Social Performance Map

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The SEEP Network Social Performance Working Group

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INTRODUCTION TO THE SEEP NETWORK SOCIAL PERFORMANCE MAP

A map is a tool for guiding travelers from one point to another. A good map provides details that allow the traveler to fix her location at the beginning of the journey, identify the landscape through which she will be traveling, recognize key milestones along the way, avoid veering off onto side roads or otherwise getting lost, and recognize when she has reached her intended destination.

In recent years, the microfinance industry has embarked on a new journey to reach the heretofore-elusive destination of social transparency and social accountability. Although the industry has long concerned itself with issues related to its social performance, it has consistently fallen far short of creating anything like true social transparency and the social accountability that results from it. The road to social transparency and accountability has been strewn with side roads, dead ends, and any number of other obstacles that have caused travelers to lose their way.

Despite large quantities of money spent on a variety of initiatives to assess the social impact of microfinance, carry out client assessments, conduct market research, and the like, the actual social performance of microfinance institutions (MFIs) remains as opaque as ever, and true social accountability remains a far-off destination. The lack of suitable vehicles (e.g., tools) combined with the absence of a reliable road map and disinterest among certain industry stakeholders have so far stymied the industry's attempt to complete this journey, despite the many attempts to undertake it.

There are favorable indications, however, that this situation is changing. In recent years something akin to a **social performance movement** has arisen in the industry. What was once the purview of a relatively small number of activists is now spreading to incorporate an increasing number of industry stakeholders drawn from the ranks of practitioner organizations, donors, investors, foundations, multilateral institutions, foundations, and academics. Although still limited to a relatively small slice of the microfinance sector, the social performance movement now boasts hundreds of MFIs and other stakeholders taking part at one level or another in promoting social performance management (SPM)—a broad term referring to the assessment, management, and reporting of social performance—as a legitimate and even mainstream business activity.

Facilitating the emergence and growth of the social performance movement has been the independent development of a number of cost-effective social performance assessment (SPA) tools. Historically, the absence of cost-effective SPA tools has provided MFIs a ready excuse to opt out of assessing and reporting their social performance. Even MFIs committed to the principle of social transparency and accountability have found it difficult to assess and report their social performance, owing to the lack of credible and cost-effective SPA tools.

The window allowing MFIs to avoid SPA, however, is beginning to close. There now exists a wide variety of credible and cost-effective SPA tools that are being continually tested and refined. In conjunction with tool development, a variety of actors are working with MFIs and other industry stakeholders to develop systems for assessing, reporting, and managing their social performance.

Innovations in social performance management are providing the vehicle to carry the microfinance industry to the destination of social transparency and accountability. What the industry still lacks is the road map to get there. This **Social Performance Map** is The SEEP Network's contribution to filling this gap. A product of the SEEP Social Performance Working Group, the purpose of the Social Performance Map (the "Map") is to guide microfinance stakeholders on their journey toward social transparency and accountability. As such, the Map provides a reasonably comprehensive summary of the social performance landscape both inside and outside of the microfinance sector, including summary information on existing knowledge, experience, initiatives, and tools. The content of the Map is intended to equip industry stakeholders with useful information that will allow them to sort through and understand the important issues and make informed decisions related to social performance. The Map is targeted to lay audiences and is appropriate for persons with any level of interest in social performance.

The Map devotes several sections to discussing the broader social performance movement outside of microfinance. The social performance movement in microfinance is a microcosm of a much broader and longer-lived movement in the business sector. There exists outside of microfinance a wealth of experience, information, standards, frameworks, tools, etc., on which the sector can draw. Moreover, this broader social performance movement has largely (although by no means unanimously) coalesced around a particular social performance framework—corporate social responsibility and the triple bottom line—and a particular set of social performance reporting and management tools, the Global Reporting Initiative (GRI). This movement has grown to incorporate thousands of private firms (including many listed among the Fortune 500) and is also used widely by financial institutions, public agencies, and NGOs.

To date, the microfinance sector has, for the most part, not tapped into this broader social performance movement, focusing instead on the unique context and mission of microfinance (particularly related to poverty outreach and poverty impact). Instead of a focus on the triple bottom line (financial, social, and environmental performance), the microfinance sector has so far opted for a focus on the double bottom line (financial and social performance). Notwithstanding, there are several reasons to believe that internal and external forces will gradually move the microfinance social performance movement into compliance with this broader destination. In anticipation of this event, and to help lay the groundwork for it, the Map devotes considerable time to describing this broader movement and demonstrating its relevance to the microfinance sector.

CONTENTS OF THE SOCIAL PERFORMANCE MAP

The Social Performance Map is divided into 15 chapters. Brief descriptions of each chapter, along with some introductory paragraphs, are presented below. There is no particular order one should follow in reading the Map, although for the purpose of setting the appropriate context for understanding the Map, readers are recommended to begin with Chapters 1 through 4 on Corporate Social Responsibility, the Business Case for Social Performance, Socially Responsible Investing, and Microfinance and the Environment.

1. Corporate Social Responsibility. This chapter describes the definition of, rationale for, and trends in corporate social responsibility (CSR); it also touches on aspects and issues related to CSR strategies and mainstreaming CSR.

Outside of the microfinance sector, social performance management is most often associated with the phrase and framework of corporate social responsibility, a term that is used more or less interchangeably with the triple bottom line, as well as other terms such as corporate responsibility, corporate citizenship, social enterprise, sustainability, sustainable development, or corporate ethics. The triple bottom line reflects an integrated understanding of organizational performance in which social, environmental, and economic bottom lines are interdependent, and organizations are accountable to all of their stakeholders in all their operations and activities. Its aim is to promote business performance that is socially responsible, environmentally sound, and economically viable.

2. The Business Case for Corporate Social Responsibility. This chapter summarizes the empirical relationship between financial performance and social performance. To demonstrate the relevance of these findings to the microfinance sector, the section presents several case studies documenting the institutional benefits and costs of doing social performance management across a sample of microfinance institutions.

The general conclusion of dozens of empirical studies is that there exists a positive relationship between financial performance and social performance. Organizations that do CSR tend to perform better or, in the worse case, perform as well as those that do not do CSR. There are a number of possible explanations for this finding that highlight, among other things, the learning, management, and reputational benefits of doing CSR.

3. Socially Responsible Investing. This chapter summarizes trends and prospects in socially responsible investment (SRI), both overall and in the microfinance sector, and it reviews the issues in and obstacles to mainstreaming SRI.

Socially responsible investment—also called social investing, ethical investing, mission-based investing, or socially aware investing—is an investment strategy that considers the social and environmental consequences of investments and, as such, it serves as the bridge connecting private-sector investors with corporate social responsibility.

As of 2005, socially responsible investors held \$2.29 trillion in assets, constituting 9.4% of \$24.4 trillion in total assets under management, using one or more of the three core SRI strategies: screening, shareholder advocacy, and community investing. Extrapolating from broader SRI trends, a survey of socially responsible investors suggests a potential demand of \$4.5 billion of SRI investment in microfinance. The area of greatest interest to investors is Latin America, followed by Africa and the Middle East.

4. Microfinance and the Environment. This chapter argues for the need to incorporate environmental considerations into the microfinance industry's social performance framework and tools. It reviews the impact of microenterprise activities on both the environment and poor microentrepreneurs, the reasons for these effects, and possible mitigation strategies. The chapter concludes by looking forward to suggest steps the industry might take to increase environmental awareness, incorporate the environment into its social performance framework, and take positive actions to improve the environmental outcomes of microenterprise activity.

Microenterprise includes a wide variety of business activities that create a wide variety of environmental impacts. Although the environmental impact of a single microenterprise may be small, the sheer number of microenterprises, their low technological level, the general lack of regulatory supervision, and the absence of a supporting infrastructure and services all combine to make the cumulative environmental impact of microenterprise activity significant. There are three main areas in which microenterprise activities affect the environment: unsustainable use of natural resources, pollution, and occupational health and safety. The impact of environmental degradation on the poor, moreover, is probably greater than on the well-off. Relative to the well-off, the poor tend to rely more heavily on natural resources and ecosystem services for their livelihoods. Therefore, they also tend to suffer more from natural resource degradation and biodiversity loss.

The microfinance industry lags behind the curve in terms of environmental awareness and action. There remains much work to be done to bring the environment to the microfinance agenda. Early on, it is probably best to work within existing MFI practices, while increasing general awareness and promoting reasonable mitigation strategies, rather than try to prescribe, or proscribe, certain activities. The preferable approach is to help microenterprise operators educate themselves about the environment, adopt more environmentally sound technologies and practices and improve occupational safety standards. The emphasis of these efforts should be on convincing microentrepreneurs of the economic and health benefits of adopting such technologies and practices.

5. Social Performance Management. This chapter focuses on how MFIs can use information from the assessment of social performance to assist in improving their services and ultimately achieving increased social performance.

Most MFIs have a social mission. For example, they seek to reduce poverty, to reach people excluded from financial services, to empower women, to build community solidarity, or to promote economic development and regeneration. Every day managers and staff make decisions that affect the social and financial performance of their MFI, yet formal information systems and decision making are concerned almost exclusively with financial performance. Social performance, however, does not happen by accident. Achieving it requires a commitment from those who own and control MFIs as well as timely and useful information on social performance. In other words, social performance requires management.

Social performance management is the process by which MFIs work toward ensuring that the human values and development goals that motivate their formation remain at the core of their activities, rather than being lost in the struggle for financial viability and survival.

6. Social Auditing. This chapter describes the definition, purpose, content, scope, uses, and benefits of social auditing. It then details four distinct approaches to social auditing, including two approaches developed outside the microfinance sector—the Social Audit Network and the Global Reporting Initiative (GRI)—and two approaches developed inside the microfinance sector—the USAID Social Audit Tool (SAT) and the MicroFinance Centre Quality Audit Tool (QAT). In conjunction with the GRI, the section also devotes time to describing the assurance process and the AccountAbility 1000 Assurance Standard.

The precise definition of social auditing varies significantly depending on the person or organization. Common to these different definitions, however, is the basic concept that social auditing is a process or means by which an organization accounts for its social performance to its stakeholders and seeks to improve its future social performance.

The purpose, content, and scope of the social audit vary. Generally, however, a social audit has (at least) the following six characteristics:

1. It aims to reflect the views of all the stakeholders involved with or affected by the organization.
2. It provides a means whereby the organization can compare its own performance against appropriate external norms or benchmarks.
3. It aims to report on all material aspects of the organization's social performance.
4. It aims to produce social accounts on a regular basis such that the concept and practice become embedded in the culture of the organization.
5. It ensures that the social accounts are audited by a qualified social auditor (or assurance provider) independent from management.
6. It ensures that the audited accounts are disclosed to stakeholders and the wider community in the interests of social transparency and accountability.

7. Social Rating. This chapter describes the definition, background, development, characteristics, projected markets, and benefits of the social rating, a social performance assessment tool developed and now being implemented by microfinance rating agencies. A summary describes the specific social rating tools devel-

oped by the four principal specialized microfinance rating agencies: M-CRIL, MicroRate, MicroFinanza Rating, and Planet Rating.

The social rating is an independent assessment of an organization's social performance using a standardized rating scale and carried out by a microfinance rating agency. The social rating assesses both social risk (the risk of not achieving its social mission) and social performance (the likelihood of contributing social value). The social rating evaluates practices, measures a set of indicators, and then scores them against benchmark levels, best practices, or internationally accepted standards. The social rating includes elements of auditing in that it assesses the quality and credibility of social accounts and it identifies areas for improvement and capacity building.

A social rating does not judge the worthiness of an MFI's social mission, but seeks to convey how effective the MFI has been in translating that mission into practice in line with general social goals. The final rating score represents the rating agency's informed conclusions related to the dimensions of social performance assessed and its analysis of the MFI's social accounts.

8. Common Social Performance Assessment Framework. This chapter presents a common conceptual framework for social performance reporting developed by the Social Performance Task Force.

For social performance assessment to be a useful assessment and decision-making tool across users and contexts, it requires broad agreement on definitions, methodologies, standards, etc. It requires, in other words, a common framework. A useful common framework will satisfy (at least) six criteria:

1. It is based on a common definition for social performance.
2. It incorporates broad agreement on values; dimensions; and indicators of social performance.
3. It balances variation in contexts against the need for common values and standards.
4. It draws on useful aspects of existing social and financial performance frameworks.
5. It is cost effective.
6. It facilitates both internal self-assessment and external reporting.

9. Consumer's Guide to Social Performance Assessment Tools. This chapter seeks to bring a measure of clarity to the confusion surrounding the different social performance assessment (SPA) tools in microfinance by providing a Consumer's Guide to existing tools. To aid understanding and provide a simple framework for comparing the tools, it locates the different tools along the steps in the social performance process.

The last several years have witnessed an increase in the number and variety of tools developed to assess social performance both inside and outside the microfinance sector. The upside of this trend is that industry stakeholders now have a choice among a set of effective and practical SPA tools. The downside of the trend is that there is perhaps too much choice. Understanding the purpose, attributes, relative strengths and weaknesses, and the suitability of the myriad of SPA tools, let alone deciding from among them, can be daunting for someone inexperienced in the principles and practices of social performance assessment.

The Consumer's Guide offers a reasonably comprehensive sampling of existing SPA tools, enough to give readers a panoramic view of the SPA tool landscape. It should be noted, however, that this is only a current snapshot of this landscape. Many of the tools are still in the development stage and will likely undergo some change over the coming months and years. The landscape is in flux; it is still too early in the process to expect any firmly established SPA tools. Further discussion, development, and experimentation are still required.

10. Poverty Assessment Tools. This chapter compares and contrasts two accurate and practitioner-friendly tools for assessing household poverty status: the IRIS Poverty Assessment Tool (PAT) and the Grameen Foundation Progress Out of Poverty Index (PPI).

Although poverty assessment tools have been available for some time now, they have generally not been user friendly, so they have failed to gain traction among development practitioners. Standard methods for measuring poverty have proven impractical given the scarce resources, time limitations, and technical constraints of many MFIs, while traditional outcome indicators—such as asset ownership, housing conditions, access to services, children's education, food security, or average loan size—have an unknown relationship with poverty and are plagued by problems related to data collection, management, analysis, and interpretation.

