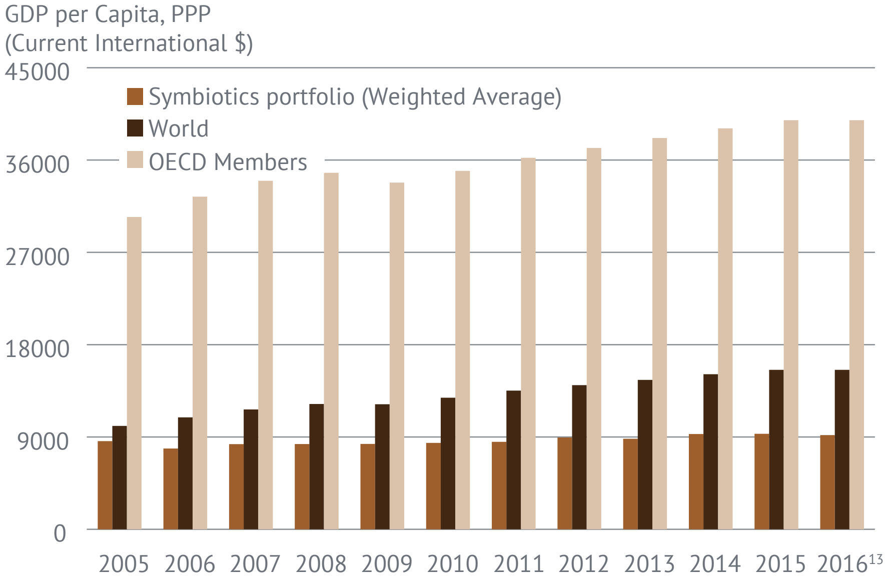


Figure 8: Banking Penetration

Percentage of Adults with a Bank Account	
Symbiotics portfolio (weighted average)	42.6%
World	60.7%
OECD members	94.0%

12 World Bank (2015), Global Financial Inclusion Database.
13 Values for Symbiotics portfolio in 2016 are estimates based on GDP per capita levels recorded in 2015.

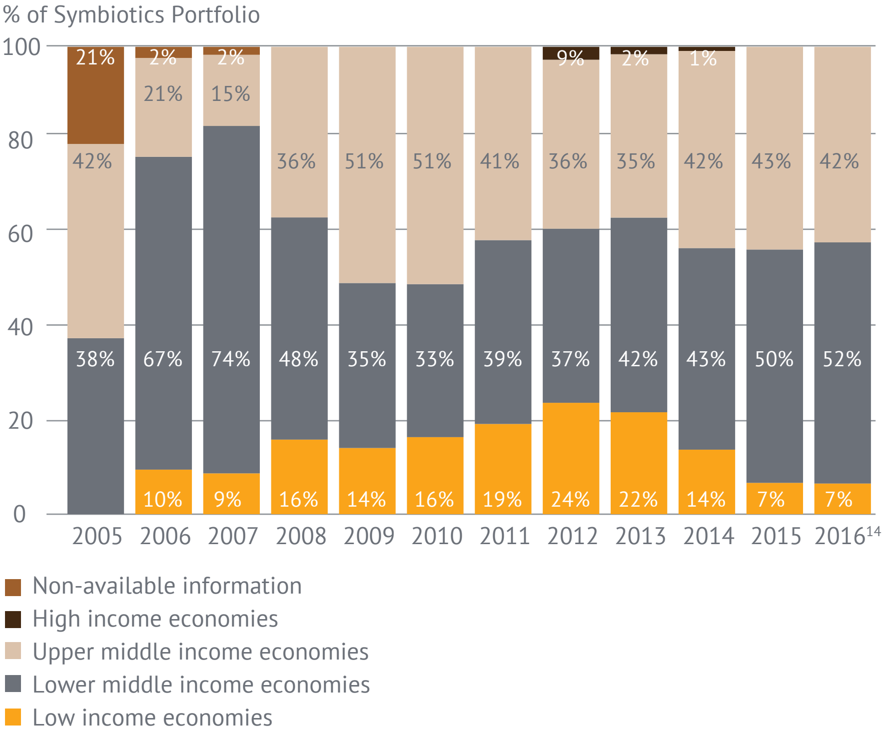


Figure 9: Income Levels – % of Symbiotics Portfolio

3.2 INVESTEE OUTREACH

Second, analyzing our depth of outreach towards institutions, we see that historically we have focused on financing non-bank financial institutions (NBFIs) and to a lesser extent banks, although the number of banks we work with is increasing. Today, we finance 48 banks in our portfolio, compared to less than 15 back in 2006. Our core market in terms of investee size remains anchored in the second tier segment of the market (assets between USD 10 and 100 million)[15] even if, as with banks, the number of first tier institutions in our client portfolios is growing. When looking at total volumes rather than investee headcount, nearly a third of portfolio outstanding is still in the second tier core historical market as of December 2016.

14 2016 values are estimates based on income levels recorded in 2015.

15 Tier 3 MFIs are defined as up to USD 10 million in assets, Tier 2 as up to USD 100 million, Tier 1 as up to USD 1 billion, and Tier '0' as above USD 1 billion (broadly, with some exceptions).

Figure 10:
Status of Financial
Institutions by Headcount

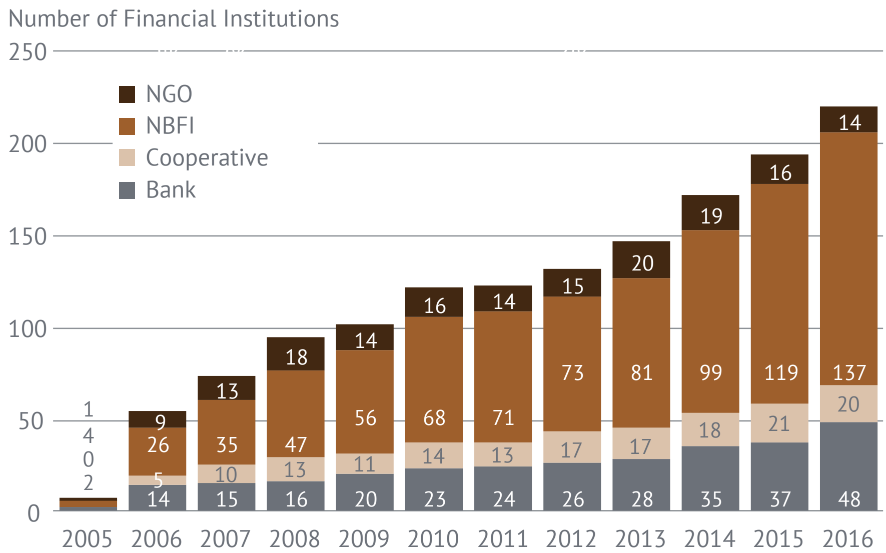
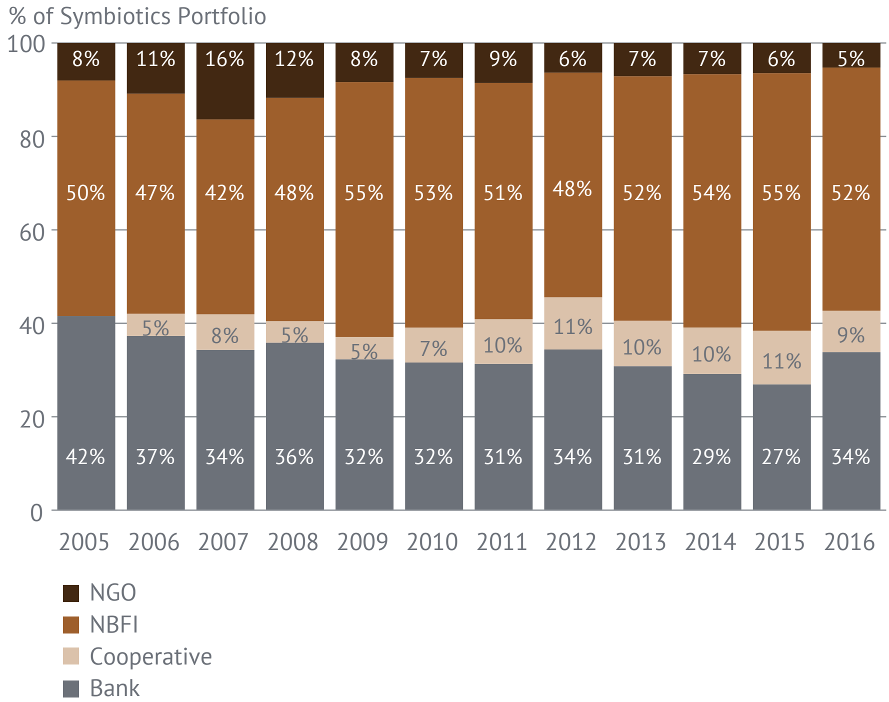


