

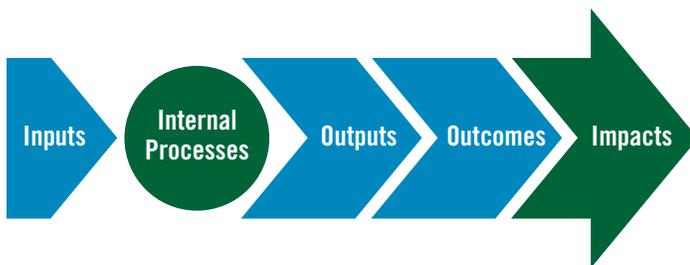
A briefing series for MED practitioners produced by the SEEP Network and sponsored by the Argidius Foundation

## Social Performance Assessment

The starting point for many MFIs has been their mission and commitment to providing access to the poor and helping them improve their social and economic conditions. But while the microfinance industry over the years has adopted a set of financial indicators with clear reporting standards and guidelines to determine the financial health of institutions, there exists no corresponding set of social performance indicators. Recently, the microfinance industry's widespread interest in complementing financial assessments of MFIs with assessments of their social performance has blossomed into a number of different tools for this purpose.

**Social performance assessment** is the process by which an organization measures its social performance relative to its social mission and objectives, as well as to those of key stakeholders. Social performance assessments can be administered as an internal or external process. When internal it is a 'self assessment' and when external it is referred to as a 'social audit' which is covered in this brief or a 'social rating' which will be covered in Progress Brief, Number 4. Measurement may focus on any of the steps in the social impact causal chain. The **social-impact causal chain** is a model that explains how impact is created. It begins with organizational inputs, which are transformed via internal processes into outputs. Outputs produce outcomes, and outcomes produce impacts.

### Social Impact Causal Chain



Social performance assessment tools help an MFI to identify issues anywhere along this chain: these issues, if addressed, can improve its social performance. "Assessing" social performance can evaluate the intentions, actions, and/or corrective measures implemented by an MFI in order to determine whether it has the appropriate systems and instruments in place to attain its social objectives. Social performance assessment also can evaluate the social outcomes that are achieved by a program.

Social performance assessment can be a one-time assessment or an ongoing process. Most assessment tools contain a set of social indicators acceptable to the microfinance industry that provide greater

transparency of an MFI's social bottom line—specifically focused on determining the actual poverty levels of their clients, how well their clients are being reached, how well (or not) the MFI services fit their clients' needs, and the social and economic changes that their clients have experienced.

## Assessment Tools that Look at MFIs' Internal Processes

### CERISE: Social Performance Indicators Initiative

(<http://www.cerise-microfinance.org/publication/impact.htm>)

#### Conceptual framework

CERISE's Social Performance Indicators Initiative (SPI) started in June 2002. It is a conceptual framework for defining social performance in microfinance (shared now with the social impact causal chain) and for developing a set of indicators for MFIs that have broad social relevance. The tool, SPI-CERISE, is basically a questionnaire plus a guide that helps an MFI evaluate its intentions, actions, and corrective measures implemented, so that it can see whether it has the capacity to attain its social objectives. The SPI-CERISE tool uses four dimensions of social performance: 1) outreach to poor people and excluded populations; 2) adaptation of products and services to target clients, 3) improved social and political capital, and 4) corporate social responsibility. The tool was developed through a participatory process with 30 MFIs in different contexts and other microfinance actors, which gives it legitimacy and recognition within the sector.

CERISE's social performance indicators were selected because they could be self-reported by MFI managers or loan officers; because they already resided in, or could be integrated into, an MFI's management information system; and because they could be quickly and reasonably easily verified by an external audit.

The first part of the SPI-CERISE tool asks the MFI to explain its social strategy and choices made against the background of its priorities and socioeconomic environment, and to indicate which of the four dimensions of social objectives are most important to the MFI. The SPI-CERISE indicators (in the second part of the tool) use a scoring system to compare social performance across multiple institutions and contexts. The third part deals with financial performance (using MIX Market indicators) to link financial performance to social performance. The underlying idea of the SPI-CERISE tool is that financial performance remains a sine qua non for MFI sustainability.

### **Users and use of generated information**

The SPI-CERISE tool is easily accessible for wide exchanges, applications, and dissemination of the Social Performance agenda (see on Cerise's website).