The PAT and the PPI, however, are directly derived from international and/or national poverty lines, have known levels of accuracy, and are relatively simple to administer. Based on their accuracy and ease of use, the PAT and PPI probably have the greatest potential among the various poverty assessment tools for widespread diffusion.

11. Common Social Performance Indicators for Microfinance. This chapter reviews the role of the Social Performance Task Force in drafting a common definition of social performance, creating a common social reporting framework, and developing a set of common social performance indicators. It describes current common indicators and examines the pilot tests in progress to compile an edited, universal list of indicators that MFIs will report to the Microfinance Information Exchange (MIX Market) for the purpose of dissemination and benchmarking.

One output of the Social Performance Task Force was to form the Social Investment Subcommittee, which was tasked with engaging social investors and MFIs to find out their perceptions on alternative indicators that might be used to report on MFI social performance. Toward this end, in Spring 2007 the Social Investor Subcommittee carried out separate surveys of social investors and MFIs, asking about their practices, perceptions, and preferences regarding a set of social performance indicators. These two surveys and their findings are summarized in annexes to this chapter of the Map.

These findings have enabled the SP Task Force to further refine the list of common indicators. With this edited list of indicators, the SP Task Force is now carrying out a set of field tests with a group of MFIs to test the implementation of the common indicators according to a set of predefined criteria.

12. Social Performance in Multisector Development Organizations. A large number of MFIs are owned or supported by multisector international development NGOs (INGOs). This chapter examines questions related to the relevance of the microfinance social performance movement to these multisector development organizations. To answer these questions, members of the Social Performance Working Group of SEEP conducted interviews with key personnel at a sample of SEEP member organizations.

While interviewees expressed general interest in social performance and lessons learned from the microfinance sector, they doubted whether these lessons had practical relevance to other development sectors. In contrast to microfinance, for example, interviewees did not consider mission drift to be a significant risk.

Respondents identified a number of challenges in integrating social performance within the multisector framework, including those stemming from general difficulties in linking microfinance to other development programs. On top of this, many multisector INGOs are only in the preliminary stages of developing systems that reflect their individual holistic frameworks and are not yet to the point where social performance issues rank as a high priority.

The work on common social indicators within the microfinance sector does have crossover relevance for those cases in which multisector INGOs have managed to link or integrate financial services with other development services, or alternatively in those cases where INGOs are operating microfinance programs. It has less relevance, however, in terms of guiding indicator selection within other development sectors.

13. Social Performance Standards and Stakeholder Engagement. This chapter reviews the importance and benefits of developing industrywide social performance standards. It recommends an extensive and thorough process of stakeholder engagement (similar to those used by other standard-setting bodies, such as the ISO and GRI) as the appropriate process for developing industry social performance standards.

There are numerous important benefits to adopting industry social performance standards. Reaching this point, however, can be time consuming; it takes an average of five years of multistakeholder discussions to complete an industrywide standard. Multistakeholder engagement requires reasonable equity among different stakeholders so that the perspectives of weaker stakeholders are not trumped by those of stronger stakeholders. It is important, moreover, to expand the circle of stakeholders beyond the "usual suspects" and engage with those whose views and interests might otherwise be underrepresented.

If the engagement process is not flexible or inclusive enough to grant voice to all important stakeholders, those excluded from the process will have little incentive to participate further in the development process, to implement the standards, or to engage with organizations that are implementing them. Social performance standards that are not based on legitimate stakeholder engagement will lack credibility among certain stakeholder groups—meaning that fewer organizations are likely to find them useful.

14. Organizational Governance. This chapter describes the importance of sound organizational governance in transforming social performance management into a meaningful exercise that fosters a culture of organizational social accountability. The chapter further outlines core principles for good organizational governance, and it raises important questions that organizations should address in creating their governance systems.

Just because an organization engages with stakeholders does not mean it is accountable to them, and vice versa. There is a risk that placing too much emphasis on the business case for corporate social responsibility encourages a soft form of accountability in which organizations engage in stakeholder dialogue for the limited purpose of reputation building. Stakeholder engagement, moreover, is prone to "managerial capture," which occurs when management co-opts CSR into a means to pursue a shareholder wealth maximization strategy. Finally, there is also a risk that CSR becomes little more than a box-ticking exercise with little discernible effect on the organization.

Good governance systems are necessary to transform CSR into a meaningful exercise that influences organizational planning and operations and also helps create an organizational culture of social accountability. The scope of organizational governance is expanding beyond an exclusively financial focus. It is the board's duty to navigate the organization through all its ethical and environmental risks and opportunities. In recognition of this, a growing number of organizations are establishing board committees focusing on CSR issues or expanding the charter of existing committees to do this.

15. Social Performance Internet Resources. This chapter provides readers with links to Internet-based resources on social performance. Readers interested in learning more about social performance, both in microfinance and in general, will want to refer to this chapter.

1. CORPORATE SOCIAL RESPONSIBILITY

INTRODUCTION: DEFINING CORPORATE SOCIAL RESPONSIBILITY

Outside of the microfinance sector, social performance is most often associated with corporate social responsibility (CSR), a term that is used interchangeably with corporate responsibility, corporate citizenship, social enterprise, sustainability, sustainable development, or corporate ethics. Generally, CSR refers to a company's obligation to be accountable to all of its stakeholders in all its operations and activities. It encompasses a multidimensional and global set of issues with strategic implications for business and policymakers, such as health, safety, diversity, gender equity, human resource policies, human rights, supply chain, the environment, and sustainable development.

In this sense, CSR is synonymous today with the **triple bottom line.** The triple bottom line reflects an integrated understanding of business performance in which social, environmental, and economic bottom lines are interdependent. The aim of a triple bottom line approach is to ensure business performance that is socially responsible, environmentally sound, and economically viable.

CSR is concerned not only with what companies do with profits but also how they make them. CSR goes beyond philanthropy and legal/regulatory compliance to address the manner in which companies manage their economic, social, and environmental impact as well as stakeholder relationships in all key spheres of influence. The modern advent of CSR both reflects and drives society's changing mores with regards to the social roles businesses are expected to play. Companies are now facing new demands to engage in public-private partnerships. Shareholders and stakeholders—including employees, consumers, suppliers, local communities, policymakers, the environment, and society at large—also require companies to be both transparent and accountable for their social performance. (Following on the heels of the massive corporate scandals and frauds during the early 2000s, for example, CSR advocates coined a new acronym, ESG—environmental, social, and governance—to represent the popular demand for greater social transparency.)

Three important considerations will help place CSR into the appropriate context. First, it is not a new concept, the hype currently surrounding it notwithstanding. Second, there is a clear distinction between CSR stemming from a desire to do good (the normative case for CSR) and CSR stemming from enlightened self-interest (the business case for CSR). A business's motivation for doing CSR will reflect different combinations of these motivations. Third, while there is general consensus that CSR is concerned with the societal obligations of business, there is substantial uncertainty about the nature and scope of these obligations.

PROACTIVE AND HARM AVOIDANCE APPROACHES TO CSR

There are two basic approaches to CSR: harm avoidance and a proactive approach. Harm avoidance aims to minimize any negative economic impact, bad labor conditions, corruption, human rights abuses, and environmental degradations. It calls for **compliance** with internationally accepted norms, guidelines, and standards and **control** of social and environmental risks, liabilities, and any negative impact.

The proactive approach to CSR aims to do good in terms of creating new value for business and stakeholders. It is achieved through activities, such as strategic philanthropy and community investment, which harness a company's core competencies, products, and services in improving society.

Ethical trade and fair trade, both of which incorporate approaches to managing the supply chain, are two prominent examples of the positive approach to CSR. Ethical trade refers to practices throughout the supply chain that promote adherence to core labor and environmental standards and human rights. In this context, a number of large corporations are developing strategies and codes of conduct related to ethical trade and supply chain management. Leaders in the field, such as members of the Ethical Trading Initiative, encourage independent monitors to visit their suppliers, identify conditions that do not meet the code, and then plan improvements in collaboration with suppliers.

Fair trade is a niche market for specially labeled products meeting international standards established by Fairtrade Labelling Organizations International. Fair trade standards aim to give disadvantaged producers in developing countries better trading terms and guarantee them a minimum price above that offered by mainstream markets. Fair trade arrangements also offer a premium to producers to be used for community development projects. To date, only a limited range of products (including coffee, tea, chocolate, and bananas) carry the fair trade label, and the size of the fair trade market remains small.

Wrapped up in both negative and positive conceptions of CSR and the triple bottom line is the concept of sustainability, defined as *"development that meets the needs of the present without compromising the ability of future generations to meet their own needs."* The term *sustainability* was popularized by the Brundtland Commission's 1987 report *Our Common Future.* The definition of sustainability originally emphasized ecological sustainability, but it has been expanded to mean societal sustainability and, as used by certain companies, company sustainability as well.

CSR IN THE BUSINESS MAINSTREAM

What differentiates past and current interest in CSR is that today's calls for greater corporate social responsibility are more broadly based, more specific, and more urgent. Those calling for greater CSR include not only activists and activist organizations,[1] but also general business associations and governmental organizations.[2] In many cases, moreover, such calls include specific recommendations for action, such as CSR audits and stakeholder engagement.

One can point to a number of "evidences" indicating the encroachment of CSR into the business mainstream. In 1999 UN Secretary General Kofi Annan called for a new social compact between business and society. This led to the development of the UN Global Compact, which consists of 10 universal principles that companies commit to uphold. By 2006 the Global Compact had nearly 3,000 signatories, including 2,500 businesses from 90 countries. Among its ot-her activities, the Global Compact focuses the role of the financial sector on how it can integrate the Compact's Nine Principles for business performance on human rights, labor, and the environment into investment research and stock-exchange listing criteria.

In May 2006 approximately 50 institutional investors, who collectively represent nearly $4 trillion in assets, agreed to uphold a new set of six Principles for Responsible Investment.[3] The Principles were de-

1. See, for example, the World Business Council for Sustainable Development, Business for Social Responsibility, International Business Leaders Forum, or World Economic Forum.

2. See, for example, the Department for Business, Enterprise, and Regulatory Reform in the United Kingdom.

3. The six Principles are (1) we will incorporate environmental, social, and corporate governance (ESG) issues into investment analysis and decision-making processes, (2) we will be active owners and incorporate ESG issues into our ownership policies and practices, (3) we will seek appropriate disclosure on ESG issues by the entities in which we invest, (4) we will promote acceptance and implementation of the Principles within the investment industry, (5) we will work together to enhance our effectiveness in implementing the Principles, and (6) we will each report on our activities and progress toward implementing the Principles.

veloped by a group assembled by the UN Global Compact and the United Nations Environment Program consisting of 20 institutional investors from 12 countries. Initially there were 32 signatories; that number has since grown to 231, including 91 asset owners, 89 investment managers, and 51 professional service partners. The Principles are voluntary and carry no legal sanctions.

A survey by KPMG found that over one-half of the top 250 companies in the Fortune 500 issue separate sustainability reports (e.g., reports on corporate social performance), including a majority of the top 100 companies in the financial capitals of Europe, Japan, U.S., and Canada. Of companies issuing sustainability reports, 75% cited economic reasons for producing them. The database managed by CorporateRegister.com indicates that the number of corporate nonfinancial reports has grown from less than 50 in 1992 to around 2,000 today.

CRO magazine's Best 100 Corporate Citizens ranking, published annually in collaboration with KLD Research and Analytics, is regarded as the third-most influential corporate ranking behind *Fortune*'s "Most Admired Companies" and "100 Best Companies to Work For" according to a *PRWeek*/Burson-Marsteller CEO Survey. The ranking scores companies on eight social, environmental, and financial dimensions of responsibility.

Other examples include the London Principles of Sustainable Finance, developed by the Forum for the Future in consultation with over 50 financial institutions, and the UNEP's Finance Initiative. The former outlines conditions under which financial markets can best promote the financing of sustainable development, whereas the latter has brought together banks and insurance companies to promote the mainstreaming of responsible investment and banking practices. Of particular interest to investors is the Asset Management Working Group of the Finance Initiative. Its purpose is to develop the capacity of mainstream fund managers to identify and respond to social and environmental issues.

Notwithstanding such high-profile examples, it is debatable whether CSR has entered the business mainstream. There remain a good many skeptics about CSR's influence and appropriateness. Meanwhile, the large majority of firms do not do CSR, and in many of those who do, CSR remains firmly embedded inside a public relations or philanthropy context and/or is at odds with positions that company actually takes on issues of social relevance.

SOCIETY'S CHANGING EXPECTATIONS FOR BUSINESS

It is undeniable that societal expectations for business are evolving. Although some may continue to argue that the sole ethical responsibility of corporations is to maximize shareholder value, this view is much rarer than it used to be. Several factors appear to be driving this process:

1. The expansion in human rights has focused attention on businesses' human rights policies and practices. Businesses are increasingly expected to be both protector and promoter of human rights.

2. The growth, reach, and influence of private business have conferred businesses with new rights and opportunities, but they have also created competitive pressures for corporate responsibility beyond traditional forms of compliance and philanthropy.

3. The failure of governments to solve many social problems has led to increased expectations of corporations to address social problems—especially those to which they may contribute—such as environmental degradation, human rights, unsafe or unsanitary working conditions, or inadequate product safety.

4. The growth in the number, sophistication, and connectivity of well-informed civil society organizations calling for increased corporate social responsibility has raised public consciousness

and turned the spotlight on corporate social behavior. The Internet and other global media have greatly expanded the outreach and influence of these civil society organizations.

5. Governments and companies are more aware that social, economic, environmental, and security challenges are too great and resources too dispersed for the public and private sectors to tackle alone, prompting action by both, collaborative and otherwise.
6. High-profile corporate ethics scandals during the early 2000s focused world and mass media attention on corporate citizenship issues and corporate governance.
7. With increased financial muscle and activism, institutional investors, together with regulators, have responded to the spate of ethics scandals and governance crises with calls for better corporate governance and accountability, transparency, and legitimacy.

This last point is a critical one. The intervention of mainstream investors in the CSR movement will do as much, or more, than anything in integrating CSR into the business mainstream. Investors' interest in CSR stems from an increased awareness of the risks and opportunities posed by a company's ethical, social, and environmental performance. Thought of by some as completely separate concepts, experience has demonstrated an overlap between the financial and social performance. The size of this overlap remains in dispute, but an emerging consensus acknowledges its existence.

TRENDS IN CSR

Increased interest in CSR has manifested itself in a number of significant ways.