Figure 11:
Status of Financial Institutions
as % of Symbiotics Portfolio



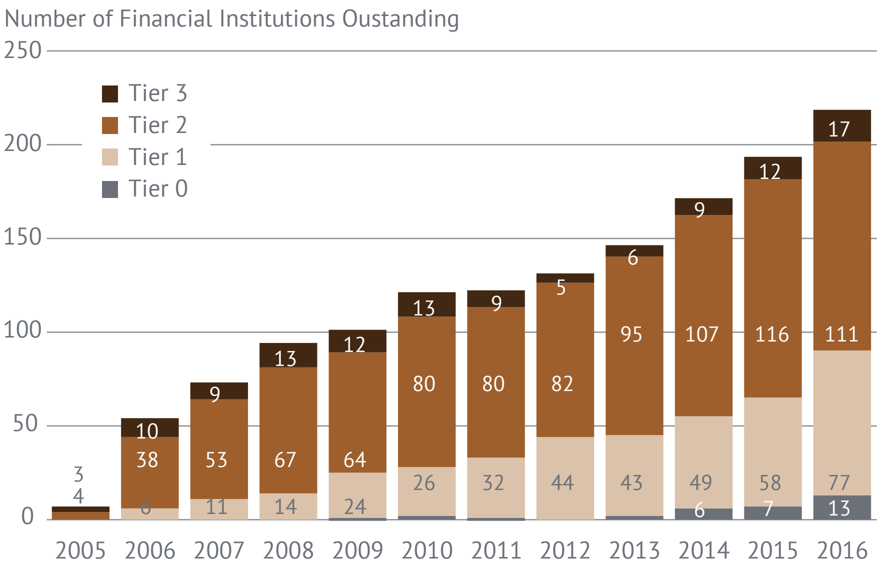


Figure 12:
Size of Financial Institutions by Headcount

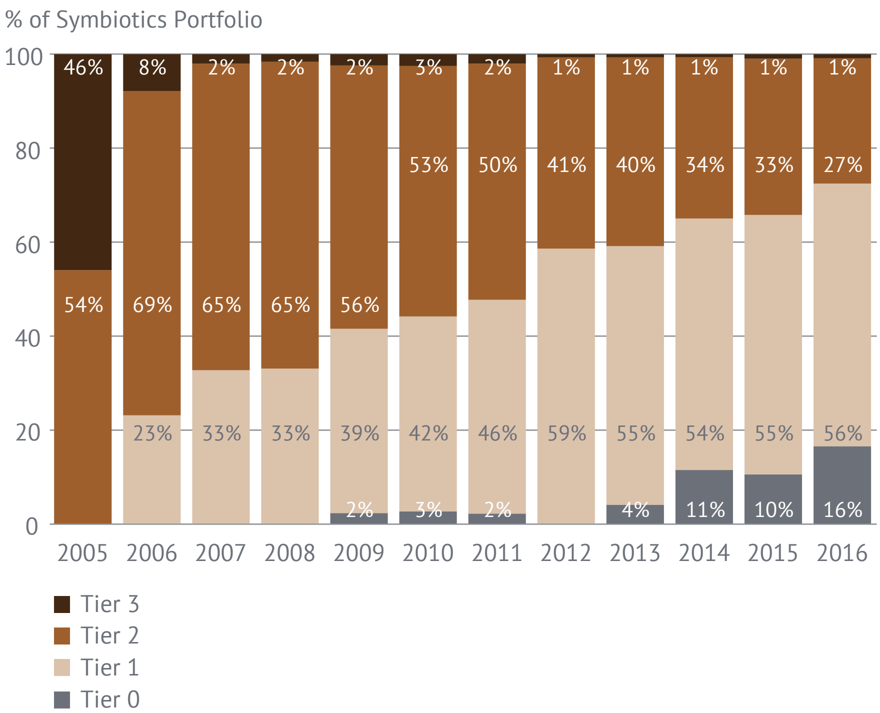


Figure 13:
Size of Financial Institutions by % of Symbiotics Portfolio

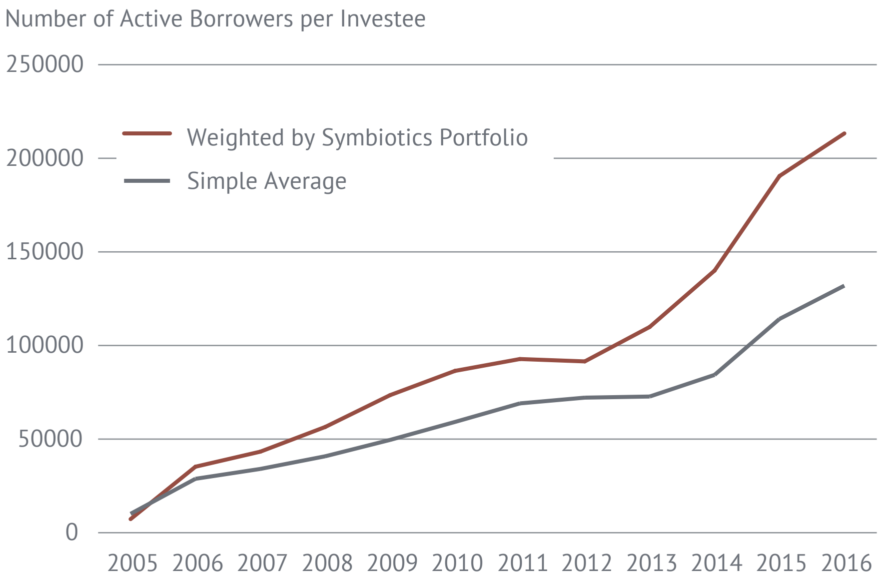
3.3 END-CLIENT OUTREACH

Third, as stated above, our social outreach at the end-client level can be measured at the MFI level or aggregated at the MIV portfolio level. This entails reviewing the end-client headcount and average loans, in a first step, and then going deeper into the segmentation by analyzing gender, location, activity and credit methodology.

BREADTH (HEADCOUNT)

The number of active borrowers (i.e. end-clients) per MFI has steadily increased since 2005. Today, MFIs we work with have on average over 130,000 borrower-clients; this figure was at the 10,000 mark a decade ago. The social outreach of our MFIs grows as they finance more and more end-clients on average. At our portfolio level, the social outreach of our investments has also grown, even more steeply in later years, as illustrated by the weighted average trend line.

Figure 14: Breadth – Number of Active Borrowers per Investee



DEPTH (AVERAGE LOAN)

Average end-client loan balances have remained relatively stable since 2005, although an up-market move has been observable since 2013, which coincides with the increase of Tier 0 and Tier 1 institutions in our portfolios. Taking into account only our core market, i.e. MFIs[16], the simple average loan balance has moved within a band of USD 1,450 to USD 2,550. When weighted by the share

16 For this specific indicator, we have excluded from the dataset the other types of institutions we partner with, such as SME financing institutions, leasing companies or apexes, which exhibit a completely different business model as such and would distort the average loan levels.

of each MFI in our investment portfolio, the average loan balance is a level higher, moving in a band between USD 1,800 to USD 3,300. In both cases, these average loan balance levels demonstrate that our MFIs are strongly positioned in the lower segments of the market at small loan transaction levels.