The SPI-CERISE questionnaire can be filled out by the MFI to improve its own knowledge of its goals and activities and to spur internal reflection on its social objectives (see for example Crédit Rural in Guinea, Promujer in Bolivia, AMK in Cambodia, ASC Union in Albania, on the website.). The questionnaire can also be discussed, if necessary, with an external agency (a technical partner or a consultant) to evaluate the results and their significance and/or implications. The SPI-CERISE tool is also used by external stakeholders: social investors such as Alterfin in Belgium and SIDI in France, and donors such as the Swiss Development Corporation use it as a basis for discussion and definition of common social objectives with the MFIs. CERISE is currently working with rating agencies to integrate its approach into social ratings.

### **Progress to date**

The tool is useful as a teaching aid (e.g., defining what is meant by social responsibility.). The indicators offer a broad vision of the definition of social performance (not just limited to targeting the poor). The objective is to continue improving this type of tool, defining reporting formats, and promoting greater understanding of how social performance can be attained and improved, particularly with respect to the governance structure of the MFIs (to be discussed in Progress Brief, Number 5). Links to impact studies can help give a global overview of the social performance of an MFI.

### **Social Performance Assessment (SPA) Tool**

For more information, contact Gary Woller at Woller & Associates: [wollerg@yahoo.com](mailto:wollerg@yahoo.com)) and [http://www.microlinks.org/ev\\_en.php?ID=9940\\_201&ID2=DO\\_TOPIC](http://www.microlinks.org/ev_en.php?ID=9940_201&ID2=DO_TOPIC)

### **Conceptual framework**

The Accelerated Microenterprise Advancement Project, developed a social performance assessment (SPA) tool for USAID. This tool combines a set of social performance indicators and a social audit to evaluate the social performance of MFIs. It evaluates the following dimensions of outreach – breadth, depth, length, scope, cost, worth, and to community. The simple indicators employed by the tool are primarily those that exist in, or can be calculated by, the “typical” management information system. The social audit consists of an in-depth assessment of five key internal processes related to social performance: mission, management, and leadership; hiring and training; monitoring systems; incentive systems; and strategic planning. The tool does not attempt to measure social performance, per se, but rather determines the extent to which key performance indicators are consistent with social performance, and whether internal processes are designed and implemented in a way that aligns policies, behaviors, and outcomes with an MFI's stated social mission (and whether it is likely to continue to do so in the future).

### **Users and use of generated information**

The SPA tool is targeted at two markets—social investors and practitioners. By collaborating with microfinance rating agencies, the SPA tool designers want to create a social rating product that can either be integrated into a standard institutional rating product or be used as a stand-alone product. The social audit element of the tool allows

MFIs and MFI networks to assess their social performance, identify institutional strengths and weaknesses, and target management interventions themselves. Because the social audit is conducted by external evaluators using standardized methods, these results can be used by donors and social investors. The tool results can also strengthen institutional design and implementation, which will enable MFIs and MFI networks to achieve higher levels of social performance.

### **Progress to date**

The USAID social performance assessment tool has been pilot-tested in Albania and Bolivia, and further pilots are planned with both rating agencies and microfinance networks. Also in the works is the creation of best practice guidelines, interview guides, and training standards. The tool will continue to be revised throughout the pilot testing phase.

### **ACCION's SOCIAL**

For more information, contact Rekha Reddy at ACCION: [rreddy@accion.org](mailto:rreddy@accion.org)

### **Conceptual framework**

ACCION sees its SOCIAL classification as a diagnostic tool to evaluate the success of an MFI in fulfilling its social mission and its contribution to broadly accepted social goals. SOCIAL (social mission, outreach, client service, information transparency and consumer protection, association with the community, labor climate) offers a comprehensive social assessment of the MFI to complement the financial assessment provided by the CAMEL (ACCION's tool to measure capital adequacy, asset quality, management, earnings, and liquidity of microfinance institutions). Social classification helps improve organizational performance by highlighting strengths and weaknesses in the dimensions of social performance, and provides information on how the MFI is perceived by clients, staff, and the community. It fulfills the information requirements of third parties, such as socially responsible investors or donors, who may require this information. It follows the example of many private sector businesses by providing shareholders with a social performance report that demonstrates increased transparency and a broader framework for decision-making. It establishes a baseline of performance before entering a phase of change or evolution, as well as demonstrating to microfinance institutions how social performance can be measured practically on a regular basis.