Increase in 'Active Ownership' and Research by Mainstream Investors

In recent years, several large institutional investors have expressed interest in corporate governance and ethics and also in broader issues of corporate citizenship. Examples include the U.S. State and City Treasurers and Trustees, who have issued a call for greater investor attention to the risks and opportunities of global climate change; the AFL-CIO, which has launched a "Capital Stewardship" campaign to encourage more long-term, sustainable value creation; and financial institutions, such as JP Morgan, Morgan Stanley, Citigroup, UBS Warburg, and HSBC, which have all produced reports analyzing the business risks and opportunities created by issues such as global climate change, eco-efficiency, obesity, and the Millennium Development Goals.

To take another example, the Association of British Insurers has also issued disclosure guidelines on socially responsible investment (SRI), saying that "public interest in corporate social responsibility has grown to the point where it seems helpful for institutional shareholders to set out basic principles, which will guide them in seeking to engage with companies in which they invest."

Growing Influence of Socially Responsible Investment

While SRI funds constitute a small minority of global funds under management, their absolute size and relative share are growing rapidly. According to the Social Investment Forum, for example, socially screened funds in the United States grew by about 6.5% between 2001 and 2003 compared to a 4% fall in nonscreened funds. Negative screens remain popular with many investors; however, most SRI fund managers now also offer a variety of positive screens, and other social investment options, with a strong emphasis on both financial and nonfinancial performance.[4] SRI fund managers have also become more active in shareholder advocacy through proxy voting, dialogue with executive management, public debate, and collective initiatives with other SRI investors (see Table 1 on page 19).[5]

New Legal and Listing Requirements

In recent years, a number of countries have passed laws or established regulations or guidelines related to disclosure, corporate governance, and other areas of corporate citizenship. Examples in the United States include the Sarbanes-Oxley Act and the SEC Mandate on Proxy Voting Guidelines.

The threat of government intervention remains an important driver of the CSR agenda. Government intervention creates both risks and opportunities for business, and neither MFIs nor investors can afford to ignore them.

International Norms and Conventions

There have been a variety of international initiatives to promote or establish norms or conventions related to corporate citizenship. Examples include

- The United Nations Convention Against Corruption
- Adoption of the Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights by the UN Sub-Commission on Promotion and Protection of Human Rights
- The ILO's World Commission on the Social Dimensions of Globalization
- The UNDP's Commission on the Private Sector and Development
- The Financing for Development Initiative

Activist Campaigns

Social and environmental activists continue to keep corporate citizenship on the public agenda, and they are using increasingly sophisticated means to do so. NGOs such as Friends of the Earth, the World Resources Institute, Human Rights Watch, Amnesty International, Global Witness, and Oxfam are now turning their sights to the financial sector, seeing it as a key leverage point to influence corporate social and environmental behavior.

Voluntary Financial and Reporting Frameworks

The last several years have seen an increase in collective action by industry stakeholders on a variety of corporate citizenship issues in various countries and industries, including financial services:

- Equator Principles: An agreement by 14 of the world's major project finance banks in conjunction with the International Finance Corporation (IFC), the Equator Principles are intended to strengthen the social and environmental criteria in project finance. The signatory banks have agreed to adhere to the IFC's rules and guidelines on sustainable development for projects over a certain size.

4. http://www.socialinvest.org/pdf/research/Trends/2005%20Trends%20Report.pdf

5. The Socially Responsible Investing chapter of the Social Performance Map describes broader socially responsible investment trends in depth.

- Global Reporting Initiative (GRI): The GRI is the most recognized global CSR framework. It uses a multistakeholder process to develop and disseminate globally applicable Sustainability Reporting Guidelines. Its guidelines are for voluntary use by organizations for reporting on the economic, environmental, and social dimensions of their activities, products, and services. In October 2006 the GRI launched G3, the third version of the GRI Guidelines. The 2002 Guidelines will be in use in parallel with the G3 during a 6- to 10-month transition period, after which the G3 will fully replace the 2002 Guidelines as a global sustainability reporting framework.
- The International Organization for Standardization (ISO): The ISO has developed over 15,000 standards to date. ISO is currently in the process of developing ISO 26000, a voluntary standard on social responsibility.
- AccountAbility: AcountAbility has developed the AA1000 standards for sustainability reporting. AA1000 is a standard for the measuring and reporting of ethical behavior in business. It provides a framework that organizations can use to understand and improve their ethical performance, and a means for others to judge the validity of claims to be ethical.
- United Nations: The United Nations Global Compact is an initiative to encourage businesses worldwide to adopt sustainable and socially responsible policies and to report on them. The Global Compact is not a regulatory instrument, but rather a forum for discussion and a network for communication including governments; companies and labor, whose actions it seeks to influence; and civil society organizations, representing its stakeholders.
- Association of Chartered Certified Accountants (ACCA): The ACCA has published a Guide to Best Practice in Environmental, Social, and Sustainability Reporting. The ACCA global sustainability reporting awards have been replicated in many national-level equivalents, advancing quality reporting worldwide.
- Organization for Economic Co-Operation and Development (OECD): The OECD Guidelines for Multinational Enterprises include Section III on "Disclosure," which encourages timely, regular, reliable, and relevant disclosure on financial and nonfinancial performance.
- Social Accountability International (SAI): The SAI has created SA8000, which is an auditable certification standard based on international workplace norms of International Labour Organisation (ILO) conventions, the Universal Declaration of Human Rights and the UN Convention on the Rights of the Child.

NOTE ON CSR STRATEGY

Widespread anecdotal evidence suggests that the debate about CSR is shifting. It is less about whether to do CSR and more about how to do CSR. Although there is no boilerplate CSR strategy, the general consensus is that a firm's CSR strategy should be unique, reflecting not only its industry characteristics but also the firm's mission, values, core business activities, and strategic direction. Formulating CSR strategy also requires an understanding of the firm's current social performance, which in turn requires development of appropriate metrics for measuring social performance.

Regardless of the CSR strategy, stakeholder engagement is, or should be, at the heart of CSR. CSR is about more than promoting a company's own values and principles; it also includes an understanding of the values and principles of those who have a stake in its operations.

That said, there is often substantial uncertainty regarding a firm's obligations to its stakeholders, and the form that this engagement should take is subject to much debate. Some see stakeholders as having a significant input on decision making, while others see stakeholders as akin to an information resource with little influence over management. There is also the question as to whether the firm's institutional culture and management style support stakeholder engagement; there is often a large gap between the firm's style and that of its stakeholders. Then there is the issue of which stakeholders have legitimate standing in the firm's deliberations. Firms will need to consider the legitimacy, contribution, and influence of the stakeholder to determine whether engagement is appropriate and/or likely to result in a productive relationship.

In any case, stakeholder engagement is critical to the process. All firms will need to work through the process and find their own way to deal with these issues.

Despite a firm's best efforts, there is always the risk that doing CSR will backfire. Taking a public stand on CSR might, for example, draw unwanted attention to the firm, perhaps in areas in which its social performance is less than stellar. Or it may result in the firm being held to higher standards than its competitors who have not taken a stand on CSR. Negative attention might also be the result of poor implementation.

When asked to name the three to five major leadership or strategic management challenges in managing CSR and balancing stakeholder expectations, participants at a Kennedy School of Government roundtable on CSR (including representatives of business, civil society organizations, fund managers, and academics) identified the three broad themes (in decreasing order of importance): (1) integrating CSR into corporate strategy, (2) executive and board leadership, and (3) measuring and demonstrating the value of CSR.[6] Table 1 shows a sampling of specific issues raised by respondents under each of the three themes.

6. "Leadership, Accountability and Partnership: Critical Trends and Issues in Corporate Social Responsibility."

Table 1. Critical Challenges in Managing CSR and Stakeholders' Expectations

Theme	Issues
Integrating CSR into corporate strategy	• Mainstreaming key issues from CSR departments to boards • Building CSR into the fabric of values, governance, and reporting • Integration across the organization • The need to break down silos • Adopting a strategic vision • Addressing social risk in the context of total risk management • Implementation that creates a CSR culture, not CSR departments • Infusing social responsibility among buyers, suppliers, customers, and competitors • Integrating CSR into corporate governance • Moving from CSR as public relations to CSR as core business strategy • CSR as a risk to be managed as opposed to one that can be electively avoided • CSR still seen as good public relations rather than inherent part of business
Executive and board leadership	• Proactive citizenship vs. reactive social responsibility • Engaging leadership outside the CSR silo • Adopting and executing a strategic vision • Leadership buy-in and commitment to instill CSR in corporate fabric • Need for senior management education • Fear of being held to higher standards for speaking up relative to laggards
Measuring and demonstrating the value of CSR	• Challenge of making the business case to investors • Lack of understanding as to what CSR means in media and investor relations • Need to do a better job communicating the public and social value of core business operations and economic impact • Convincing the board that CSR makes business sense

2. THE BUSINESS CASE FOR CORPORATE SOCIAL RESPONSIBILITY

INTRODUCTION

The two basic arguments for corporate social responsibility (CSR) can be termed the "normative case" and the "business case." Although there is a clear difference between social performance stemming from a desire to do good (the normative case) and social performance that reflects an enlightened self-interest (the business case), a firm's reasons for engaging in CSR might reflect a mixture of these motivations. Thus, both warrant discussion, but for reasons addressed immediately below, this chapter of the Social Performance Map will focus most of its attention on the business case for CSR.

Evidence from dozens of empirical studies of private sector firms and investment markets points conclusively to a positive association (or at worst a neutral association) between social performance and financial performance. Although this evidence is drawn from the private sector, the explanations underlying the associations are general enough that there is no reason to believe that the same or similar associations will not exist in the microfinance sector as well, particularly as the sector increasingly takes on the business models and trappings of the commercial financial sector.

Even with what appears to be strong empirical evidence indicating a positive relationship between social performance and financial performance, specific examples from the microfinance sector are valuable. This section's annex presents a series of cases that document the benefits and costs to microfinance institutions of assessing and managing their social performance. (For other information on the benefits of assessing and managing social performance in the microfinance context, see www.imp-act.org and the case studies found at www2.ids.ac.uk/impact/news/publications.html.)

The annex summarizes three cost-effectiveness studies that assessed the net benefits of various client assessment activities carried out by diverse MFIs and MFI networks. These studies were carried out under the auspices of the Ford Foundation Imp-Act Project and published in the September 2004 issue of *Small Enterprise Development.*[1] Client assessment includes a variety of activities aimed at assessing the needs, wants, perceptions, behaviors, etc., of an organization's target customers. Many client assessment activities, like the three studies summarized here, fall directly or indirectly under the category of social performance assessment.

THE NORMATIVE CASE FOR CSR

The normative case, in its simplest form, asserts that all companies have a moral duty to be good citizens and that CSR is, therefore, "the right thing to do." The normative case is a prominent goal of Business for Social Responsibility, the leading nonprofit CSR business association in the United States. It asks that its members "achieve commercial success in ways that honour ethical values and respect people, communities, and the natural environment." There exists a strong undercurrent of moral imperative within the CSR field.

Another example of the normative case for CSR draws on social contract theory. According to this theory, the social contract for business is founded on consent—that firms exist only through the cooperation

1. www.ingentaconnect.com/content/itpub/sedv

and commitment of society, and that every firm needs tacit or explicit permission from governments, communities, and numerous other stakeholders to do business. This suggests an implicit agreement between the firm and society. The simplest form of the contract is to specify what business needs from society and what, in turn, are its obligations. This approach can be used to ground the "license to operate" argument that some advance in support of social performance.

The license to operate emphasizes constructive dialogue with regulators, the local citizenry, and activists. It tends to be particularly prevalent among companies that depend on government consent, such as those in mining and other highly regulated and extractive industries. It is also common at companies that rely on the forbearance of their neighbors, such as chemical manufacturing firms whose operations are noxious or environmentally hazardous.

THE BUSINESS CASE FOR CSR

Researchers have produced literally dozens of studies examining the empirical relationship between social performance and financial performance. These studies range from simple correlation analysis to more sophisticated multivariate analysis. The findings are mixed across the entire range of studies, although there do exist some distinct trends in the findings suggestive of a significant and positive relationship between social and financial performance.

These studies tend to take one of two approaches. One approach investigates the causal link between social performance and financial performance. The other approach investigates differences in performance between socially screened funds and nonscreened funds (alternatively referred to as socially responsible investment—or SRI—funds and non-SRI funds). Since financial performance is reflected in stock price, fund performance serves as a proxy for financial performance across the firms in which the funds invest.

Orlitszky et al. (2003) conducted a meta-analysis of 52 studies examining the link between social and financial performance, yielding a total sample size of 3,878 observations.[2] Overall, they find a positive association between corporate social and environmental performance and corporate financial performance, although the ways in which social and financial performance were operationalized moderated the positive association.

The authors further conclude that the relationship between social and financial performance is reciprocal rather than one-dimensional; they affect each other through a "virtuous cycle." Financially successful firms spend more on social performance because they can afford it; while social performance helps the firms become more financially successful. As such, their findings suggest that we can reject the argument that CSR is inconsistent with shareholder wealth maximization; rather it suggests that organizational performance is a broad concept encompassing both financial and social performance. In general, market forces generally do not penalize companies that are high in social performance, thus managers can afford to be socially responsible.

Margolis and Walsh (2001) similarly reviewed 80 studies, spanning the last 30 years, examining the relationship between social and financial performance.[3] Of these studies, 42 found a positive relationship between the two, 19 found no relationship, 15 reported mixed results, and only four studies found a negative relationship. Not surprisingly, the authors concluded that social performance does produce financial

2. Marc Orlitzky, Frank L. Schmidt, and Sara L. Rhynes, (2003), "Corporate Social and Financial Performance: A Meta-Analysis," *Organization Studies,* 24(3), 403–441. Meta-analysis is a statistical method of combining the results of a number of different studies in order to provide a larger sample size for evaluation and to produce a stronger conclusion than can be provided by any single study.

3. J.D. Margolis and J.P. Walsh, (2001), *People and profits? The search for a link between a company's social and financial performance*. Mahwah, NJ: Erlbaum.

dividends for firms. This conclusion, however, needs to be treated with caution because, as the authors point out, there are major methodological problems associated with such studies.