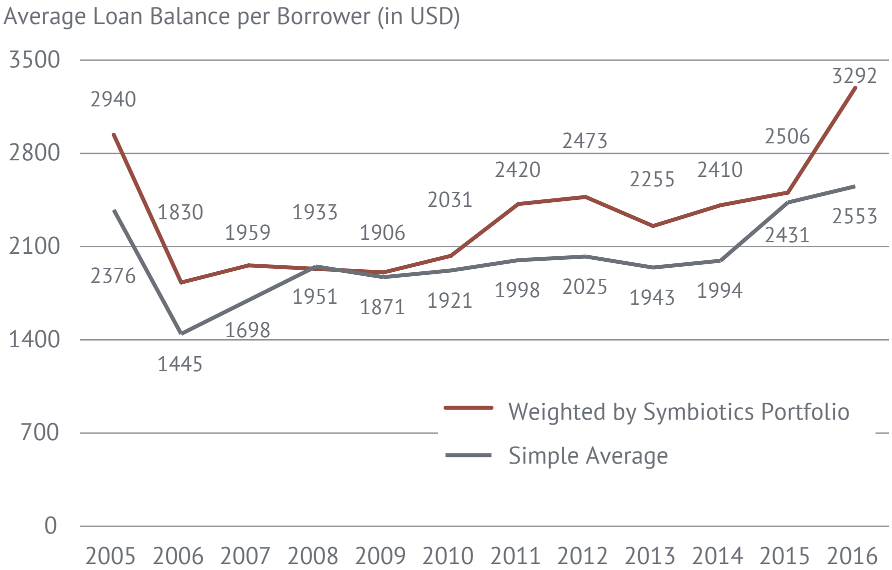


Figure 15:
Depth – Average Loan Balance per Borrower

GENDER

When segmenting the end-clients of our MFIs by gender, we observe that our universe finances mostly women, at around 80% today. This figure is derived by taking the sum of all women clients of our investees and dividing it by the overall number of end-clients financed by our investees.

Alternatively, we can also aggregate the end-client gender percentage at our investment portfolio level. To do this, we first assign weights to our portfolio holdings (i.e. MFIs) by dividing the dollar value of our debt investment in an MFI by the total dollar value of our portfolio. Then, we apply these weights to the gender breakdown reported by our MFIs. Results indicate that we have historically financed more women borrowers on a headcount basis, although our exposure to legal entities, i.e. end-clients that are structured as companies, is increasing, especially towards the end of the reporting period (7% at the end of 2016).

The difference between both data sets (MFI level vs. weighted average of Symbiotics investments) is due to our debt volumes towards MFIs in Asia—a region predominantly or often even entirely focused on women, which constitutes only a relative fraction of our entire investment portfolio, which is also spread across other regions that have different end-client gender characteristics.

Figure 16: End-Client Gender – MFI Level

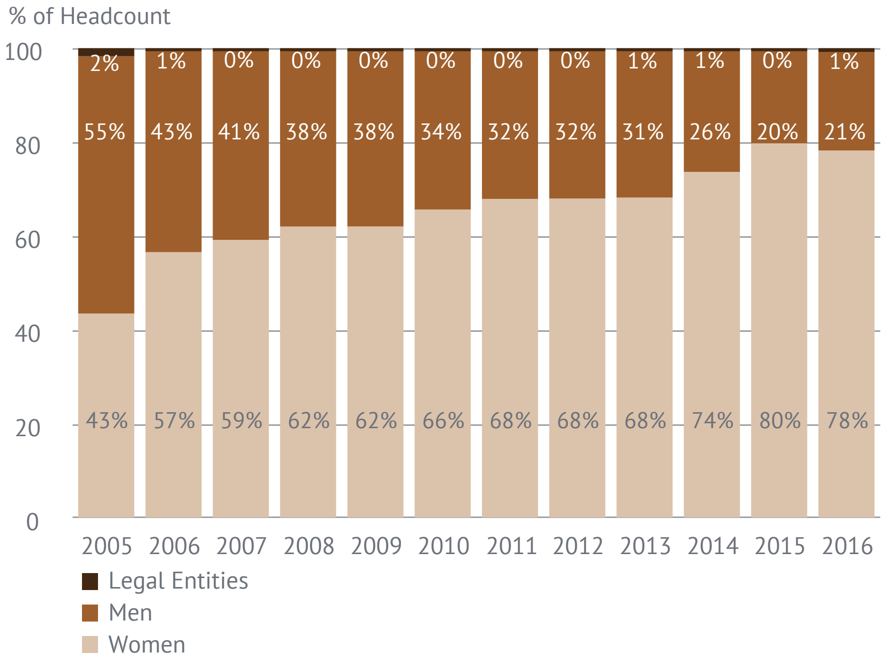
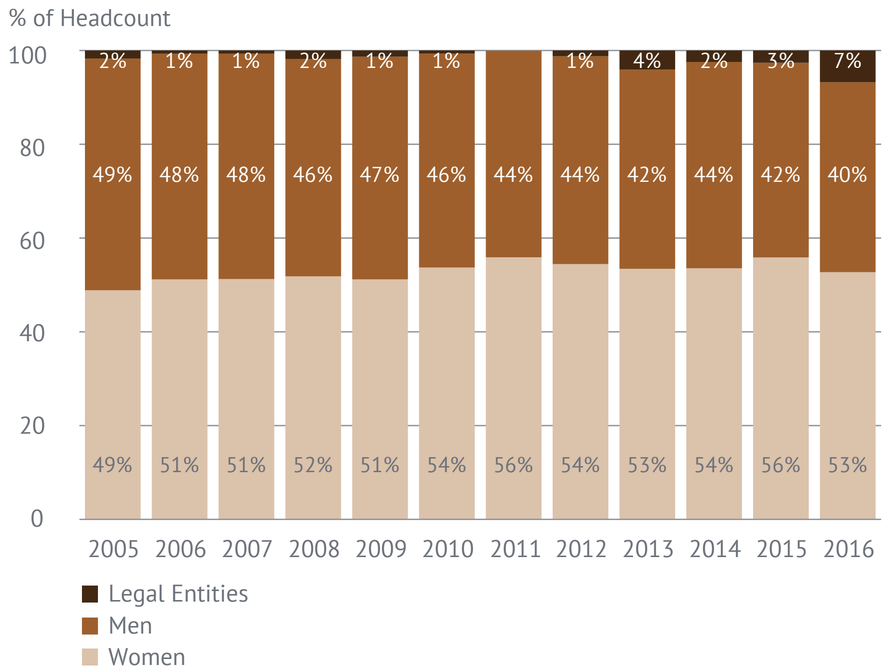


Figure 17: End-Client Gender – Symbiotics Weighted Portfolio



LOCATION

In terms of business location of end-clients, the majority remained urban-based clients until 2013, from which time the dataset signals a greater presence in rural areas. This location shift in the most recent years is because our investee universe has more broadly included Asian MFIs, which tend to work with end-clients located primarily in rural areas.

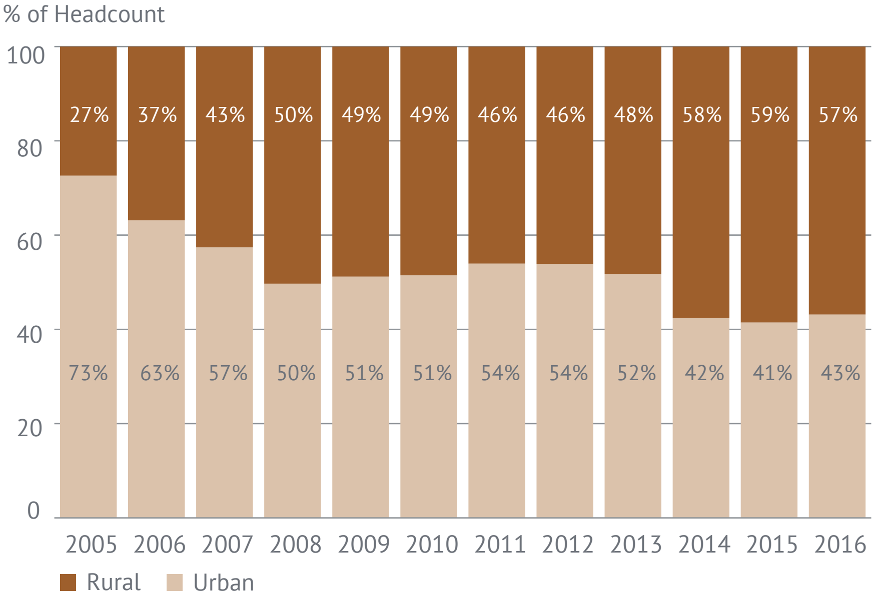


Figure 18: End-Client Location – MFI Level

Looking at the Symbiotics weighted data, the trend is pretty stable and evenly split, with a gradual increase in rural microfinance over time but a shift back to urban concentration in 2016 (56%).