### **Users and use of information**

ACCION is targeting MFIs that seek to evaluate their social performance. The social classification includes interviews with management, staff, board members, and clients; reviews the strategic and business plans and minutes of board meetings; reviews data from the MFI's client database; gathers data from external surveys or other sources to validate the MFI's database and searches secondary source data, such as national data, the MIX, market studies, etc.; creates a map of geographic coverage; and makes branch visits.

### **Progress to date**

To date, five pilots has been completed, four ACCION partners in Latin America and one Unitus partner in India. When the tool is finalized, it should offer ACCION affiliates, social investors, and other interested parties a specialized diagnostic instrument with which they can evaluate social performance.

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# From the Field—Interview with Reynaldo Marconi, President, FINRURAL in Bolivia

## **When did FINRURAL begin assessing the social performance of its network partners?**

As part of the *Imp-Act* Programme—a global action research program designed to improve the quality of microfinance services and their impact on poverty—FINRURAL decided to develop a microfinance impact evaluation service and a market research service, and initially offered the service in 2002. To carry out this work, FINRURAL used and adapted a variety of the SEEP/AIMS tools (described in this brief). In its first year the service conducted impact assessments of eight local MFIs. In its second year, we decided to focus our service on developing methodologies to evaluate client loyalty, drop-out rates, and defaults on loans within MFIs.

## **Why did FINRURAL take an early interest in assessing social performance?**

The central motivation was to meet the demand of MFIs for methodologies and tools to evaluate, monitor, and improve their social performance, for the purpose of fulfilling their institutional mandates. It also intended to demonstrate the positive or negative changes in the present state of an MFI's clients, both of their businesses and their homes.

## **By assessing social performance what do you hope to achieve?**

We hope to:

- Develop methodologies that examine client loyalty, client drop-out rates, and loan defaults by clients; to test them; and then transfer them so that they could be used internally by the MFIs
- Develop and to operate a system of evaluating and monitoring the social performance of MFIs through standardized indicators that focus on customer service
- Carry out aggregate sector studies, based on the type of enterprises evaluated, impact assessments, market research, and social performance, which would form the basis of studies carried out by FINRURAL on a range of MFIs

## **What are some of the benefits FINRURAL has brought to their network partners through their social performance assessment activities?**

Through our social performance assessment activities we have been able to provide a link between MFIs and their markets, which has enabled them to see how they could provide a more flexible, more extensive, and more personalized service—and in turn how they could become more competitive within the market of microfinance. We have exposed weaknesses in service delivery by providing information to MFIs that contained examples of expected impacts that were never realized. We provide data and case studies on the impact of the institutions that can be used in public relations and advertising by MFIs, and as useful resource in petitions to its donors, sponsors, or financiers. And FINRURAL has provided extensive information for MFIs to use to assess their positions in the competitive market.

## **Why would you recommend that other practitioners engage in social performance assessment activities?**

The reason is that the results allow MFIs to better administer their products and services, and to better demonstrate and improve the outreach and impacts of their program on its clients and their families. Another reason is that social performance assessment increases the credibility of an MFI, and therefore makes them more attractive to social investors and donors. Finally, it affects better levels and forms of corporate governance.

## **What are the next steps FINRURAL plans to take regarding social performance assessment?**

Within the network, we plan on scaling up the use of the CERISE Social Performance Indicators tool, which we have already used to conduct assessments with Pro Mujer and Diaconia. We found the tool very easy to use and that it provides a comprehensive assessment of the social performance of an MFI. Furthermore, we plan to share our previous findings on social performance assessment with other MFI networks, both in and outside of Bolivia, to encourage social performance monitoring and more sharing of methodologies and tools. We plan on doing this by working more closely with the FORO LAC FR network.

## Triodos Bank and the Global Reporting Initiative: Transparency in Sustainability and Finance (TSF)

For information, contact Geert Jan Schuite at Triodos Facet: [gj.schuite@facetbv.nl](mailto:gj.schuite@facetbv.nl) or Teodorina Lessidrenska at GRI: [Lessidrenska@globalreporting.org](mailto:Lessidrenska@globalreporting.org)

### Conceptual framework

Triodos Bank and the Global Reporting Initiative (GRI)<sup>1</sup> have initiated a project called Transparency in Sustainability and Finance (TSF). The purpose of this project is to assist MFIs in sustainability management through implementation of sustainability reporting based on the GRI Guidelines. A sustainability report explains a company's social, environmental and economic aspects of performance, in the context of its commitments, strategy and management approach towards the goals of sustainable development – a principle known as **Triple-Bottom Line** (TBL). Currently, there are no standards for reporting on sustainability specifically designed for microfinance. The TSF project is considering the development of a GRI sector supplement to meet the needs of the microfinance industry for standardized sustainability reporting.