In his book, *The SRI Advantage: Why Socially Responsible Investing Has Outperformed Financially*, Peter Camejo reviews evidence comparing socially screened investment funds to nonscreened investment funds.[4] This research has generally found that screened funds have performed as well as or better than nonscreened funds. The Domini 400 Social Index (DSI) fund, for example, outperformed the Standard & Poor's 500 by 1.53% per year for a 10-year period through January 2001.

Lipper Analytical Services has consistently rated SRI funds higher than nonscreened funds. In 2000, 14 out of 16, or 88%, of all SRI funds over $100 million, earned top marks from both Morningstar and Lipper, compared with only 32.5% for all funds. In both the U.K. and Canada, SRI funds, as a group, have also outperformed their traditional peers since the mid-1990s. Hale (2002) contrasted the performance of 48 SRI funds with three or more years of operation to conventional funds.[5] Using the Morningstar 5-star rating service, he found that 37.5% of SRI funds have ratings of 4 or 5 stars compared to 33% of conventional funds, while 10% of conventional funds received the lowest 1-star rating compared to 4% of SRI funds.

A counterargument holds that these findings are explained by the fact that SRI funds invest disproportionately in New Economy technology and growth stocks relative to S&P, which contains more Old Economy and value stocks (value stocks are more stable and less prone to more rapid growth). Thus the difference in performance is more a function of bias toward New Economy than a result of social screens.

Yet on closer evaluation, this explanation appears inadequate to explain the difference. The DSI, for example, outperformed the S&P 500 both when New Economy growth stocks fared better than value and Old Economy stocks and also during periods when New Economy stocks performed more poorly. In a separate study, Abramson and Chung (2000) compared value stocks in the DSI to value stocks generally, and found that the screened stocks outperformed accepted benchmarks.[6] Luck (2002) separated out performance factors related to sector or other categories and found that DSI had a performance advantage of 77 basis points (.77 per year) that could not be explained away by sectoral or other theories.[7] Another study by D'Antonio (1997) compared investment in bonds issued by all companies in both the S&P 500 and the DSI and found that bonds issued by DSI firms slightly outperformed bonds issued by S&P firms over the six years of the study.[8]

If the New Economy vs. Old Economy explanation holds, then socially screened funds should have underperformed the market in the NASDAQ crash of 2000 (NASDAQ is heavy in technology stocks). Yet the Social Investment Forum reports that the Lipper and Morningstar ratings of SRI mutual funds actually improved in 2000; 88% of the SRI funds received 4 to 5 stars from Morningstar or A or B rankings from Kipper, up from 69% prior to 2000. By comparison, only 32.5% of all funds monitored by Morningstar received 4 or 5 stars.

The superior performance of SRI funds has been confirmed by a variety of studies conducted under different circumstances. The authors of the book *Corporate Social Responsibility and Financial Performance:*

4. Peter Camejo, (2002), *The SRI Advantage: Why Socially Responsible Investing Has Outperformed Financially*, Gabriola Island, BC: New Society Publishers.

5. John Hale, (2002), "Seeing Stars: SRI Mutual Fund Performance," in *The SRI Advantage: Why Socially Responsible Investing Has Outperformed Financially,* Peter Camejo (ed.), 133–144, Gabriola Island, BC: New Society Publishers.

6. Lorne Abramson and Dan Chung, (2000), "Socially responsible investing: Viable for value investors?" *Journal of Investing,* 9, 73–80.

7. Christopher Luck, (2002), "Factoring Out Sector Bets," in *The SRI Advantage: Why Socially Responsible Investing Has Outperformed Financially,* Peter Camejo (ed.), 145–150, Gabriola Island, BC: New Society Publishers.

8. L. D'Antonio, T. Johnson, and B. Hutton, (1997), "Expanding socially screened portfolios: An attribution analysis of bond portfolios," *Journal of Investing,* 6, 79–86.

The Paradox of Social Cost (Pava and Krausz 1995)[9] looked at 21 studies of comparative fund performance and found that SRI funds outperformed the market in 12 of the studies, performed more or less equally in eight of the studies, and underperformed the market in one study. According to the authors, these results are evidence that socially responsible firms tend to perform no worse and frequently better than non-socially responsible firms.

SOCIAL PERFORMANCE, FINANCIAL PERFORMANCE, AND DEVELOPING AND EMERGING MARKETS

The positive association between social performance and financial performance appears to hold in developing and emerging markets as well. *Developing Value,* published by SustainAbility, is one of the more comprehensives studies on this subject.[10] The study assessed 240 businesses in over 60 countries and found that good corporate governance and environmental and social responsibility produced financial benefits for developing and emerging market businesses. Benefits included significant cost savings (e.g., minimizing energy use and limiting pollution), increased revenues (e.g., the creation of new environmental business lines), reduced business risk, enhanced market reputation, stronger human capital, and improved access to capital (particularly foreign capital). *Developing Value* concluded that sustainability in emerging markets produces better financial performance through cost savings and higher revenue generation. Overall, sustainability enhancements make strong business sense for firms in emerging markets, albeit in different ways for different types of firms in different markets.

Two reports by CLSA Emerging Markets on emerging-market corporate governance also found a positive relationship between social and financial performance. "Saints and Sinners: Who's Got Religion" looked at 57 corporate governance, social, and environmental performance indicators and found that stocks of companies with high corporate governance ratings outperformed those with lower ratings.[11] "Make Me Holy . . . But Not Yet" found similar results for stock markets as a whole; those with strong corporate governance regimes outperformed those with weaker regimes.[12] Another study by Dowell, Hart, and Yeung (2000) found that companies adopting a single, stringent global environmental standard have much higher market values than those complying only with less stringent or poorly enforced emerging-market standards.[13]

There are thus strong indications that CSR makes sense in emerging markets for the same reasons as in developed markets (although the evidence is not voluminous and more rigorous studies are still needed). Socially responsible companies in developing and emerging markets tend to be better managed, have access to new markets, face fewer risks, have better branding and reputations, and have more loyal and better trained workforces.

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9. Moses L. Pava and Joshua Krausz, (1995), *Corporate Social Responsibility and Financial Performance: The Paradox of Social Cost*. Westport, CT: Greenwood.

10. Peter Zollinger, Jodie Thorpe, and Kavita Prakash-Mani, (2002), "Developing Value: The Business Case for Sustainability in Emerging Markets," SustainAbility.

11. CLSA Emerging Markets, (2001), "Saints and Sinners: Who's Got Religion," www.webb-site.com/codocs/Saints&Sinners.pdf.

12. CLSA Emerging Markets, (2002), "Make Me Holy . . . But Not Yet," www.clsa.com.

13. Glen Dowell, Stuart Hart, and Bernard Yeung, (2000), "Do Corporate Global Environmental Standards Create or Destroy Market Value?," *Management Science,* 46, pp 1059–1074.

EXPLAINING THE EMPIRICAL FINDINGS

What explains these findings? By one account, social screens remove risk and reduce liability on a firm-by-firm basis. Social screens remove firms that tend to violate laws or market products of questionable social value or at risk of litigation, protest, and so forth. Social screening removes company-specific risk, which Wall Street does not measure, focusing instead on beta, or market volatility (how the stock varies relative to the market over time).

Social screening also helps investors discover firms with strong finances and effective management. The search process proves effective in discovering well-managed companies that have established good relations with their employees and community and that, in general, have been able to manage their liabilities and risks well. Such firms are more likely to make sure to cover all their bases in terms of public relations, environmental issues, openness, and relations with employees. In addition to revealing commitment to social values, social screens also reveal firms that are financially strong enough to act appropriately.

To be sure, not everyone finds such studies convincing. Lloyd Kurtz, for example, maintains that the superiority of SRI funds is not mathematically established. He points to several studies (e.g., DiBartolomeo and Kurtz 1999[14]; D'Antonio, Johnson, and Hutton 1997[15]; Kurtz 1998[16]) that fail to find a significant difference or that conclude that the superior performance of SRI funds can be explained by "fundamental factors." At the same time, however, he concedes that there is also no evidence that social screens reduce performance, thereby making the "why not" question inevitable. (Kurtz maintains an online list of empirical studies.)

Social screens may also reflect mass social currents and as such will tend to improve fund performance because firms in conflict with public opinion (as expressed in such movements) pay a price that is real though often difficult to measure. The interrelationships between social movements and the success and failure of products and firms are crucial to understanding the impact of social screens on financial performance.

In sum, social screens increase fund performance because they incorporate information not widely understood by markets. Social screens are no different conceptually from any other screen used by investors. From this, it is not a large conceptual leap to conclude that social screens may very well serve as proxy for strong management—for example, through superior employee relations, better employee motivation, better labor relations, better use of resources, and other factors.

The World Economic Forum's (WEF) interviews with CEOs, CFOs, and Investment Relationship Officers (IROs) provide further insight into the factors driving the positive association between social performance and financial performance.[17]

- ***Protecting and enhancing reputation, brand equity, and trust.*** According to the survey carried out by SAM Sustainable Assessment Management, 73% of companies analyzed said that reputation enhancement was one of the primary benefits of CSR.[18] The BT Group, which collects monthly data from thousands of companies in the United Kingdom, has developed a metric showing that

14. D. DiBartolomeo and L. Kurtz, (1999), "Managing Risk Exposures of Socially Screened Portfolios," Boston: Northfield Information Services.

15. L. D'Antonio, T. Johnson, and B. Hutton, (1997), "Expanding Socially Screened Portfolios: An Attribution Analysis of Bond Portfolios," *Journal of Investing* 6: 79–86.

16. Lloyd Kurtz, (1998), "Mr. Markowitz, meet Mr. Moskowitz: A Review of Studies on Socially Responsible Investing" in Brian R. Bruce, ed., *The Investment Research Guide to Socially Responsible Investing*. Plano, TX: Investment Research Forums.

17. weforum.org/pdf/GCCI/Findings_of_CEO_survey_on_GCCI.pdf

18. www.sam-group.com/htmle/main.cfm

CSR activities account for around 25% of the dimensions that drive customer satisfaction of firm reputation.[19]

- ***Attracting, motivating, and retaining talent.*** Nearly two-thirds of the companies surveyed by SAM Sustainable Assessment Management mentioned talent attraction as a principal value driver for their CSR activities. More so than in the past, job seekers are interested in the organizational values and the approach firms take to corporate citizenship and corporate responsibility. Respondents also mentioned that CSR plays a role in employee retention and motivation.
- ***Managing and mitigating risk.*** In the advent of globalization, markets are growing more complex and companies are facing a number of nontraditional risks. Good management strategies must take this whole gamut of risks into consideration; CSR offers firms a useful framework in which to assess and manage those risks.
- ***Improving operational and cost efficiency.*** Many companies—particularly those operating in Asia, Japan, and Latin America—cite operational efficiency as the greatest value added to CSR activities. According to one respondent, "Sustainability for us—and for our customers—means saving energy, optimizing use of natural resources, [and] lowering environmental impact and hazardous waste. Add to this playing a positive contributing role wherever we do business, so we're welcomed by the communities where we operate, as an attractive employer and a sound investment." CSR activities also result in cost savings in the form of, for example, reduced staff turnover, lower insurance premiums, fewer fines and penalties, and less litigation.
- ***Ensuring license to operate.*** In the SAM survey, 55% of respondents cited "maintenance of the license to operate" as a key factor in their CSR activities. The regulatory and social licenses to operate are particularly important for firms that work closely with government, operate in a highly regulated industry, or leave a large footprint on host countries or communities.
- ***Developing new business opportunities.*** Companies interviewed by the WEF cited four key business opportunities that they believed were linked closely to CSR activities: (1) development of environmental technologies, products, and services; (2) production of new products and services to meet consumer demand for more healthy lifestyles; (3) provision of affordable goods and services to poorer consumers, especially in developing countries; and (4) creation of new market mechanisms, such as carbon trading.
- ***Building stable and prosperous operating environments.*** CEOs responding to the WEF survey stressed the interrelationship between CSR and long-term financial performance. This occurs because "broad social development will effectively be able to expand the current market boundaries that companies in emerging markets face, therefore increasing the size of the pie in the long term."

To repeat the point made above, the purpose of this literature review is not to establish definitively the positive relationship between social and financial performance but to provide sufficient evidence to establish the empirical plausibility of this relationship. Even critics of CSR and the above-cited studies acknowledge a lack of evidence to assert an inverse relationship between the social and financial performance, thereby quashing the conventional wisdom asserting an inherent tradeoff between the two. In the worst case, there appears to be no harm to doing CSR, and in the best case (supported by the preponderance of empirical evidence), there appears to be significant benefit to doing CSR.

19. www.btplc.com/Societyandenvironment/Socialandenvironmentreport/index.aspx

The business case for CSR must be tempered by knowledge that there is a range of possible activities and outcomes, any of which might be detrimental or beneficial to the firm. It depends on the judgment in selecting which actions to take and the skill and energy applied in achieving the results. The business case, as outlined here, offers no guarantee that any particular action will have the desired results.

Notwithstanding the risks of overemphasizing the business case, it remains an essential driver in the process of mainstreaming CSR. Any business action done in the name of social responsibility, but which is detrimental to the bottom line, is a course of action that is ultimately unsustainable. Once the firm hits on hard times, it will jettison what it considers expensive and nonessential. In contrast, if it is well understood that CSR activities help support value creation, it will be one of the last things the firm jettisons when times get tough.

This is not to say that there is never a time in which the normative case trumps the business case. Human rights abuses are a case in point. No bump in profits justifies complicity in human rights abuses. Overall, however, mainstreaming CSR cannot occur unless its advocates can persuasively link social performance to financial performance.

THE BUSINESS CASE AND MICROFINANCE

Microfinance is unique in many respects to the private business sector, but it is also similar in many other ways, and it is growing more similar over time. While the empirically demonstrated relationship between social and financial performance might not translate directly to microfinance, there is no reason to think it will not translate to some degree. In particular, there is no reason to assume that factors explaining the observed relationship between social and financial performance, as described in the previous section, do not apply as well to MFIs.

Just like private sector firms, MFIs can benefit from strategies that allow them to protect and enhance their reputation; attract, motivate, and retain talent; manage and mitigate risk; improve operational and cost efficiency; ensure license to operate; develop new business opportunities; and build stable and prosperous operating environments. The empirical evidence suggests strongly that managing their social performance potentially offers these kinds of benefits. MFIs will do well to take heed to and incorporate these lessons into their own operations.

Indeed, what evidence does exist tends to confirm the benefits of social performance management in the context of microfinance. The case studies presented in the annex documents many of the potential benefits that MFIs might derive by managing their social performance and taking seriously their responsibility to their stakeholders.