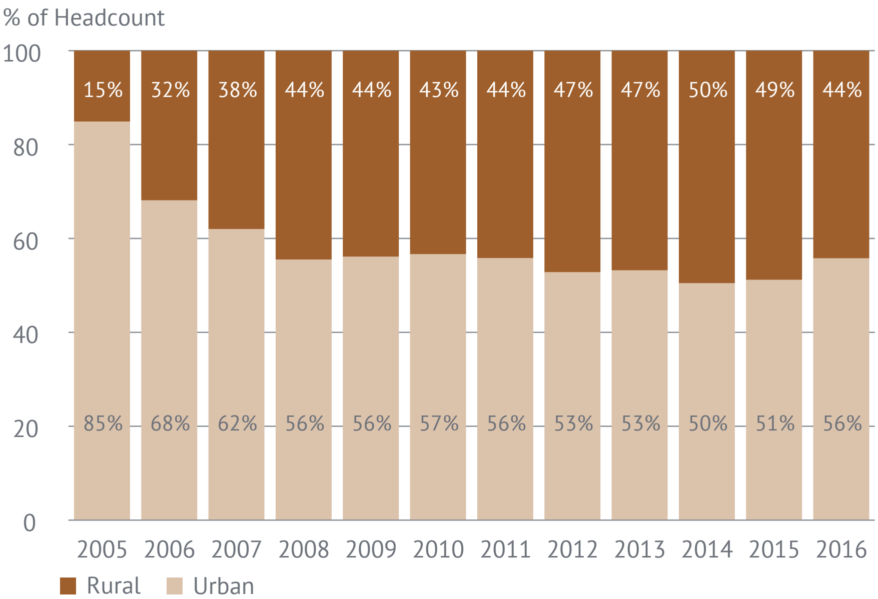


Figure 19: End-Client Location – Symbiotics Weighted Portfolio

ACTIVITIES

At our investee level, end-clients remain primarily active in small trading activities, a fact that has been stable throughout the past decade. Small manufacturing and production remain the least attended sector, while agriculture, services and 'other' remain relatively stable, with nuances depending on the data set. 'Other' refers predominantly to consumption loans.

In terms of the Symbiotics weighted portfolio, agriculture is stable at about one fifth, with a very slight gradual decrease in the past couple of years.

Figure 20: End-Client Activity – MFI Level

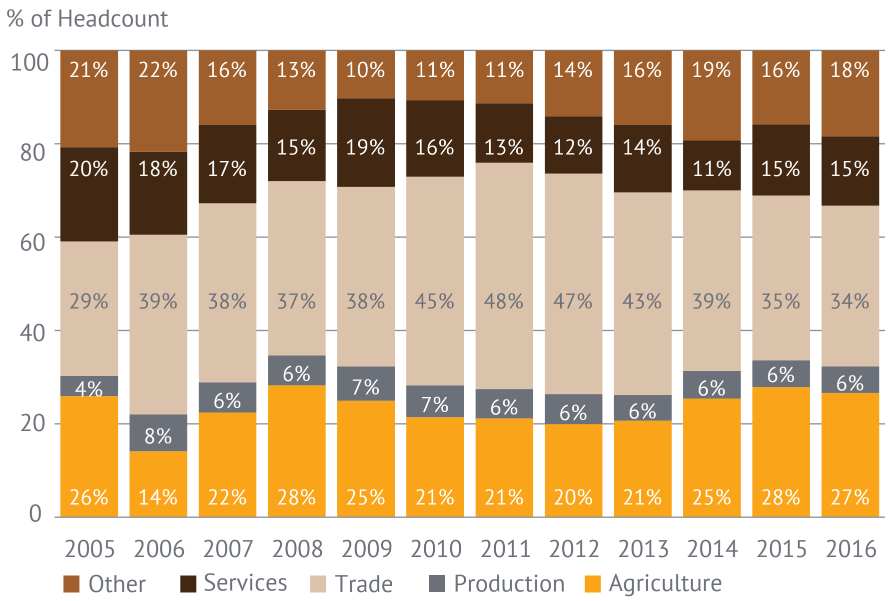
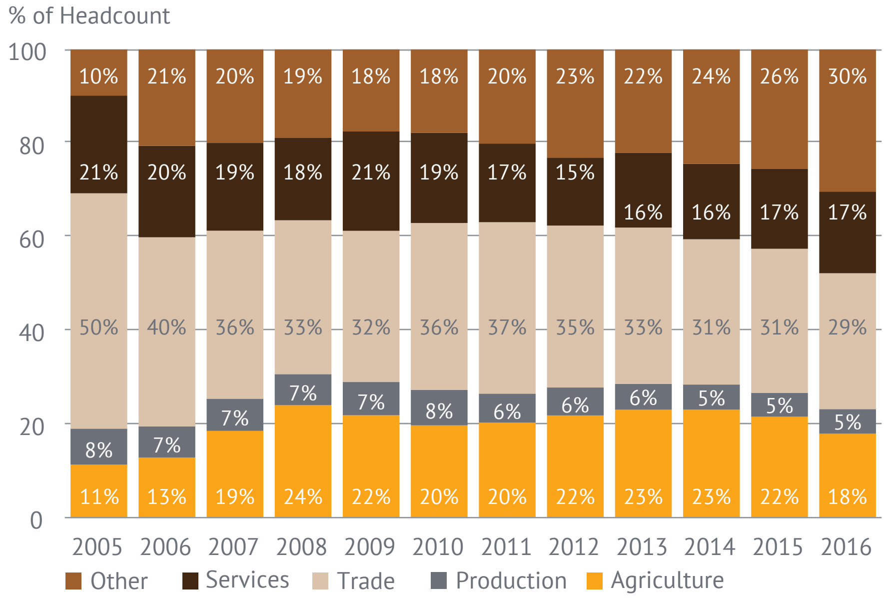


Figure 21: End-Client Activity – Symbiotics Weighted Portfolio



CREDIT METHODOLOGY

In terms of credit methodologies, initial observation points have been available from 2009 onwards. In our investee universe, we observe a gradual increase in the number of borrowers being served through group loans. This parallels our increased presence in South Asia, a region where MFIs for most part have a high number of borrowers who are organized under the traditional microcredit group/joint solidarity methodology.

