Measuring client outcomes: The frontier of social performance management

Social performance measurement tools make financial inclusion stronger in the long term and more enduring in the responsible investing marathon. The Universal Standards of the Social Performance Task Force (SPTF) and the Client Protection principles of the SMART Campaign are examples of the remarkable toolkit created by and for the financial inclusion sector to do good and protect its reputation. Impact investing can benefit from adopting similar checks and balances and in doing so, grow healthy and possibly avoid a few mistakes.

That being said, one has to recognize that while inputs (e.g. the design of an SME loan product) and outputs (e.g. number of SMEs financed) are well covered by financial inclusion toolkits; outcomes (e.g. number of jobs created after getting the SME loan) are a more recent story. Actually, when it comes to outcomes, financial inclusion can find some inspiration in younger impact investing. The link between the investee company and the end client outcomes in sectors such as energy, education and agriculture is more direct, tangible and short-term than in finance, and systems to measure outcomes have been developing quite rapidly in impact investing.

Outcomes and impact can be easily confused. Outcome is the change for clients that is plausibly associated with the organisation's services received. Unlike impact, measuring change in outcomes does not have to be scientifically attributed to the organisation. Even so, the term "impact" is often used in ways that are misleading. For example, using the % of female clients as an indicator of an MFI's impact simply (and incorrectly) assumes that any loan to any woman always represents positive social change. Using "impact" is sexy, but misusing the term is not fair. Asset managers deserve a level playing field as much as asset owners deserve to be able to compare apples with apples. Outcome is probably the closest we can get to the concept of social return on a decent scale.

Measuring outcome is not easy, but it is not impossible. Several pioneering organisations have been exploring ways to measure outcomes. The Guidelines on Outcomes Management for Investors[1] map their experience. Some asset managers find ways to extract the clients' total revenue loan after loan from their investees' Management and Information System. Some take seriously the poverty alleviation promise and measure the clients' progress out of poverty. Other equity funds manage the seemingly impossible: full coverage of their investees with comparable outcome indicators. Mixed funds find creative solutions to balance the interests of their investors/board of directors/investees and final clients. They may go digital, or may sit under a tree and do a focus group discussion. There is no one size fitting all. The Guidelines identify a 10-step process for each investor to design a tailored outcome management strategy.

Does microfinance still work? It is hard to know yet. We will have a better idea once we have added the tools for measuring change in clients' lives to our general performance management toolkit.

[1] *Lucia Spaggiari & e-MFP (2016). "Guidelines on Outcomes Management for Investors", Number 10 - October 2016. MicroFinanza Rating & e-MFP/SPTF Social Performance Outcomes Action Group: http://www.e-mfp.eu/resources/european-dialogue-no10*

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