ANNEX: THE BENEFITS AND COSTS OF SOCIAL PERFORMANCE ASSESSMENT IN MICROFINANCE INSTITUTIONS

Annex 1 presents three case studies documenting the benefits and costs of social performance assessment. The case studies include two MFIs, Prizma in Bosnia-Herzegovina and Small Enterprise Foundation in South Africa, and one microfinance network, Covelo in Honduras.

PRIZMA[20]

Prizma is an MFI based in Mostar, Bosnia-Herzegovina.[21] In order to monitor whether it was fulfilling its social mission, Prizma developed three SPA tools: a poverty scorecard, an exit monitoring system, and market-research focus group discussions (FGDs). In March 2004, Prizma undertook a cost-effectiveness study to determine the operational costs and benefits of its SPA tools. With client retention as the primary measure of benefit, the study evaluated how improved client retention would affect the profitability of Prizma's joint enterprise loan, based on figures for average loan-cycle profits. Reductions in the client dropout rate of 50%, 25%, and 10% were modeled, demonstrating that even modest improvements in client retention have substantial effects on profits and easily cover the cost of the SPA tools.

At the time of the study, Prizma had 6,858 joint enterprise loan clients. In loan cycles one through four, the dropout rate of joint enterprise loan clients was, respectively, 49.1%, 41.1%, 41.7%, and 33.3%, equaling a weighted average dropout rate of 44.4%. With a total estimated cost of $42,056 for the three client assessment activities, Prizma would need to retain an additional 152 group enterprise clients, equal to 2.2% of its existing group enterprise clients, for one additional loan cycle (each with an average revenue of $278) to cover the implementation and development costs of the three SPA tools.

Analyzing the three tools separately, Prizma would need to retain 78 clients (1.1% of clients) for one loan cycle to cover the costs of the poverty scorecard, 24 clients (0.4% of clients) for one loan cycle to cover the costs of the exit monitoring system, and 50 clients (0.7% of clients) for one loan cycle to cover the costs of the FGDs. These figures translated into a drop in Prizma's weighted average dropout rate from 44.4% to 42.2% to cover all social performance assessment costs, to 43.3% to cover the costs of the poverty scorecard, to 44.0% to cover the costs of the exit monitoring system, and to 43.7% to cover the costs of the FGDs. It thus appears that only a very small incremental increase in Prizma's retention rate is required to break even on its SPA activities.

Given Prizma's existing dropout rates per loan cycle, for each cohort of joint enterprise clients joining Prizma, only 11.7% of them remain with the program after the fourth loan cycle. If one assumes a cohort of 1,000 clients, it is possible to calculate Prizma's monetary loss from client dropout, and the potential monetary gains to be had by reducing dropout through the fifth cycle. (The dropout rate in the fourth loan cycle affects returns in the fifth loan cycle.)

If Prizma had retained all 1,000 clients through four loan cycles, it would have earned $1,049,000 by the end of the fifth loan cycle. Given its existing dropout rates, however, it would earn only $242,918 at

20. Gary Woller, (2004), "The cost-effectiveness of social performance assessment: The case of Prizma in Bosnia-Herzegovina," *Small Enterprise Development*, 15, 3, 41–51.

21. www.prizma.ba

the end of the fifth loan cycle, for a total financial opportunity cost of $806,082. A zero-percent dropout rate, however, is not realistic. Under more realistic assumptions, the following scenarios are possible.

If Prizma cut its dropout rate by 50% in each loan cycle, it would earn $428,031 more in revenues after five loan cycles than it would at its existing dropout rate. If it reduced its dropout rate by 25% or 10% in each loan cycle, it would earn an additional $395,839 and $367,066 in revenues, respectively, after five loan cycles. Overall, the effects of reducing the dropout rate by anywhere from 10% to 50% are significant to Prizma's bottom line.

Although the cost of the three SPA activities was high (over $40,000 for development and implementation), the benefits are potentially much higher. Based on Prizma's activity-based costing system, Prizma would need to retain an additional 152 (of 6,858) group enterprise loan clients for a single loan cycle to cover the costs of all three SPA tools. This is equal to a 2.2-point drop in Prizma's current weighted average dropout rate. Assuming future implementation costs similar to past implementation costs, Prizma would need to increase client retention by eight joint enterprise clients for a single loan cycle to cover the costs of an additional round of exit monitoring and by only 11 group enterprise clients for a single loan cycle to cover the costs of an additional round of FGDs.

Thus with a small incremental decrease in client dropout, Prizma can not only recoup its client assessment costs but can also generate significantly higher profits. A 10% to 25% reduction in Prizma's dropout rates would not be an unreasonable outcome of SPA activities. Such a reduction would then add, over five loan cycles, between $367,000 and $396,000 to Prizma's bottom line.

SMALL ENTERPRISE FOUNDATION[22]

The Small Enterprise Foundation (SEF) began microfinance operations in the Limpopo Province of South Africa in 1992.[23] SEF offers two programs, the Micro Credit Program (MCP) and the Tshomisano Credit Program (TCP). MCP focuses on marginal microenterprises and provides them with microloans. TCP strictly targets women who live below half of the poverty line.

The MFI developed an institutional system for monitoring social performance that it refers to as "institutional impact management." It is based on two principles:

1. Impact management (IM) is an institutional process that is about more than assessing client well-being.
2. Impact is not something to be measured occasionally, but to be managed constantly.

SEF's IM system provides it with a longitudinal view of changes in clients' livelihoods. For SEF, the key challenge is to understand the extent and sustainability of the changes observed rather than to measure them at any point in time. The system employs in-depth studies and ongoing monitoring. In-depth studies cover, for example, clients' livelihood and business strategies, savings, and dropout patterns, or the likely impact of interest rate changes.

Ongoing monitoring tools include client-level indicators, dropout monitoring, vulnerable groups and centers, and a management information system (MIS). Monitoring tools focus on loan application, center performance monitoring, and loan utilization monitoring. The basic monitoring tool is a questionnaire that focuses on a combination of subjective (e.g., satisfaction with food and housing) and objective (e.g., savings, household income and expense) indicators. Fieldworkers interview clients once in each loan cycle

22. Ted Baumann, (2004), "Imp-Act Cost-Effectiveness Study of Small Enterprise Foundation, South Africa," *Small Enterprise Development* 15, 3, 28–40.

23. www.sef.co.za

(preferably not at the same time as loan reapplication). Some of the information (e.g. savings and attendance) is based on records of center meetings.

From mid-2002 to 2004, SEF's TCP experienced a crisis of unprecedented client dropouts. In response to the dropout crisis, SEF conducted a dropout study in 2002, interviewing both clients and staff to gauge their different understandings and motivations. The study revealed that the main force driving the spike in dropouts was a fieldworker incentive system that overemphasized portfolio growth at the expense of quality of service (a consequence of donor pressure on SEF to achieve break-even). SEF corrected this in 2003 with an overhaul of its field management and incentive systems. This set the stage for rapid growth and improved performance beginning in 2002. Dropouts fell as dramatically as they had risen.

SEF attributes the improved performance of TCP to its IM system, including both ongoing dropout and vulnerability monitoring to identify the problem and in-depth investigation to verify the causes. Without this, SEF believes that not only would dropouts have remained at historically high levels, but it is unlikely that SEF would have been able to grow its TCP loan portfolio, or even chosen to do so.

In the wake of this crisis, SEF commissioned a study to investigate the impact of its IM system on stabilizing and resolving the TCP dropout crisis. The study estimates the benefit to SEF of improved TCP performance from mid-2002 to the end of 2003 in three ways. First, it constructed a counterfactual model in which the program stagnated at May 2002 levels. The additional $369,350 from June 2002 to December 2003 is just over 20% of SEF's total interest earnings for the period. This scenario is likely, since SEF would not have grown its TCP portfolio until it had resolved the dropout problem.

Second, it isolated the influence of client retention on SEF interest income in terms of the difference between what SEF would have earned from TCP clients if dropouts had continued at June 2002 levels and what it actually earned. Doing this, it produced a rough estimate of $196,292 in additional interest earnings from TCP due to improved client retention.

Third, it estimated future interest income over a six-year period as a result of increased client retention and lower operating costs. (Operating costs are expected to be lower in that it costs more money to recruit new clients than to retain existing ones.) Assuming a dropout rate of 15% compared to a high of 30%, the study estimated a total increase in interest income equaling $2,600 in year 1, $49,000 in year 2, $226,000 in year 3, $542,000 in year 4, $918,000 in year 5, and $1,193,000 in year 6. Overall, the study conservatively estimates an impact equal to 10% of total TCP interest income as a result of high client retention induced by its impact management system.

COVELO NETWORK[24]

Covelo is a microfinance network and first tier–lending organization incorporating 22 MFIs from all over Honduras. From 2001 to 2004, Covelo held a series of workshops with its member MFIs covering the use of the SEEP/AIMS tools, including exit surveys; client satisfaction focus groups; the use of loans, savings, and profits; empowerment interviews; and impact surveys.[25] Member MFIs adopted a number of organizational changes as a result of implementing some of the SEEP/AIMS tools, principally in terms of client dropout rates and faster and more flexible lending processes.

Covelo subsequently undertook a cost-effectiveness study to determine the break-even-induced increase in profits necessary to cover the costs of implementing the SEEP/AIMS tools. The analysis quantified benefits for the years only in which studies were undertaken and did not consider any long-term benefits.

24. James Copestake, (2004), "Cost-effectiveness of Microfinance Client Assessment in Honduras," *Small Enterprise Development* 15, 3, 52–60.

25. For more on the SEEP/AIMS tools, see the Consumer's Guide to Social Performance Assessment Tools in Microfinance in the Social Performance Map.

At one member MFI studied, an increase in revenue of just 2% would be sufficient to recoup its investment in the SEEP/AIMS tools. Two other MFIs studied would benefit overall if 10% of net income could be attributed to portfolio change. At a fourth MFI, the estimated return required to cover the costs of the tools was 13%, although this would be lower if incremental benefits were factored in for 2003 as well.

These results suggest that small cost savings were less important than the contribution social performance assessment made to increasing total business activity. Implementation of the SEEP/AIMS tools induced a number of organizational changes (including a switch to individual loans and expansion into new areas) and operational outcomes (including an increased number of clients and reduced dropout rates). The combined effect of these changes more than recouped the investment costs, even in quite a short time period.

3. SOCIALLY RESPONSIBLE INVESTING

INTRODUCTION

Socially responsible investment (SRI)—also called social investing, ethical investing, mission-based investing, or socially aware investing—is "an investment process that considers the social and environmental consequences of investments, both positive and negative, within the context of rigorous financial analysis. SRI involves evaluating companies on CSR issues, analyzing corporate social and environmental risks, and engaging corporations to improve their CSR policies and practices."[1] As such, SRI serves as the bridge connecting private-sector investors with corporate social responsibility.

As microfinance continues its transition from a donor-funded into a commercially funded industry, it will increasingly need to tap into this SRI market. It is important, therefore, for microfinance stakeholders to understand the SRI market, how it operates, what its scope is, and what factors drive it. That is the purpose of this chapter in the Social Performance Map. It begins with a description of the broader SRI market and follows with a discussion of SRI activity within the microfinance sector. It concludes with a general discussion of issues in and obstacles to mainstreaming SRI.

THE SCOPE OF SRI

As an investment class, SRI has grown over the last decade at a rate 4% higher than the entire universe of U.S. managed assets, 258% compared to 249%. By 2005, socially responsible investors were holding $2.29 trillion in assets, constituting 9.4% of $24.4 trillion of total assets under management, using one or more of the four core SRI strategies: screening, shareholder advocacy, community investing, and economically targeted investments (see pp. 31–34). Other relevant statistics related to the scope of SRI include the following:

- Assets in socially screened mutual funds and other pooled products—the fastest growing segment of SRI—rose to $179 billion in 2005, up from $151 billion in 2003 and $12 billion in 1995.
- Socially screened accounts managed for individual and institutional clients totaled $1.5 trillion in 2005, including $17.3 billion for individual clients and $1.49 trillion for institutional clients.
- Shareholder resolutions on social and environmental issues increased 16% from 299 in 2003 to 348 in 2005, while social resolutions reaching a vote increased 22% from 145 to 177 over the same period. Institutional investors filing or cofiling resolutions on social and environmental issues controlled nearly $703 billion in 2005, a 57% increase from 2003.
- Assets in community-investing institutions rose 40% from $14 billion in 2003 to $19.6 billion in 2005, nearly quintupling the totals from a decade ago.

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1. Social Investment Forum, (2005), "Report on Socially Responsible Investing Trends in the United States," p. 9. The summary of socially responsible investing draws heavily on the most recent edition of this biennial report. Although the specific dollar and percentage values reported here will have changed since 2005, their order of magnitude will be similar. For more information on SRI definitions, screens, and approaches see the U.S. Social Investment Forum website.

MARKET SEGMENTS WITHIN SRI

Within the SRI market, there are a number of important market segments. These include institutional investors, individual investors, community investors, and mutual funds and asset managers, with risk/return profiles ranging from conservative (low financial returns, low risk, and low social impact) to moderate or aggressive (higher returns, risk, and impact). Community investors may, for example, be more likely to accept below-market rates of return for investments believed to have high, positive social impacts.

Generally, however, most socially responsible investors are not looking to trade-off financial return for social return. Rather, the growth of the SRI industry has been fueled, in part, by a substantial body of research showing that, on average, SRI funds do not underperform conventional funds.[2]

MAIN ACTIVITIES ASSOCIATED WITH SRI

There are four main activities associated with SRI: portfolio screening, shareholder advocacy/engagement, community investment, and economically targeted investments.

Portfolio Screening

Portfolio screening uses social or environmental criteria to include or exclude securities from an investment portfolio. It is the most complex and commonly used SRI practice. Social screens may be either negative (e.g., refrain from activities that do harm) or positive (e.g., engage in activities that create social benefits). Common screens include the environment (e.g., emissions, toxic materials, recycling), human rights (e.g., minority and gender treatment), labor rights (e.g., working conditions, pay, benefits), "sin" stocks (e.g., alcohol, tobacco, pornography, gaming), defense/weapons (e.g., arms production or arms sales), and community (e.g., local development, charitable activities). Among these, tobacco is the most commonly applied social screen followed by alcohol and gaming. The choice of screens defines an investor's approach to SRI and its competitive advantage in the marketplace.