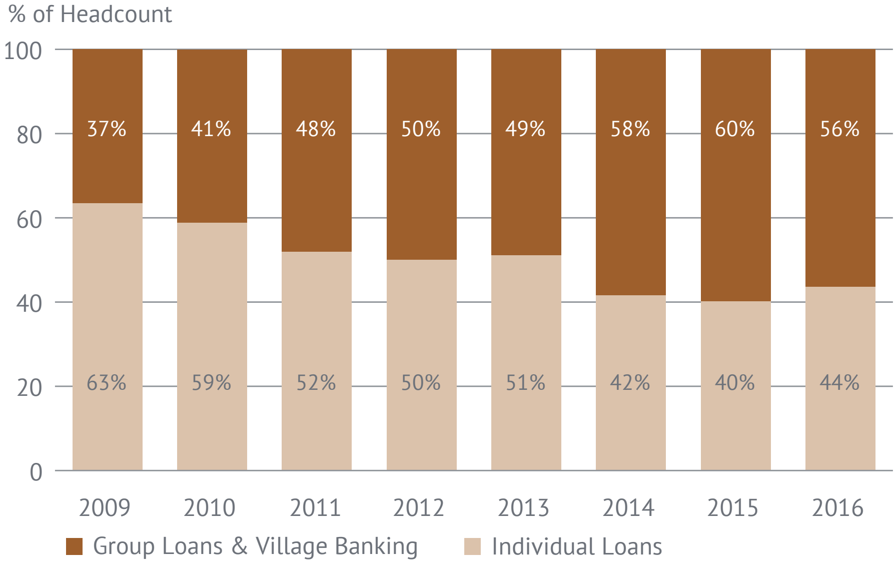


Figure 22: Credit Methodology – MFI Level

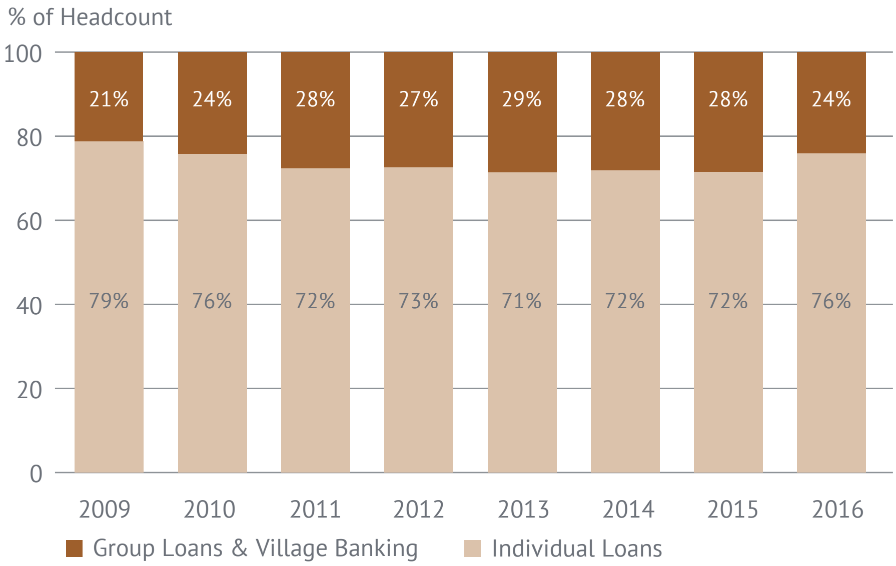


Figure 23: Credit Methodology – Symbiotics Weighted Portfolio

4. OUTCOME

Seen by many as the holy grail of social performance management (SPM), outcome measurements for an entity engaged in a socially meaningful activity is of utmost challenge. For an MIV or an MFI, the social outcome of its operations reflects its capacity to maximize its theory of change by positively influencing its end-clients or borrowers in increasing their financial security, household consumption, job creation and entrepreneurship.

Similar to outreach, outcome is a quantitative process and a specialist's debate. However, relative to outreach, outcome measurement is bounded by several constraints, including high costs. Also, with investment or credit portfolio content continuously changing and evolving, the availability of long-term, static, iterative data is scarce, leaving little to no room to infer the direct effects microfinance investments have on end-clients.

However, microfinance investors can fortunately rely on widespread academic research linking increased access to finance to a greater sense of social justice and tangible economic prosperity that includes, among others, greater financial security, improved household consumption, improved access to employment, and support in poverty alleviation.

For Symbiotics, close proxies to these factors are used as metrics to form an opinion on social outcome results at both investee and portfolio levels. Indeed, we aggregate individual client figures received by the MFI and again at the MIV level. But they remain *indirect* outcome measures, which vary over time and are largely driven by rapidly changing portfolio dynamics. They provide a continuum of individual snapshots of outcome estimates, without providing for a continuum in measuring the theory of change, which would require having access to a stable, static pool of data and population over a longer period of time (*direct* approach), as mentioned before. Both approaches are useful in contextualizing the implied global narrative, the direct approach more so than the indirect approach.

While the indirect approach has been practiced since inception at Symbiotics, it is less robust and not scientifically prone to validating/falsifying the social outcome implied compared to the direct approach. However, the indirect approach is largely automatable and exhaustive over the entire MFI clientele or as weighted to MIV investments.

The direct approach is part of a new initiative that we are developing at Symbiotics, in collaboration with academic circles, to conduct regular onsite sample interviews of MFI end-clients, in this case SMEs, in a process separate from the portfolio investment dynamic. This endeavor has started thanks to our recent mandate in collaboration with UBS and the Swiss Secretariat for

Economic Affairs (SECO) in which additional financial resources are being made available to do onsite outcome measurement at the SME level[17]. A dedicated team within Symbiotics leads and coordinates this newer initiative.

Irrespective of the approach (direct or indirect), the focus is on measuring the ultimate indicators relevant to our theory of change, namely assessing the changes in financial security, household consumption, employment and entrepreneurship.

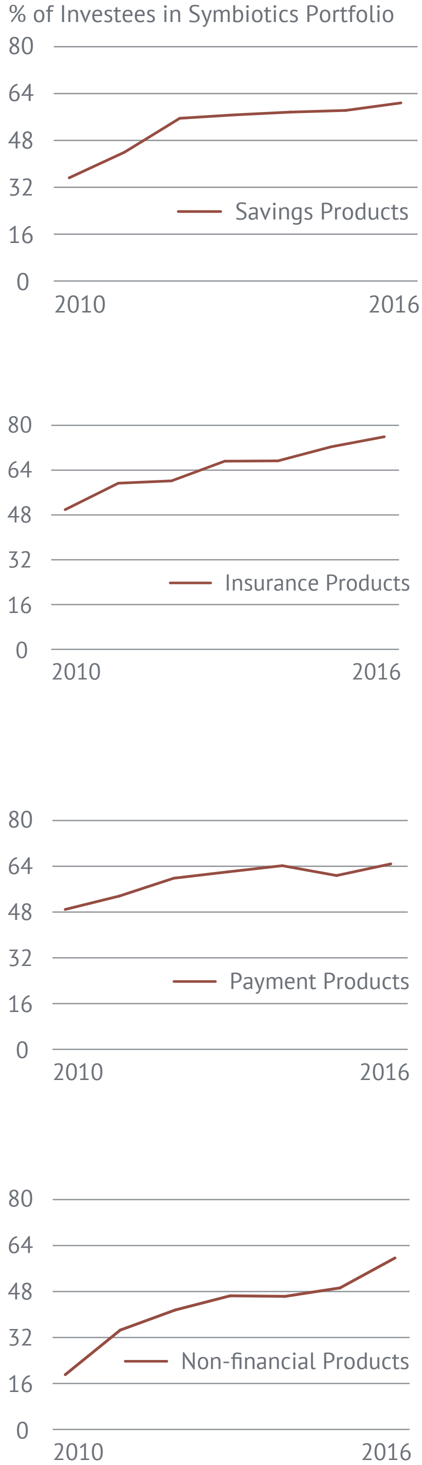
Today, a lot of the ongoing discussions within the industry revolve around 'impact' and how to best measure it. Symbiotics conceptualizes impact as the longer term effect of an outcome that would imply the capacity to drive poverty alleviation and in general to increase welfare and well-being for the target population.

However, this last-mile effort is not in the hands of the MIV or MFI because of a variety of exogenous factors that can enter into this complex equation. Pushing investors to believe that they would control or own that part of the value chain and that it is part of the MIV's and MFI's promise to produce poverty alleviation and peace on earth as implied by the Nobel Prize received by Grameen Bank is somewhat reductive even if attractive to short storytelling. In that sense, it may be considered dangerous if last mile examples or linear regressions come to falsify and thus call into question the overall narrative and theory of change on a case by case basis.

In other words, one can test the outcome of the delivery and output of financial services produced by an MFI in terms of financial security, household consumption or employment and entrepreneurship. But one cannot automatize the long term welfare and well-being of end recipients and users at this stage, isolating the MFI lending variable from the hundreds of exogenous factors that affect our daily lives and behaviours and ultimately explain our sense of own peace and justice.

17 More information about this project is available in section 4.3 of this white paper as well as in Appendix 3.

Figure 24:
Non-Credit Products



4.1 FINANCIAL SECURITY

The concept of financial security can be measured by defining its dimensions as increased access to:

1. Payment services;
2. Savings and, more broadly, capital accumulation services;
3. Credit lines through short-term working capital loans serving as bridge financing; and
4. Insurance programs and policies.

The theory is that the more an individual has access to any of these four products, the more the person is likely to be able to cope with managing cash safely or dealing with external shocks to cash flows. This is the most validated assumption in recent academic research.

At an indirect level, it is possible to measure financial security assumptions by collecting MFI data in terms of non-credit products and deducing—for credit products—that microcredits are often used as credit lines or bridge loans. From a direct approach perspective, it is possible to conduct interviews at the end-client level, reviewing these offerings and how they evolve over time, as proposed in the questionnaire dimensions laid out in Appendix 2, section 1.

Since 2010, our investee universe has increased its non-credit product offering, primarily insurance and payment services, as well as savings products. The growth is most impressive for non-financial products (such as training and business advisory services). Today, 60% of our investees offer non-financial products, whereas only 20% offered them back in 2010. We cannot infer that partnering with such financial institutions implies added social outcome. However, these observation points illustrate an increase in the product range that our investee universe proposes to their clients, offering them a means to better manage their cash flow cycle.