### Users and use of information

Participants in the TSF project are twelve investee MFIs of the three microfinance funds – Triodos-Doen, Hivos-Triodos Fund and Triodos Fair Share Fund - managed by Triodos Investment Management: Aceda Bank and CEB (Cambodia), XAC Bank (Mongolia), BA-six and Bellwether (India), K-Rep Bank (Kenya), Centenary Rural Development Bank (Uganda), Akiba (Tanzania), FIE FFP (Bolivia), Mibanco (Peru), Banco Solidario (Ecuador) and Findesa (Nicaragua). These MFIs were the first banks in their countries to follow the double-bottom line principle, combining social objectives with goals of profitability. With the recent forecasts from trend watchers pointing out renewable energy, clean water, sustainable agriculture, eco tourism, as examples of sectors where substantial growth will take place, MFIs are in a position to encourage development of micro-businesses that take environmental issues into account and provide financing for 'green' business solutions. Thus by adopting the triple-bottom line concept, the banks participating in the TSF project are positioning themselves to address the challenges and opportunities of the social, environmental and economic dimensions of sustainable development.

### Progress to date

So far all TSF participating banks have made a commitment to include non-financial information in their annual reports and to develop Sustainability Reports based on the GRI Guidelines. The main conclusions from the project meetings and discussions with the project participants are that: a) GRI reporting is a very useful tool for improving goal-setting, evaluation, strategic management and decision-making in MFIs and banks and a supplement addressing the MFI's specific TBL performance would be welcomed; b) Social and environmental indicators are important for measuring an MFI's progress toward its social mission; c) The TSF project should continue its work on reaching agreement on specific MFI indicators to measure how successful each MFI is in achieving its 'sustainability' targets.

In the next phase GRI and Triodos Bank look forward to expanding the group of participating microfinance institutions and developing a more integrated concept of 'Banking on Values.' Future activities would also include the formation of a TBL experts group.

# Assessment Tools that Look at Outcomes

## I. Assessment of Client Poverty Level:

There exists a lot of literature and resource sites with background information on tools for assessing the poverty levels of clients, whether they look at poverty according to the international definition of poverty (absolute poverty) or at local definitions of poverty (relative poverty). Several key sources, for their depth and breadth of information, are:

### 1. USAID's Poverty Assessment Tools (absolute poverty)

For information, see [www.povertytools.org](http://www.povertytools.org)

### 2. Grameen Foundation's Progress out of Poverty Index (absolute poverty)

For information, contact Nigel Biggar at GFUSA: [nbiggar@grameenfoundation.org](mailto:nbiggar@grameenfoundation.org)

### 3. CGAP Poverty Assessment Tool (relative poverty)

<http://www.microfinancegateway.org/poverty/pat/pat.html>

### 4. Targeting Tools (relative poverty)

[http://www.microfinancegateway.org/resource\\_centers/socialperformance/targeting](http://www.microfinancegateway.org/resource_centers/socialperformance/targeting)

## II. Assessment of Changes Occurring in Client's Lives:

### CGAP-Ford Social Indicators Project

For information, contact Syed Hashemi at CGAP: [shashemi@worldbank.org](mailto:shashemi@worldbank.org).

### Conceptual framework

CGAP and the Ford Foundation initiated the Social Indicators Project (SIP) to develop a small set of clear, globally comparable, low-cost social indicators to provide greater transparency on the social-performance bottom line for the industry. The Social Indicators Project aims to track the social performance of MFIs by monitoring changes in client social and economic well-being *without attempting to attribute causality*. Given donor and national government consensus around the Millennium Development Goals, these indicators conform to five dimensions of the MDGs that are potentially influenced by microfinance: 1) whether MFIs are reaching the very poor, 2) whether client households are increasing incomes and gaining assets, 3) whether greater numbers of children are going to school, 4) whether health conditions are improving, and 5) whether women are becoming more empowered. (See the list of MDGs at <http://www.un.org/millenniumgoals/>).