There are two distinct categories of screened funds: mutual funds and socially screened separate accounts (e.g., pension funds). Some relevant statistics related to screened funds include the following:

- Assets held by socially screened mutual funds and separate accounts total $1.7 trillion, of which $179 billion is in mutual funds (up from $12 billion in 1995) and $1.51 trillion (up from $150 billion in 1995) is in screened separate accounts managed for individuals and institutional investors.
- Among institutional SRI investors, 44% use a single social screen, 33% use two to four social screens, and 23% use five or more social screens.
- Assets totaling $17.3 billion are held in socially screened accounts managed for individual clients, representing 3% of the $576.1 billion held in separately managed accounts for high-net-worth individuals.
- In 2005 there were 201 screened mutual funds and pooled products, up from 55 in 1995.
- More than 600 money managers now provide some form of socially screened investment.

2. The performance of socially responsible investment funds is discussed at length in the Business Case for Social Performance chapter of the Social Performance Map.

Shareholder Advocacy and Engagement

Shareholder advocacy and engagement is the use of shareholder voice and voting to influence corporate behavior. Examples include dialogue with firms on social issues, filing resolutions at shareholder meetings, and participating in initiatives encouraging better social behavior. Shareholder action takes two main forms. The first is dialogue or engagement; its objective is to engage management in discussions on environmental or social issues. The second, typically undertaken only after an unsatisfactory initial engagement, is to file a resolution at a company's shareholder meeting and put an issue to vote among shareholders. Some relevant statistics related to shareholder advocacy/engagement include the following:

- Proposed shareholder resolutions on social issues and corporate governance increased by 16% from 299 in 2003 to 348 in 2005.
- Social-issue resolutions that came to a proxy vote increased by 22% from 145 in 2003 to 177 in 2005.
- The total votes received in support of all social and crossover resolutions averaged between 10% and 12% from 2003 to 2005. Resolutions addressing sustainability issues, beyond the specific issue of climate change, consistently received around 25% of votes.
- Assets controlled by institutional investors proposing shareholder resolutions on social, environmental, or crossover corporate governance issues increased from $448 billion in 2003 to $703 billion in 2005. Of this, more than $117 billion in assets are also held in socially or environmentally screened portfolios; and $585 billion are controlled by institutions that do not screen investments for social or environmental criteria.
- Proposals for corporate-governance resolutions have risen to 847 in 2004, an increase of over 70% from 2002. Leading issues have included calls for expensing options, repealing poison pills, awarding performance-based stock options, restricting executive compensation, repealing classified boards, and making the board chair independent from management.
- As of August 31, 2005, shareholders had withdrawn nearly 100 social policy proposals from the 2005 season, an increase of more than 12% over 2004. Most withdrawals occurred after management agreed to address concerns for greater disclosure or other policy changes that shareholders had proposed.

Community Investment

Community investment is the use of finance to support economically disadvantaged communities, persons, or businesses underserved by mainstream financial institutions. Community investing makes it possible for local organizations to provide financial services to low-income individuals, supply capital for small businesses, and provide vital community services, like affordable housing, child care, healthcare, education, mentoring, and technical support. Community investing seeks to build relationships between families, nonprofits, small businesses, and conventional financial institutions and markets.

The community investment industry is evolving rapidly in terms of investment products, data and information sharing, and other innovations that make it easier for a broad range of investors to participate in community investment. These developments include Opportunity Finance Network's CARS rating system, the CDFI Data Project, and the Social Investment Forum's Community Investing Center.

There are four primary types of community investment institutions (CIIs), commonly referred to as community development financial institutions (CDFIs):

1. ***Community Development Banks (CDBs)*** operate much like conventional banks, but they focus on lending to rebuild lower-income communities. They offer services available at conventional banks, including federally insured savings, checking, certificate of deposit, money market, and individual retirement accounts. Fifty-four CDBs account for the largest amount of assets in measured CIIs, at $10.1 billion.
2. ***Community Development Credit Unions (CDCUs)*** are the second-largest type of CII, with assets of $5.1 billion. Over 275 membership-owned and -controlled nonprofit CDCUs serve people and communities underserved by mainstream financial institutions. These regulated institutions offer federally insured accounts and other services available at conventional credit unions.
3. ***Community Development Loan Funds (CDLFs)*** pool investments and loans provided by individuals and institutions to further community development in specific geographic areas. The 180 CDLFs use their $3.4 billion in assets to make or guarantee loans to small businesses, affordable housing developments, and community service organizations. Of this, $165 million are in international funds that provide or guarantee loans for small business creation and community development abroad. CDLFs are not federally insured, though investor money is protected by collateral, loan-loss reserves, and the institution or fund's net worth.
4. ***Community Development Venture Capital Funds (CDVCs)*** make equity and equitylike investments in highly competitive small businesses that have the potential for rapid growth. CDVCs target their $870 million of capital under management to geographic areas that traditional venture capital funds have overlooked.

Table 1. Asset Growth in Community Investing

	1999	2005	% growth
Community Development Banks	$2.9 billion	$10.1 billion	247%
Community Development Credit Unions	$610 million	$5.1 billion	749%
Community Development Loan Funds	$1.7 billion	$3.4 billion	97%
Community Development Venture Capital Funds	$150 million	$870 million	480%

In addition to the above CDFIs, there is a growing number of supporting activities and institutions helping to stimulate investment and provide services to lower-income and underserved communities:

1. ***Community Development Corporations (CDCs)*** focus on housing production and job creation in low- and moderate-income U.S. rural and urban communities. There are thousands of CDCs nationwide, including more than 700 tracked by the National Congress for Community Economic Development (NCCED).
2. ***Community Development Entities (CDEs)*** are government-certified domestic corporations or partnerships serving lower-income communities and their residents. More than 2,000 CDEs are currently certified and operating in the U.S.
3. ***Community Development Municipal Bonds (CDMBs)*** are securities issued by states, cities, towns, counties, and special districts with community development as their primary purpose. Interest on CDMBs is typically exempt from federal and, in certain cases, state income taxation.

Investors can also participate in pooled community funds that offer professionally managed portfolios of community development–related investments. Examples include Partners for the Common Good, Calvert Community Investments (Calvert), and MMA Community Development Investments (MMA Praxis). Many social investment advisors and some SRI companies also recommend that their clients allocate a percentage of their portfolio (typically between 1% and 5%) to community investments. Several mutual fund companies, such as Calvert and MMA Praxis, similarly allocate a percentage of mutual fund assets to community investments.

Economically Targeted Investments

Economically targeted investments (ETIs) are investments yielding competitive risk-adjusted rates of return issued to support the long-term economic development (e.g., sustainable job creation, business development, infrastructure improvements, and affordable housing) of targeted communities, regions, economic sectors, residents, and workers. A number of public pension plans see ETIs as prudent investments that strengthen local economies and serve the interests of stakeholders by supporting local enterprise, developing blighted urban areas, and preventing the outsourcing of local jobs.

POTENTIAL MARKET FOR SRI IN MICROFINANCE

Within the SRI sector, the potential market for microfinance constitutes no more than a relatively small fraction of total assets. But what fraction is that? In 2002 Enterprising Solutions surveyed 34 leading SRI professionals, representing 6% of the estimated 600 SRI professionals in the U.S. Of these, 17 were institutional investment professionals, nine were financial planners, seven were brokers, and one was "other." The total funds directly and actively managed by survey respondents and their parent companies was $8 billion and $71 billion, respectively, representing approximately 0.38% and 3.38% of the $2.1 trillion in SRI funds and .3% and 11.8% of the $600 billion in socially screened funds reported by the Social Investment Forum (SIF) in April 2001.[3]

Assuming an appropriate investment vehicle, 12 of the 27 respondents indicated the ability to place between $100,000 and $500,000 in emerging-market high-impact investments; four said they could invest between $500,000 and $1 million; three said they could invest between $1 million and $5 million; and four said they could place over $5 million each.

Overall, approximately 0.75% of client assets could be available for emerging-market "high social impact" investments (e.g., socially responsible small business and microfinance institutions). Extrapolating from the $600 billion in socially screened funds at the time, the Enterprising Solutions survey suggests a potential demand of $4.5 billion. Follow-up consultations with a range of SRI professionals predicted a demand of between 0.5% and 1% for socially screened funds, representing a range of $3 to $6 billion. (This figure is similar to that given by Amy Domini of Domini Social Investments, a leading SRI fund, who estimated that 1% of socially responsible investment was a reasonable potential for microfinance.[4]) The area of greatest interest to respondents was Latin America, with expressions of interest also in Africa and the Middle East (but less so in Asia).

While the survey indicates significant potential for SRI investment in microfinance, realizing this potential faces many challenges. Socially responsible investors are typically uninformed about microfinance and inexperienced in emerging markets. To bridge this knowledge gap, MFIs will need to provide adequate disclosure about their financial and social performance.

3. Enterprising Solutions, (2003), "The Potential for Social Investment in Microfinance and Small Enterprise in Developing Countries."

4. See Marc de Sousa-Shields, (2002), "Social Investors on the Sidelines," *Microenterprise Americas*, 56–58.

When asked to rate barriers to socially responsible investment in microfinance, survey respondents identified those shown in Table 2. The largest barrier identified by survey respondents is the lack of comprehensive information on emerging-market countries, followed by inadequate emerging-market investment fund capacity, the lack of social and environmental performance measures and benchmarks, uncertainty (lack of information) on risk/return tradeoffs, and the absence of regulated investment vehicles.

Table 2. Average Rankings of Barriers to Small Enterprise and MFI Investment in Emerging Markets (scale of 1 to 5)

	All	Institutional Investment Professionals	Financial Planners	Brokers
Country Intelligence	3.0	3.1	0.5	2.8
Managing Emerging Market Investments	2.8	3.5	2.0	3.0
Social Impact Measurement	2.7	3.3	2.0	4.0
Risk and Return	2.3	2.2	1.9	2.6
Appropriate Vehicle	2.0	1.8	2.0	2.5

A follow-up workshop, sponsored by Enterprise Solutions investment professionals, discussed the challenges to expanding the presence of the SRI industry in microfinance:[5]

- ***Communication.*** The SRI and MFI communities have a communication gap in terms of defining and creating measurements of social impact. Correspondingly, microfinance investment opportunities need to be marketed more effectively to the SRI community.
- ***Information flow and transparency.*** The investors perceive MFIs to have insufficient standards of disclosure and transparency. To enable investors to conduct adequate due diligence, MFIs will need to provide full disclosure of operations, performance, and governance using consistent, standardized, and credible metrics.
- ***Transaction costs.*** The costs associated with nontraditional investments can be high. Due diligence, transfer, and custodial costs for placing international capital in MFI debt instruments is estimated at 3.2% to 5.4% of the amount invested. The comparable figure for conventional investments is less than 1%. With an average investment size of less than $1 million, this fixed cost can be prohibitive. Such cost constraints are compounded by the fact that investment opportunities are scattered across the regions.
- ***Social impact measurement.*** MFIs need to produce quantifiable evidence of social impact. Such measures need to be standardized without themselves imposing an undue cost on either the MFI or the social investor to collect and disseminate.

In terms of investment vehicles, the survey respondents unanimously expressed a strong preference for mutual funds, followed by specialized fund management companies, direct debt, venture capital funds, and direct equity (see Table 3). In terms of expected returns, brokers expect the highest return at 16% followed

5. Enterprising Solutions, (2003), Microfinance and Socially Responsible Investment in Latin America: Workshop Report.

by institutional investors at 14% and financial planners at 12%. Over 60% of respondents indicated that they would be satisfied with a 5% to 15% annual return.

The rates of return expected by investors appear quite plausible for microfinance funds. The problem (as alluded to above) is that microfinance is not yet well understood as an asset class, nor are MFI funds well benchmarked, making risk/return comparisons to alternative investment options difficult. Moreover, many MFI funds are characterized by high management costs and a small capital base. All of this serves to dampen SRI demand for microfinance investments.

Table 3. Average Investment Vehicle Preferences (scale of 1 to 5)

	Institutional Investment Professionals	Financial Planners	Brokers
Mutual Fund	3.9	3.3	4.2
Specialized Fund Management Company	2.9	2.5	2.7
Direct Debt	2.2	2.3	2.5
Venture Capital Fund	1.6	2.2	2.3
Direct Equity	1.8	1.8	2.0

Another factor affecting the market for SRI investment in microfinance is the crowding-out phenomenon. A 2007 study by MicroRate found that government-owned development institutions (international financial institutions, or IFIs) were competing with and displacing private investors in funding the largest and most successful MFIs.[6] Among this group of MFIs, IFIs are the dominant and growing foreign funding source, comprising in several cases all foreign lending sources. In some cases, moreover, private lenders wanted to provide funding but could not because they were unable to match the favorable terms offered by the IFIs. A 2005 CGAP study looked at the same issue and reached a similar conclusion. According to CGAP, private foreign investment in microfinance was no more than a quarter of total foreign investment, and most of it was concentrated in a small number of licensed and regulated MFIs.[7]

In theory, the role of the IFIs is to strengthen the overall capacity and transparency of the microfinance industry, thereby serving as a catalyst for private capital that would not otherwise invest in microfinance. Their current practice, however, of picking the low-hanging fruit, as it were, appears to be having the opposite effect. According to MicroRate, "If all of those among the poor who can use credit productively are to be reached, then vast amounts of private funding will be needed in the future. . . . Only private capital can provide that kind of money. By forcing private lenders out of the most lucrative segment of microfinance, IFIs are hampering the development of the very institutions on which the sector will depend in the long run."

To serve as a catalyst in attracting private investment to microfinance, MicroRate recommends the following role for the IFIs:

1. Make IFI funding transparent.
2. Maximize commercial participation in innovative capital markets transactions.

6. Julie Abrams, Damian von Stauffenberg, (2007), "Role Reversal: Are Public Development Institutions Crowding Out Private Investment in Microfinance?"

7. G. Ivatury and J. Abrams, (2005), "The Market for Foreign Investment in Microfinance: Opportunities and Challenges" (Focus Note No. 30).