4.2 HOUSEHOLD CONSUMPTION

Household consumption should not simply be understood as buying goods of first necessity for the household; it should also include longer term capital commitments towards education curricula for family members or housing improvements for instance. Positive household consumption related to food security contributes to raising living standards. One way to illustrate this is through the impact of household consumption on the purchase of a refrigerator, a washing machine, a solar lamp or a clean cooking stove in a poor household, or simply the daily purchase of dairy products or fruits and vegetables at the local market.

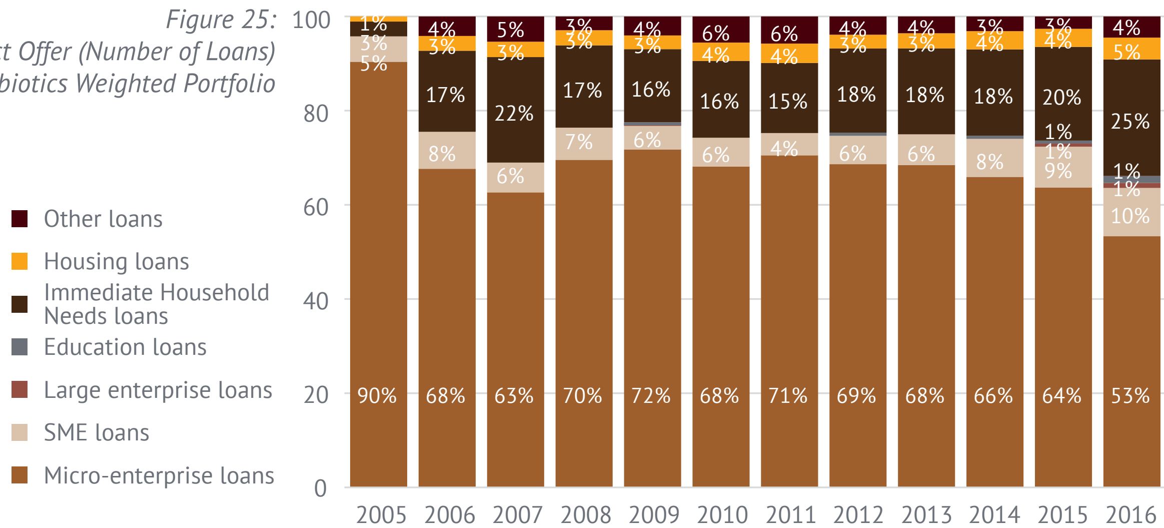
Looking at credit product data from MFIs and weighting it by Symbiotics' portfolio exposure, two trends become apparent. The first trend is a general decline in microcredits, both in number and volume, even if they largely remain the bulk of such portfolios. The second trend is a general increase in other loan products geared toward household consumption (education, immediate household needs, housing and other). This speaks more to the development and sophistication of the MFIs in terms of their product and service offerings, yet also connotes an improvement in serving household consumption needs in general.

However, we are not in a position today to precisely measure and clarify whether consumption is financed through an income-generating activity or not. Consumer loans have received a lot of bad press, especially those not financed by income-generating activities. Nevertheless, our experience from the field shows that microcredit is geared more towards a consumption story, contrary to SME loans which are driven more by employment and entrepreneurship dynamics. Microcredit serves as a cushion in daily financial management and, in some instances, as a means for improved business decisions. But we are aware of instances where microloans are also used to purchase goods and services for the household.

Not being able to know for certain the final use of microloans is a definite roadblock in the analysis of MFI product range data points. An added limitation is that our internal methodology and quantitative measurements are largely derived from self-reporting by MFIs. Even though we aim to set precise definitions for our investees to report on their product breakdown, we know from the reality in the field that, for example, our investees report the 'immediate household needs' portfolio according to a basic product definition of salary-backed loans. In a lot of cases, however, this loan is used to finance a second income-generating activity within the household, for a member who is in most cases unemployed. To add to these challenges, as mentioned previously, we also observe that many microloans are being used for consumption, but as the loan is not backed by any salary, our investee will report it as a microenterprise loan. Ultimately, our investees' reporting is based on their product offering, not on the use of proceeds, which are often not known with certainty by the financial institutions themselves.

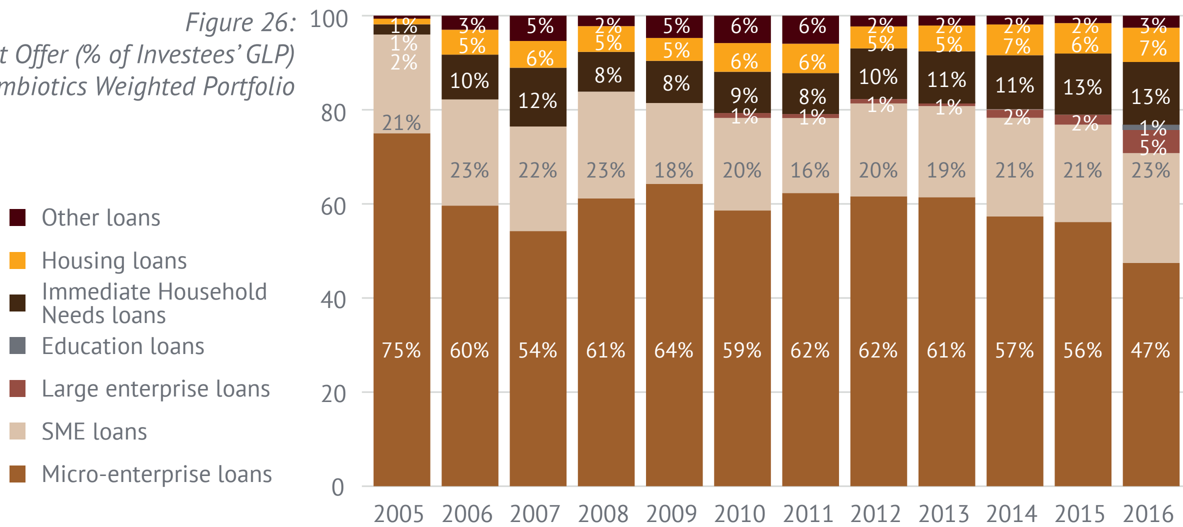
% of Number of Loans

Figure 25: Product Offer (Number of Loans) – Symbiotics Weighted Portfolio



% of Investee GLP

Figure 26: Product Offer (% of Investees' GLP) – Symbiotics Weighted Portfolio



All in all, without access to the granularity needed to have a normative view of the whereabouts of consumption, MFI-level data on credit products provides *directions of travel* in terms of household consumption. One useful approach to this problematic would be to conduct interviews at the end-client level to review these consumption offerings more in detail, having a normative view on them and seeing how they evolve over time, as proposed in Appendix 2, section 2. This more direct approach has been undertaken in the past, usually by academics and funded by a wide array of stakeholders, but largely by donor organizations, foundations and DFIs. Some recent and recognized case studies are randomized control trials (RCTs) that have produced different findings at the household level. Some find that microcredit has had a negative effect on household consumption and savings[18], while others find that it has helped increase per capita expenditures on both food and non-food consumption, implying a significant effect on food security for treated households[19], while yet other case studies find that there has been no effect on household consumption[20].

Common challenges in these RCTs include the management of sample dropouts as well as the costliness of conducting such field experiments. Symbiotics is not aware of any peers, especially debt investors, who have ventured into this type of outcome measurement practice.

18 Augsburg, B., R. De Haas, H. Harmgart and C. Meghir (2015), 'The Impacts of Microcredit: Evidence from Bosnia and Herzegovina', *American Economic Journal: Applied Economics* 2015, 7(1): 183–203.

19 Bandiera, O., R. Burgess, N. Das, S. Gulesci, I. Rasul, M. Sulaiman (2013), 'Can Basic Entrepreneurship Transform the Economic Lives of the Poor?' IZA Discussion Papers.

20 Crépon B., F. Devoto, E. Duflo, W. Parienté (2015), 'Estimating the Impact of Microcredit on Those Who Take It Up: Evidence from a Randomized Experiment in Morocco', *American Economic Journal: Applied Economics*, 7(1): 123–150.

5.3 EMPLOYMENT AND ENTREPRENEURSHIP

Job creation and the promotion of bottom-up economic opportunity represent the third dimension of outcome measurement. Some of the most tangible measurements are new job and new business creation. Here too, MFI-level data does not provide the necessary granularity to test the causal changes underlying our theory of change due to continuous portfolio movements and dynamics. Nevertheless, it is possible with caution to extrapolate directions of travel by assuming a certain number of jobs per micro-enterprise and per small or medium enterprise financed. Assuming two jobs per micro-enterprise and 10 jobs per SME, for instance, we can conclude that our portfolio of investments currently finances or supports 1.2 million MSMEs, employing nearly 2.9 million people. In comparison, in 2005 our portfolio was financing 11,000 jobs by this measure.