The SIP intends for these "industry indicators" to form a common, industry-wide reporting format for all MFIs, which can be used for comparisons between different MFIs across countries. For example, "percentage of clients living below the poverty line" is one industry indicator that clearly tracks whether an MFI is reaching poor people. Additionally, the SIP will also allow comparison of the depth of outreach between different MFIs.

Unfortunately, indicators that are conceptually clear are often difficult and expensive to actually measure. MFIs, therefore, will choose simple indicators that reflect the geographic and cultural specificity of where

1. The Global Reporting Initiative (GRI) is an independent institution and a global multistakeholder process whose mission is to develop and disseminate globally applicable Sustainability Reporting Guidelines. [www.globalreporting.org](http://www.globalreporting.org)

they work, which will vary by country and region. However, if these “proxy indicators” can be benchmarked to industry indicators, then the MFIs’ need for simple indicators can be combined with the global need for common, rigorous industry indicators.

#### Progress to date

Thirty-four MFIs are participating in the project, 15 from Asia, 7 from Africa, 9 from Latin America, and 3 from Eastern Europe. Included among the 34 participating MFIs are multiple members of microfinance networks: 10 members of the Opportunity International network, 5 from the Trickle Up network, 4 members from Pro Mujer’s network, 3 members of the INAFI network, 2 members of FINCA, and 2 members of Grameen Foundation USA. Most MFIs have completed the first round of surveys. The second round will begin in March 2007.

## Assessment Tools that Look at Impact

### Assessing the Impact of Microenterprise Services (SEEP/AIMS) tool

For information, The English tools available at <http://www.seepnetwork.org/content/library/detail/646>; the French tools available at <http://www.seepnetwork.org/content/library/detail/5135>; and the Spanish tools available at <http://www.seepnetwork.org/content/library/detail/5136>.

The SEEP/AIMS tool - Learning from Clients: Assessment Tools for Microfinance Practitioners - is a manual to help practitioners assess their clients. Its core is a set of five assessment tools (see box for description of tools) that practitioners can use to gather information about their programs—information that is useful for impact assessment, market research, and improving program products and services. Accompanying the tools are step-by-step instructions for using them, starting with initial preparations and ending with data analysis. The manual was developed by the SEEP Network as part of the PVO and NGO component of the larger AIMS (Assessing the Impact of Microenterprise Services) project funded by USAID. It was developed by and for practitioners and, as such, responds to the particular needs and

challenges they face in determining how their programs and services are affecting their clients.

### SEEP/AIMS Tools - Learning from Clients: Assessment Tools for Microfinance Practitioners

#### Tool 1: Impact Survey

The principal quantitative tool in the set, the Impact Survey, comprises thirty-seven questions. It is administered to a sample group of clients and a comparison group.

#### Tool 2: Client Exit Survey

This short survey, a quantitative tool, is administered to clients who recently have left the program. Its purpose is to identify when and why clients left the program and what they think its effect on them has been, as well as its strengths and weaknesses. Practitioners like this tool because it is simple to use and provides valuable information. Many use it regularly, as part of a program monitoring system.

#### Tool 3: Use of Loans, Profits and Savings Over Time

This qualitative tool is an in-depth individual interview focusing on how the client has used his or her loans, business profits and savings over time. Its multiple purposes include determining how loan use and allocation decisions change over time, as well as documenting changes in the individual borrower, enterprise, family/household, and community that are associated with participation in the program.

#### Tool 4: Client Satisfaction

This qualitative tool is a focus group discussion that explores clients’ opinions—what they like and dislike—of specific features of the program, as well as their recommendations for improvement.

#### Tool 5: Client Empowerment

This qualitative tool focuses on women clients and uses an in-depth interview to determine if and how women have been empowered by their participation in the program. Clients are asked a series of questions about themselves, their enterprise, their family/household, and their community at different points in time (past and present).

### Social Performance Briefing Series

This briefing series is a SEEP Network initiative to introduce the concepts of social performance to the microenterprise field. The briefing series is funded by the Argidius Foundation.

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**Argidius Foundation** was founded in 1956 and focuses on international support of market-driven business development initiatives to alleviate poverty. The key areas of support are microfinance, business development services, and entrepreneurial education.

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**The SEEP Network** is a membership organization of over 70 international organizations that support microfinance

and enterprise development programs around the world. SEEP’s mission is to advance the knowledge base and practice of microfinance and enterprise development.

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