3. Seed the next generation of microfinance institutions.
4. Help develop mechanisms to cover foreign exchange risk.
5. Promote private sector channels for microfinance and finance the industry infrastructure.[8]

SOCIALLY RESPONSIBLE INVESTMENT IN MICROFINANCE

How does the potential demand compare to the current state of socially responsible investment in microfinance? The Microfinance Information Exchange (the MIX) maintains a database of socially responsible investment funds in microfinance. (Table 4 includes embedded links to each of the investment funds.) As of February 2008, this database included 97 socially responsible investors. These 97 investors managed total fund assets of $3,704,005,724, of which $1,798,324,095 (48.6%)—comprised of 2,960 active investments—was allocated to microfinance investments. The average percentage of funds allocated to microfinance, value of microfinance investments, and number of active microfinance investments was, respectively 65.9%, $24.9 billion, and 32.9. The corresponding median values were 71.3%, $5.4 billion, and 17.0.

Table 4. Socially Responsible Investment in Microfinance

Fund Name	Country of Incorporation	As Of (Date)	Fund Assets (US$)	% Fund Assets Allocated to MF Investments	Fund Assets Allocated to MF Investments	# of Active MF Investments
Aavishkaar Goodwell	Mauritius	06/01/07	11,200,000	100.00%	11,200,000	1
AccessHolding	Germany	02/28/07	3,650,000	73.05%	2,666,325	3
ACCION Gateway Fund	United States	05/31/05	5,100,000	100.00%	5,100,000	9
ACCION Global Bridge Fund	United States	05/31/05	1,691,000	n/a	n/a	-
ACCION Investments	Cayman Islands	12/31/04	12,969,985	96.47%	12,512,145	5
ACCION Latin American Bridge Fund	United States	05/31/05	5,340,505	27.15%	1,449,947	3
Advans SA	Luxembourg	01/31/08	12,938,814	100.00%	12,938,814	2
AfriCap	Mauritius	07/31/04	13,300,000	24.06%	3,199,980	3
Alterfin	Belgium	12/31/06	18,347,647	38.21%	7,010,636	36
ASN-Novib Fund	Netherlands, The	12/31/06	65,977,500	70.00%	46,184,250	25

8. For a discussion of the MicroRate study and its conclusions, see "IFIs: Crowding Out or Crowding In." For more on this topic, see X. Reille, H. Siedek, and N. Pasricha, (2006), "Public Investor Microfinance Portfolio: CGAP 2005 Survey"; and KfW and FMO, (2007), "Reversing the Coin: What International Financial Institutions Do to Change the Face of Microfinance."

Fund Name	Country of Incorporation	As Of (Date)	Fund Assets (US$)	% Fund Assets Allocated to MF Investments	Fund Assets Allocated to MF Investments	# of Active MF Investments
AWF	Luxembourg	09/15/04	23,073,410	6.42%	1,481,313	3
Bellwether Microfinance Fund	India	12/31/07	20,000,000	78.50%	15,700,000	14
BIO	Belgium	06/30/04	-	n/a	n/a	16
BISMA	Indonesia	06/30/07	1,847,900	61.06%	1,128,328	55
BOLD 2006-1	Switzerland	04/20/06	99,100,000	97.48%	96,602,680	21
BOMS1	Switzerland	05/01/05	86,500,000	93.93%	81,249,450	14
CAF	Venezuela	10/31/04	-	n/a	n/a	26
Calvert Foundation	United States	12/31/06	106,258,735	25.56%	27,159,733	50
Caucasus Credit	Azerbaijan	12/31/06	534,978	34.58%	184,995	6
Citigroup Foundation	United States	12/31/01	63,000,000	n/a	n/a	42
CMI	Netherlands, The	10/09/07	50,000,000	100.00%	50,000,000	7
Consorzio Etimos	Italy	12/31/06	21,380,343	66.46%	14,209,376	107
Cordaid	Netherlands, The	12/31/04	63,473,991	54.58%	34,644,104	90
CreSud	Italy	12/31/06	3,958,650	66.67%	2,639,232	12
CSF	Kyrgyzstan	09/30/07	250,000	100.00%	250,000	18
DBMDF	United States	05/31/05	3,259,923	86.81%	2,829,939	28
DEG	Germany	10/05/04	-	n/a	n/a	9
Dexia Micro-Credit Fund	Luxembourg	02/06/07	161,837,903	66.73%	107,994,433	105
DID FONIDI	Canada	03/31/04	3,816,870	10.30%	393,138	1
DID GF	Canada	06/30/04	633,397	100.00%	633,397	-
DID PF	Canada	06/30/04	5,669,988	47.37%	2,685,873	11
Dignity Fund	United States	03/31/07	5,495,000	90.99%	4,999,901	8

Fund Name	Country of Incorporation	As Of (Date)	Fund Assets (US$)	% Fund Assets Allocated to MF Investments	Fund Assets Allocated to MF Investments	# of Active MF Investments
DOEN Foundation	Netherlands, The	12/31/05	79,148,153	64.67%	51,185,111	15
Dual Return Fund	Luxembourg	10/25/07	50,586,594	83.68%	42,330,862	55
EBRD	United Kingdom	12/31/06	-	n/a	n/a	112
EFSE	Germany	09/30/07	467,975,248	50.70%	237,263,451	48
FIG	Switzerland	12/31/04	3,481,771	72.08%	2,509,661	17
Finnfund	Finland	12/31/06	212,447,550	2.36%	5,013,762	4
FMO	Netherlands, The	12/31/03	-	n/a	n/a	30
FRONTIERS	Kyrgyzstan	12/31/06	4,424,952	93.60%	4,141,755	30
Fundació Un Sol Món	Spain	07/31/06	-	n/a	n/a	16
Geisse Foundation	United States	12/31/03	14,000,000	2.14%	299,600	3
Global Partnerships	United States	09/30/07	10,500,000	95.40%	10,017,000	18
Goodwell	Netherlands, The	05/01/07	4,500,000	100.00%	4,500,000	0
Gray Ghost Fund	United States	09/30/06	75,000,000	100.00%	75,000,000	16
Hivos	Netherlands, The	12/31/05	-	n/a	n/a	15
Hives-Triodos Fund	Netherlands, The	12/31/06	39,968,387	93.00%	37,170,600	37
I&P Développement	Mauritius	09/30/06	12,665,300	n/a	n/a	8
ICCO	Netherlands, The	12/31/04	6,496,272	72.92%	4,737,082	20
IDF	United States	12/31/04	2,060,986	85.16%	1,755,136	28
IFC	United States	09/30/04	-	n/a	n/a	52

Fund Name	Country of Incorporation	As Of (Date)	Fund Assets (US$)	% Fund Assets Allocated to MF Investments	Fund Assets Allocated to MF Investments	# of Active MF Investments
Incofin	Belgium	12/31/06	10,556,400	96.25%	10,160,535	19
Incofin Impulse Fund	Belgium	12/31/06	23,751,900	97.22%	23,091,597	22
Incofin Rural Impulse Fund	Belgium	09/01/07	38,000,000	0.00%	0	0
KEF	South Africa	12/31/01	48,550,000	n/a	n/a	-
KFW	Germany	06/30/07	-	n/a	n/a	99
Kiva	United States	06/24/07	8,000,000	100.00%	8,000,000	53
Kolibri Kapital ASA	Norway	12/31/06	3,900,000	25.26%	985,140	5
LCCU	Lithuania	09/01/05	17,198,854	34.13%	5,869,969	-
LGD	United Arab Emirates	05/20/07	-	n/a	n/a	3
LOCFUND	Bolivia	06/05/07	5,000,000	24.00%	1,200,000	2
Lok Capital	India	12/31/07	14,500,000	18.08%	2,621,600	3
Luxmint—ADA	Luxembourg	06/30/07	2,107,728	100.00%	2,107,728	18
MFDF	Mongolia	03/05/03	3,000,000	44.13%	1,323,900	11
MicroCredit Enterprises	United States	10/01/07	0	n/a	n/a	17
Microfinance Alliance Fund	Philippines	12/31/01	1,700,000	70.59%	1,200,030	10
MicroVentures	Italy	n/a	n/a	n/a	n/a	n/a
MicroVest	United States	09/30/06	24,230,000	93.15%	22,570,245	25
MIF	United States	12/31/04	-	n/a	n/a	19
Oikocredit	Netherlands, The	12/31/06	455,786,000	43.49%	198,221,331	306
Omidyar	United States	05/12/05	400,000,000	n/a	n/a	7
OTI	United States	08/31/04	13,500,000	n/a	n/a	13

Fund Name	Country of Incorporation	As Of (Date)	Fund Assets (US$)	% Fund Assets Allocated to MF Investments	Fund Assets Allocated to MF Investments	# of Active MF Investments
Oxfam Novib (Grants)	Netherlands, The	12/31/04	-	n/a	n/a	-
Oxfam Novib Fund	Netherlands, The	12/31/06	28,125,000	100.00%	28,125,000	77
Partners for the Common Good	United States	02/28/07	9,000,000	20.00%	1,800,000	5
PKSF	Bangladesh	06/30/02	-	n/a	n/a	188
PlaNet MicroFund	France	11/14/05	407,129	93.50%	380,666	18
PROFUND	Panama	06/30/04	11,404,098	141.84%	16,175,573	10
PT Ukabima	Indonesia	12/31/03	3,901,625	57.99%	2,262,552	41
Rabobank	Netherlands, The	06/30/04	12,180,900	78.20%	9,525,464	89
responsAbility Fund	Luxembourg	11/30/07	180,141,111	88.17%	158,830,418	132
responsAbility Microfinance Leaders Fund	Switzerland	10/31/07	131,112,347	90.70%	118,918,899	44
RFC	Moldova	12/31/01	4,800,000	100.00%	4,800,000	200
Rockdale Foundation	United States	12/31/02	8,262,477	9.35%	772,542	7
SFD	Yemen	12/31/01	5,000,000	40.00%	2,000,000	8
SGIF[a]	United States	09/30/04	5,500,000	39.23%	2,157,650	9
ShoreCap International	United States	12/31/06	28,333,000	37.59%	10,650,375	9
SIDI	France	12/31/03	12,652,433	38.12%	4,823,107	37
SNS Institutional Microfinance Fund	Netherlands, The	10/30/07	220,000,000	25.00%	55,000,000	26
Saint-Honoré Microfinance Fund	Luxembourg	08/01/06	15,874,783	53.54%	8,499,359	6

a According to mixmarket.org, as of December 31, 2004, SGIF has dissolved operation.

Fund Name	Country of Incorporation	As Of (Date)	Fund Assets (US$)	% Fund Assets Allocated to MF Investments	Fund Assets Allocated to MF Investments	# of Active MF Investments
Triodos FSF	Netherlands, The	12/31/06	31,884,269	70.19%	22,379,568	18
Triodos-Doen Foundation	Netherlands, The	12/31/06	56,593,726	79.91%	45,224,046	74
UNCDF	United States	12/31/03	-	n/a	n/a	12
Unitus	United States	12/31/05	9,477,119	n/a	n/a	8
USAID Credit Guarantees	United States	09/30/04	-	n/a	n/a	25
VDK MFI Loan Portfolio	Belgium	12/31/06	-	n/a	n/a	-
WCCNICA	United States	06/15/06	5,713,073	99.33%	5,674,795	31
Total		**N/A**	**3,704,005,724**	**N/A**	**1,798,324,095**	**N/A**
Average		**N/A**	**46,300,072**	**65.85%**	**24,976,724**	**32.9**
Median		**N/A**	**12,658,867**	**71.34%**	**5,387,398**	**17.0**

Source: The Microfinance Information Exchange.

Table 4 excludes a number of investment funds and therefore understates the actual volume of socially responsible investment in microfinance. The rough order of magnitude, however, is probably representative of existing socially responsible investment in microfinance. (Table 5 lists and provides links to a number of other socially responsible investment funds.) If we accept a potential demand for social investment in microfinance of $3 to $6 billion, then the current volume of socially responsible investment equals anywhere from 30% to 60% of the total potential. These figures make it clear that the industry has come a long way in attracting private capital, but also that it still has a long way to go, particularly if the current estimates of demand prove to be conservative.

Table 5. Other Socially Responsible Investment Funds

Banca Etica	An ethical investments bank based in Italy. The bank manages savings raised from private citizens—as singles or families, organizations, companies and institutions in general—and invests them in initiatives pursuing both social and economic objectives, operating in full respect of human dignity and the environment.
BIL Micro Credit Fund	The objective of the fund is to offer a high level of return while contributing to the growth of microlending institutions in emerging markets.
Blue Orchard Finance SA	A Swiss company specializing in the management of investment funds dedicated to the microfinance industry. Serves investors, funds, and MFIs supporting sustainable development of microentrepreneurship in emerging economies.
CreditoSud	A private limited company offering financial resources at reasonable terms to MFIs, cooperatives, networks, fair trade producers, associations, and NGOs in Latin America, Africa, and Asia.
Developing World Markets MicroFinance, LLC	Arranges financing for MFIs in the developing world, enabling low-income entrepreneurs with no legitimate alternative access to capital to start and run their own microenterprises.
Finance for Human Development (Fonds International de Garantie)	A nonprofit guarantee fund based in Geneva, Switzerland, that helps MFIs and agriculture cooperatives in the developing world obtain local currency loans from local commercial lenders. By providing bank guarantees to MFIs, FIG expands the resources available to small entrepreneurs, thus promoting development and fighting poverty.
FinMark Trust	Promotes and supports policy and institutional development toward the objective of increasing access to financial services by the un- and underbanked of southern Africa (South Africa, Botswana, Lesotho, Swaziland, and Namibia).
Microfinance Corporation	Provides financial services for customers while providing economic return to investors. Helps small businesses in developing countries to succeed by providing them access to finances and education.
Research and Applications for Alternative Financing for Development (RAFAD)	A private international foundation based in Geneva, Switzerland that advises, supports, and provides a framework for local organizations in southern countries to help small and microbusinesses become self-sustainable.
Sarona Fund	A social investment fund with an aggressive focus on ventures that strengthen the economic prospects of the poor in low-income countries.

ISSUES AND OBSTACLES IN MAINSTREAMING SRI

A previous section addressed some of the principle obstacles to increasing the demand for socially responsible investment in microfinance. This final section returns to the topic of SRI in general to address some of the principal obstacles to mainstreaming SRI as an investment strategy. Many of the issues addressed below are directly or indirectly relevant to microfinance as well.