Figure 27: Job Estimates

	Number of MSME clients	Total jobs financed
December 2005	4,236	11,188
December 2006	75,779	203,608
December 2007	138,707	358,823
December 2008	286,775	714,501
December 2009	349,616	860,851
December 2010	511,523	1,258,895
December 2011	440,971	976,102
December 2012	425,672	1,014,650
December 2013	516,591	1,180,567
December 2014	804,770	1,875,348
December 2015	1,127,711	2,673,409
December 2016	1,219,235	2,823,825

At the end-client level, it is possible to conduct interviews reviewing MSMEs and their total employment levels, as well as focusing on their growth in output, financing and revenues, as laid out in Appendix 2, section 3.

In line with this field measurement suggestion and by leveraging our experience gained with Oxfam GB through the Small Enterprise Impact Investing fund for five years, from 2012 to 2017, we are currently pilot-testing a number of questionnaire dimensions specifically catering to SMEs notably in the context of the management of the SME Loans for Growth Fund, a collaboration with UBS and supported by the SECO.

The aim of this direct outcome measurement effort, per se, is to gather a picture of the growth trajectory of SMEs in selected markets. Being well-aware of the difficulties involving a full-sampling exercise, this on-field outcome measurement endeavor looks to paint a picture of the characteristics of SMEs in various regions and how the financing received from our partner MFIs is helping them evolve their business. We are looking to comprehend what constitutes a successful business and how inherent factors help an SME to be successful in sustaining and growing its offering, ultimately to the benefit of the missing-middle.

Initially a pilot project, we will test its success in terms of participation rate and willingness of SMEs to directly report to us, on a regular basis, some key metrics for us to better understand how these end-clients are faring, even after completing a loan cycle with our partner intermediaries, i.e. the financial institutions. We have derived a target number of 40 to 50 SMEs to interview per country of investment, this figure varying upwards or downwards depending on the final budget allocated for this project. More detailed information, including the main dimensions of the pilot-test questionnaire, is available in Appendix III.

CONCLUSION

This paper puts forward the theory of change as well as the tools and methods we have developed over the past decade to track it.

We see social performance management as a comprehensive framework that can be applied variably, whether through stories, intentions, outreach and outcome. This framework has led us to:

STORIES

- Write over 100 client stories on end beneficiaries;
- Produce over 50 social innovation briefs on partner financial institutions;
- Endorse and engage with over 10 industry associations.

INTENTIONS

- Develop a strong social mission and social norms guiding our corporate strategy;
- Implement an internal set of investment practices that express our social responsibility intention, including:
  - producing over 800 social responsibility ratings since 2010, with yearly scores averaging 3.5 to 3.75 stars;
  - applying social exclusion lists to all our promissory notes;
  - using a range of social covenants to maintain the balance of the industry's double bottom line.

OUTREACH

- Measure social outreach, both in terms of breadth and depth, leading us to observe that:
  - we invest in countries with much lower GDP per capita and banking penetration compared to world and OECD averages;
  - our portfolio outstanding is concentrated in lower-middle and upper-middle income economies;
  - our core market segments remain NBFIs and tier 2 institutions in terms of headcount;
  - our investees are rapidly increasing their clientele base while average loan balances have varied between USD 1,800 to USD 3,300 since 2006;
  - we have pre-dominantly financed women borrowers and urban end-clients (over 50%);
  - end-clients reached have primarily been involved in small trading activities (35%) and agriculture (20%) on average since 2005;
  - a higher number of borrowers are being served through group-loans, within our universe of investees.

OUTCOME

- Systematically measure social outcome indirectly, with a focus on financial security, household consumption, and employment and entrepreneurship;
- Start measuring social outcome directly on-site through sampling and interviews.

Measuring social performance remains a complex task, with no simple single digit result. It is also challenging, with a variety of angles, levels and variables to choose from. Finally, it remains imperfect, as we do not control the last-mile, i.e. the end-client, and are subject to a multiplicity of exogenous variables that affect the value chain from investing into a fund down to improving one's daily well-being.

That being said, we believe this framework allows us to overall measure and manage our theory of change. We are putting on the table what we observe, what we know and what we have developed internally. We hope to testify through this white paper the depth of practice and solutions that have built-up over the past decade that help us corroborate the validity of our social impact narrative.

APPENDICES

I. SOCIAL RESPONSIBILITY RATING METHODOLOGY

The following summarizes Symbiotics' social responsibility rating methodology. It is based on a concept and scoring system split between seven different dimensions and up to 100 indicators.

1. SOCIAL GOVERNANCE

Social governance is a process by which a board of directors and a management team guide an institution in fulfilling its corporate mission (in line with shareholders' social and financial expectations). Those indicators assess the social orientation of shareholders as well as the microfinance institution's (MFI) stated and effective commitment to its social mission, its target market and development objectives/stakeholders' needs, i.e. the social involvement of the board of directors and the institutionalization of the social mission generated by the management team's policy.

SOCIAL ORIENTATION OF SHAREHOLDERS

- Clarity of social mission/vision and integration in the MFI's documentation
- Shareholding composition and representativeness in line with social mission/vision
- Shareholders' return vs. that of other stakeholders

SOCIAL COMMITMENT OF THE BOARD OF DIRECTORS

- Board's expertise, representativeness and commitment to social mission/vision
- Board's independence from people/organizations associated with or employed by the MFI
- Clear definition and comprehension of Board's responsibilities

INSTITUTIONALIZATION OF THE SOCIAL MISSION

- Clear and tangible social performance strategy
- Institutional culture based on social mission/vision
- Training and knowledge of staff on social responsibility issues
- Internal control to avoid fraudulent activities
- Quality of procedures and management information system regarding the collection of social data
- Staff performance appraisal and incentives based on attainment of social objectives
- Social transparency of the MFI
- Financial and operational transparency of the MFI

2. LABOR CLIMATE

Human resources policy is important to ensure that employees are treated fairly. At the same time, it is important to monitor employee satisfaction and have a system in place to understand employee concerns and needs. These indicators assess the MFI's policy regarding social responsibility to staff by looking at its human resources policy, systems to monitor employee satisfaction and staff turnover rate, as a measure of staff satisfaction. The results of these policies and systems are also evaluated to some extent.

EMPLOYMENT CONDITIONS

- Monitoring of staff turnover and satisfaction
- Staff turnover rate
- Wage, social benefits and employment conditions compared to employment market
- Average personnel expense/gross national income (GNI) per capita
- Staff remuneration vs. other stakeholders
- Staff remuneration vs. clients – personnel expense/operating income

LABOR/MANAGEMENT RELATIONS

- Management listening capacity, information flows and work atmosphere
- Opportunities to express demands and exercise collective bargaining

NON-DISCRIMINATION IN RESPECT TO EMPLOYMENT AND OCCUPATION

- Non-discrimination in respect to employment and occupation

TRAINING AND EDUCATION

- Staff training and education
- Staff training expense as a % of total income
- Staff career path and mobility

OCCUPATIONAL HEALTH AND SAFETY

- Occupational health and safety

3. FINANCIAL INCLUSION

Fighting financial exclusion is the raison d'être of microfinance institutions. This implies developing and implementing strategies, techniques, procedures and systems that allow for the removal of barriers to financial inclusion and thus facilitate access to financial services to low-income and excluded populations. These indicators assess whether the MFI has an efficient and proactive strategy and good results in terms of financial inclusion, as well as its ability to serve low-income and excluded clients, especially those located in areas where no other financial services are provided.

FINANCIAL INCLUSION STRATEGY

- Proactive financial inclusion strategy

REACH OUT TO FINANCIALLY EXCLUDED PEOPLE

- Bancarization of excluded clients
- Poverty of clients – Average credit balance per borrower as a % of GNI per capita
- Rural vs. urban outreach
- Women's outreach
- Geographical coverage (breadth and depth)

REMOVAL OF BARRIERS TO FINANCIAL INCLUSION

- Use of non-traditional delivery technologies
- Diversity of collateral accepted
- Low administrative burden, fast disbursement process and easy access to facilities and services

4. CLIENT PROTECTION

Social responsibility to clients is a fundamental dimension of an MFI's social performance. It consists of treating clients in a fair and transparent way and avoiding as much as possible that negative impacts affect them (notably because of over-indebtedness). These indicators are linked to the Campaign for Client Protection in Microfinance, which seeks to unite microfinance providers worldwide to develop and implement standards for the appropriate treatment of low-income clients based on the following six principles: 1) avoidance of over-indebtedness; 2) transparent pricing; 3) appropriate collections practices; 4) ethical staff behavior; 5) mechanisms for redress of grievances; 6) privacy of client data.

PREVENTION OF OVER-INDEBTEDNESS

- Share of loans for household consumption
- In-depth analysis of client repayment capacity
- In depth-analysis of client indebtedness level and prevention of over-indebtedness
- Participation in a credit bureau and/or information sharing
- Portfolio at risk > 30 days + write off

PRODUCT TRANSPARENCY

- Transparency on product terms and conditions
- Financial literacy of clients

ETHICAL STAFF BEHAVIOR

- Ethical staff behavior, including anti-corruption and appropriate collection practices

COMPLAINTS AND PROBLEM RESOLUTION

- Mechanisms for complaints and problem resolution

RELATIONSHIP WITH CLIENTS

- Overall quality of the relationship with clients

REGULATIONS AND VOLUNTARY CODES FOR CONSUMER PROTECTION

- Awareness of regulations and participation in voluntary codes for consumer protection

5. PRODUCT QUALITY

To be competitive and generate positive social impacts, an MFI has to work on the design of its products and services so that they can fit clients' needs and constraints. Well-suited products and services allow microfinance clients to manage their cash flows efficiently, invest in assets and cover themselves against potential risks or unexpected expenses, thus improving their and their family's well-being. These indicators assess an MFI's marketing strategy and activities, as well as the diversity and quality of its financial and non-financial products and services.

CLIENT ORIENTATION AND SATISFACTION

- Client segmentation and knowledge
- Market research and product development
- Client satisfaction assessment
- Follow-up of client drop-out/exit surveys
- Borrower drop-out rate

CREDIT PRODUCTS (FLEXIBILITY, QUALITY AND ACTIVE DISTRIBUTION)

- Microcredit product(s) (quality, diversity & active distribution)
- SME product(s) (quality, diversity & active distribution)
- Consumer products (quality, diversity & active distribution)
- Housing products (quality, diversity & active distribution)
- Other products (quality, diversity & active distribution)
- Fair pricing of loan products

DEPOSIT AND SAVINGS PRODUCTS

- Offering of savings products (sight deposits, time deposits, innovative products)
- Cost of savings/portfolio yield

INSURANCE PRODUCTS

- Offering of insurance products (credit life, life and innovative insurance products)

MONEY TRANSFER SERVICES

- Offering of money transfer services (cash & check payments, electronic payments, remittances)

NON-FINANCIAL SERVICES

- Non-financial services (business development services, enterprise skills, distribution networks)

6. COMMUNITY ENGAGEMENT

An MFI can have a relevant impact in the community where it operates not only through the provision of financial services to its clients but also through the implementation of policies and actions aimed at supporting community development at large. These indicators assess the steps that the MFI takes in this direction and the social impacts on the community (employment creation, types of activities financed, local integration, etc.).

IMPACT ON EMPLOYMENT CREATION

› Direct employment creation
› Indirect employment creation

NEGATIVE AND POSITIVE SCREENING OF ACTIVITIES FINANCED

› Exclusion of prohibited and harmful activities
› Screening of social risks related to lending policy
› Support to strong value-added and intense workforce activities
› Funding of high social value projects

INTEGRATION INTO THE LOCAL COMMUNITY

› Local financing through savings
› Quality of relationship with debt providers
› Remuneration of debt providers
› Active participation in industry initiatives and leadership role within the industry
› Local philanthropy
› Partnership with civil society organizations

7. ENVIRONMENTAL POLICY

The impact of microenterprise activities on the environment can be particularly significant due to the low technological level, the general lack of regulatory supervision, and the absence of supporting infrastructure and services in their country of operations. These indicators assess whether the MFI has any policies and initiatives in place to mitigate environmental impacts, not only of its internal activities but also, and above all, of its financed enterprises.

ENVIRONMENTAL POLICY DIRECTED AT THE MFI

- Environmental policy directed at the MFI (existence and comprehensiveness)
- Reduction in the use of conventional energies and natural resources

ENVIRONMENTAL POLICY DIRECTED AT FINANCED CLIENTS

- Exclusion of prohibited or harmful activities
- Screening of environmental risks related to lending policy
- Raising of client consciousness of environmental issues
- Funding of 'green' technologies and activities (green product offering)
- Carbon credit collection program

II. OUTCOME MEASUREMENT: DIRECT ONSITE END-CLIENTELE INTERVIEWS AND DATA COLLECTION

Questionnaires covering 30 questions/topics per end-client.

1. FINANCIAL SECURITY

1.1 Mobile banking, domestic payment systems
1.2 Remittances, foreign payment systems
1.3 Credit card, ATM distribution and payments
1.4 Savings account
1.5 Pension plan
1.6 Life insurance
1.7 Credit line with 'credit life'
1.8 Health insurance
1.9 Home insurance
1.10 Vehicle insurance

2. HOUSEHOLD CONSUMPTION

2.1 Salary, wage
2.2 Housing finance (land, mortgage, refurbishment)
2.3 Education finance (schooling, tuition, material)
2.4 Household finance
2.5 Energy finance (solar, hydro, wind, biomass, waste)
2.6 Water, sanitation access
2.7 Vehicle, transport access
2.8 Food storage, process and access
2.9 Washing machine, appliances
2.10 Heating, air conditioning access

3. EMPLOYMENT & ENTREPRENEURSHIP

3.1 Sector
3.2 Location, offices
3.3 Clients
3.4 Assets
3.5 Revenues
3.6 Financing
3.7 Financiers
3.8 Job creation, employment
3.9 Job gender
3.10 Job security

III. OUTCOME MEASUREMENT FOR SMALL AND MEDIUM ENTERPRISES: PILOT-TEST QUESTIONNAIRE

The outcome measurement for SMEs is a project undertaken by Symbiotics as part of its mandate to manage the SME Loans for Growth Fund (LFG Fund), an investment vehicle that finances SMEs by providing debt capital channeled through SME finance institutions located in emerging and frontier markets.

Launched in 2016, the LFG Fund is a fully subscribed USD 50 million investment fund offered by UBS to its impact investor base. The structure is also supported by the Swiss Secretariat for Economic Affairs (SECO) through a first-loss risk carriage.

As part of this mandate, Symbiotics will measure and follow, over a 4-year period (corresponding to the maturity of the fund), key outcomes at the level of the final beneficiary (i.e. SMEs). Accordingly, this exercise will infer the extent to which the LFG Fund has succeeded in meeting its goals related to entrepreneurship, job creation and economic growth.

To perform this outcome measurement, Symbiotics aims to track a set of indicators for a constant sample of approximately 150 SMEs that are end-clients of financial intermediaries financed by the LFG Fund. The SMEs will be located in different geographic regions where the fund is invested.

Results of this initiative will be summarized yearly in an annual report that will be distributed to LFG Fund investors.

The following is a broad description of the baseline questionnaire that is going to be used to survey the SMEs. The survey will be undertaken in each country by a specific local research agency, starting with Cambodia in mid-2017 as a pilot-test.

The questionnaire is split in 7 main dimensions:

I CHARACTERISTICS OF THE BUSINESS AND THE BUSINESS OWNER

- Age, gender, marital status, literacy levels, education background, past history of the business owner
- Nature, history, products and services, and registration of the business

II ACCOUNTING AND BUSINESS PRACTICES

- Financial literacy of the owner
- Accounting principles within the business

III BUSINESS ASSETS

- Valuation of the business
- Cost structure for the venue rental

IV LOANS AND ACCESS TO CREDIT

- Accounts used for business purposes
- Creditors
- Financing sources

V EMPLOYMENT

- Number of employees
- Average working time
- Employee gender
- Wage characteristics
- Employment turnover
- Internal training
- Safety of the work environment

VI BUSINESS EXPENDITURES, INCOME AND PROFITS

- Revenues
- Costs
- Profits

VII BUSINESS CHALLENGES

- Qualitative listing of challenges, if any

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