Notwithstanding their formidable presence in SRI markets, institutional investors have not historically played a large role in driving social responsibility at the firm or institutional level. In a 2002 survey carried out by the World Economic Forum's Global Corporate Citizenship Initiative, senior managers consistently noted the low level of shareholder interest in social performance. When asked to identify the stakeholder groups who created the greatest pressures or incentives for their CSR activities, managers ranked investors seventh after employees, government bodies, customers, local communities, NGOs, and boards of directors. The results of this survey, in addition to the results of two SRI surveys carried out by Deloitte, CSREurope, and EuroNext and by Russell Reynolds Associates, are shown in Boxes 1 to 3.

Box 1. World Economic Forum Global Corporate Citizenship Initiative Survey[1]

In 2002, the World Economic Forum Global Corporate Citizenship Initiative carried out a survey and a series of personal interviews of CEOs, CFOs, and IROs, primarily from signatory companies of the World Economic Forum's Global Corporate Citizenship Initiative.

The survey asked four core questions related to investor interest:

1. Are you seeing an increase in the level of activism, engagement, and sophistication from the socially responsible investment (SRI) community in your company's activities and performance?
2. In the past few years, have any financial analysts or major institutional investors (other than the SRI community) asked you directly about your company's risks and opportunities related to corporate citizenship issues?
3. How do you think investor interest in corporate citizenship issues will develop in the future?
4. What key obstacles do you see for the mainstreaming of corporate citizenship in the decision-making processes of the wider investment community?

Key findings from the survey include the following:

- The lack of interest, incentives, and relevant research and skills on the part of investors, and the lack of clear definitions, performance indicators, metrics, and benchmarks on the part of companies, are primary obstacles to mainstreaming corporate citizenship issues within the investment community. At the same time, a number of companies cited the lack of investor interest in their corporate citizenship activities as an impediment to investing in and taking a more strategic approach to these issues.
- There has been an increase in the level of activism, engagement, and sophistication in the SRI community; 42% of those surveyed felt there had been a major increase. Over one-half (58%) of those surveyed reported only occasionally receiving requests from the SRI community.
- Respondents were split in terms of the perceived influence of the SRI community in mainstreaming CSR issues into the wider investment community. Some respondents saw the SRI community as influential in terms of policymakers and corporate behavior, whereas others felt that SRI was and would remain a niche activity with relatively little influence on mainstream investing.
- Over two-thirds of companies surveyed said that they are occasionally asked questions about their corporate citizenship activities but typically only when there has been a crisis related to their company or industry or related to certain hot topics. Another 15% said that they are never asked about corporate citizenship issues.
- Over 70% expect to see increased interest in CSR by mainstream investors in the future.

1. www.weforum.org/pdf/GCCI/Findings_of_CEO_survey_on_GCCI.pdf. While this survey represents a small and self-selected group of companies, it offers perspectives from 14 different industry sectors with headquarters in 14 different countries. Some of the key messages are reinforced by the findings of research conducted by SAM Sustainable Asset Management in 2003 covering over 1,000 companies in addition to the findings of several global, European, and American surveys of institutional investors.

Box 2. Survey of European Fund Managers, Financial Analysts, and Investor Relations Officers[1]

In 2003, Deloitte, CSREurope, and EuroNext surveyed 388 mainstream fund managers and financial analysts in nine European countries (Belgium, France, Germany, Italy, the Netherlands, Spain, Sweden, Switzerland, and the United Kingdom) and 80 investment relations officers (IROs) of companies representing a total market value and turnover of more than 1 trillion Euros. They found, among other things, the following:

- The financial community sees a clear link between nonfinancial risks and shareholder value, including 89% of IROs and 76% of fund managers and analysts. Only 15% of those interviewed did not see any link between the two.
- Approximately 80% of fund managers and analysts said that the management of social and environmental risks had a positive impact on a company's long-term market value, although it had no impact in the short term.
- Around 70% of IROs said that environmental performance in the long term strongly influences a company's brand and reputation, while 46% said it influenced the company's economic performance, and another 36% said it influenced the company's market value.
- Approximately one-half of fund managers, analysts, and IROs stated that social and environmental considerations will become a significant aspect of mainstream investment decisions over time.
- Over 90% of IROs think that dialogue with shareholders about social and environmental issues is increasing and that companies will voluntarily integrate better social and environmental practices into the way they do business. Over 80% further stated that the ensuing years will see more legal requirements imposed on companies for social and environmental reporting.

1. "Investing in Responsible Business"

Box 3. 2003 International Survey of Institutional Investors[1]

In the seventh annual survey of institutional investors, Russell Reynolds Associates interviewed nearly 400 institutional investors in the U.S., the United Kingdom, France, Germany, Japan and China. The survey aimed to determine how institutional investors make their investment decisions, what they consider to be the most desirable traits and characteristics for CEOs and the board of directors, and how much influence they think they have on the companies in which they invest. Their findings include the following:

- Contrary to a "returns at all costs" mentality, over one-half of institutional investors in all countries said that they believe CEOs should practice social responsibility. Investors in France and Germany felt particularly strong on this issue (89% and 79%, respectively), while those in the United States were split—53% said it was important for CEOs to be socially responsible, while 47% said that CEOs should to focus on returns only.
- Two-thirds of investors said that a company's corporate governance practices were a very important consideration in investment decisions. In the United States, the importance of corporate governance as a decision factor jumped from 53% in 2000 to 71% in 2003, while the quality of a company's board of directors nearly doubled in importance from 25% to 45%.

1. www.russellreynolds.com/pdf/thought/Institutional%20Investor%202003.pdf

Summarizing across the various surveys, there does appear to be increasing interest in CSR within the SRI community and among mainstream investors and analysts. Among the latter, however, interest ebbs and flows depending on the existence of social, environmental, ethical, or governance crises. As stated by one CEO, "There is growing general interest as witnessed by the increase in sustainability analysts that the major investment houses are now employing. However, corporate citizenship issues are still of secondary importance to mainstream investors."

The surveys identified some primary obstacles to mainstreaming SRI (and CSR). These are likely relevant to microfinance as well.

Problems of definition. The lack of consensus on a single definition of social responsibility together with the absence of universal indicators and metrics to measure it make it difficult to communicate a clear, succinct, and comparable message to investors and analysts. To some companies, for example, CSR means compliance and philanthropy, while to others it refers to a broader strategic framework involving the company's overall impacts and relationships.

Problems with making the business case. The most frequently cited obstacle to mainstreaming SRI is the lack of a rigorous, credible business case for CSR together with performance measures that can be empirically quantified and benchmarked. Nearly every survey respondent cited one or more of the following obstacles to making the business case: problems of measurement; inappropriate procedures to measure the economic benefits of corporate citizenship issues; difficulty of putting a financial value on intangible assets such as reputation and motivation of the workforce; lack of sound analytical tools; the difficulty of quantifying the impact of corporate citizenship issues on a company's share price; and too many nonquantifiable items causing problems for the common financial analyst.

The challenge is to produce credible, verifiable, and comparable data on a company's nonfinancial performance. This data must also be clear and capable of being quickly and easily communicated. This is considered necessary for ensuring greater accountability and transparency with external stakeholders, as well as making a sound business case for CSR internally. A specific issue associated with this process is the rapid and often confusing growth in different measurement systems, standards, and codes. This has led to what some respondents call "code fatigue."

Problems with quality and quantity of information. Most companies remain behind the curve in terms of integrating sustainability and corporate citizenship issues and metrics in their communications to investors. The SAM Sustainable Asset Management analysis of over 1,000 companies found that fewer than 30% of respondents in most industry sectors even claimed to offer comprehensive information on sustainability issues to investors.

Problems of skills and confidence. There exists a broad mismatch in the experience and skill sets of people working in the financial and corporate citizenship fields. People in both fields tend to lack a comprehensive understanding of each other's working environments, languages, incentive systems, and methodologies.

Problems of time horizons. Whereas investors tend to be more focused on the short term, the benefits of corporate citizenship tend to manifest themselves over the long term. According to one respondent, "The continuing pressure for short-term performance affects the ability of management to think long term. It is difficult for managers of corporations to 'do the right thing' with regard to CSR when being driven purely by profit-oriented investors. Investors must also be educated as to the long-term positive effects of CSR." Public policies and tax incentives frequently serve to reinforce the short-term biases of companies and investors.

Based in part on its survey findings, the World Economic Forum made four recommendations to advance the mainstreaming of SRI (and CSR):

1. ***Frame corporate purpose, principles, and values with clarity.*** CSR needs to be about more than simply making a business case linked directly to bottom-line benefit. It should also be a statement about what the company values, even if this sometimes incurs costs, results in lost business opportunities, or requires proactive behaviors to address difficult social issues.
2. ***Emphasize the social contribution of core business operations.*** Business leaders should be less defensive about their role in society. Core business operations produce a variety of social goods (e.g., employment, income generation, taxes, technology, training), and business needs to demonstrate these and show how they are integral to a company's social performance.
3. ***Present a credible and measurable business case for corporate citizenship.*** Members of the board of directors and the senior executive team need to be able to define, explain, and assess the ethical, social, and environmental risks and opportunities faced by their company and industry sector.
4. ***Ensure consistency and coherence of message.*** Inconsistent messages and incoherent policies from business are a significant cause of distrust among investors and other stakeholders. Businesses need to provide messages and analysis in their social and environmental reports similar to those in their annual reports, while ensuring that messages are consistent in all their stakeholder communications.

4. MICROFINANCE AND THE ENVIRONMENT[1]

INTRODUCTION

Microenterprise includes a wide variety of business activities that create a broad range of environmental effects that include, for example, small-scale industrial pollution, land degradation, deforestation, and destruction of natural protective barriers (e.g., mangroves and swamps that help mitigate the effects of natural disasters). Although the environmental impact of a single microenterprise may be small, the sheer number of microenterprises, their low technological level, the general lack of regulatory supervision, and the absence of a supporting infrastructure and services all combine to make the cumulative environmental impact of microenterprise activity significant.

To the extent microfinance succeeds in scaling up and facilitating widespread growth in business activity, its potential environmental impact looms even larger over the horizon. There is thus an important need to address the environmental consequences of microenterprise activity and the corresponding role of microfinance in it.[2]

HOW MICROENTERPRISES AFFECT THE ENVIRONMENT

There are three main areas in which microenterprise activities impact the environment: unsustainable use of natural resources, pollution (air, water, and solid waste), and occupational health and safety. The specific environmental effects of microenterprise activity stem from a number of factors, such as the production method (e.g., burning or mining), productive inputs (e.g., inorganic fertilizer, pesticides), inefficient production technologies (e.g., leading to overutilization of natural inputs), waste (e.g., litter, diesel smoke), or unsustainable outputs (e.g., lumber, endangered species), or the local political structure (e.g., uncertainty of land tenure).

Microenterprises, and the (frequently poor) people who operate them, are both the agents and victims of environmental degradation. Microenterprises are frequently concentrated in sectors that involve destructive environmental impact, waste of natural resources, and occupational safety hazards. Microenterprises also tend to operate informally outside of the environmental, legal, and regulatory system (with the institutions responsible for such enforcement often being weak in any case). They are thus not subject to environmental regulatory enforcement or incentive structures—such as subsidies to promote adoption of environmentally sound technologies—designed to minimize environmental damage.

On top of all this, the developing countries in which so many microenterprises operate lack the physical infrastructure and government and health institutions to implement the kinds of adaptation and mitiga-

1. This document draws on a number of resources for its content and language, including Abhishek Lal, "An Overview of Microfinance and Environmental Management"; Joan Hall and Abhishek Lal, "How MFIs and Their Clients Can Have a Positive Impact on the Environment"; and Mark D. Wenner, Norman Wright, and Abhishek Lal, (2004), "Environmental Protection and Microenterprise Development in the Developing World," *Journal of Microfinance*, 6, 1, 95–122. Elizabeth Israel and Liam Collins of Green Microfinance, LLC also contributed to this chapter of the Social Performance Map.

2. For a good summary of the environmental issues in microfinance, see the summary of the roundtable on Microfinance and the Environment: Setting the Research and Policy Agenda.

tion strategies wealthier countries can be expected to employ in the face of environmental degradation. The prevalent poverty found in these countries often pushes environmental concerns down the hierarchy in favor of more immediate priorities of sustenance and income growth. Citizens in these countries are also relatively uneducated about environmental, safety, and health issues and mitigation options.

Urban Areas

While many environmental issues span all localities, some are influenced by geographical setting. In urban areas, environmental degradation is more likely to take the form of pollution (water, land, and air), poor sanitation, and damaged aesthetics. Urban microenterprises tend to be concentrated in the commerce and service sectors (e.g., food and produce vendors, seamstresses, hairdressers, tailors, cobblers, tire patchers, auto mechanics, trash recyclers). These types of enterprises may produce noise, congestion, or refuse, but they tend to leave a small environmental footprint. An exception occurs where there is a poor waste-management infrastructure, in which case microenterprise refuse can be a significant environmental concern. Some urban businesses also encroach on or convert urban green spaces (e.g., parks) and bodies of water for their own use, compromising the aesthetics, safety, and purpose of these public resources.

Small-scale industry is the most intensive urban polluter (although as an economic sector, it is dwarfed in size by the commerce and service sectors). Much of the environmental damage caused by small-scale industry results from the clustering of small-scale, pollution-intensive industries (e.g., brick making, electroplating, leather tanning) near population centers. Small-scale industrial polluters adversely affect sewage systems and bodies of water in addition to the health of workers and inhabitants through the release of refuse, production runoff, smoke, dust, and harmful chemicals into the ground, air, and water.

Rural Areas

Rural areas are, if anything, more vulnerable to environment degradation resulting from microenterprise activity.[3] In contrast to urban areas, environmental degradation in rural areas is most likely to affect natural-resource sustainability such as soil quality, biodiversity, and water quality. Although specific data is not available, it is probably the case that millions of small-scale farmers, fishermen, agroprocessors, and miners engage in unsustainable resource-use patterns.

Soil erosion from farming activities and soil and water contamination from the improper use of fertilizers and pesticides are important types of environmental damage that affect land productivity and water quality and, in turn, agricultural income, food security, and health. Unsustainable farming practices contribute to a loss of soil fertility and to increased sedimentation of nearby streams, rivers, lakes, reefs, and dams as a result of water runoff and soil erosion. The improper use, storage, and disposal of fertilizers and pesticides result in excessive nutrient runoff into nearby bodies of water, degrades water quality for downstream users, endangers some forms of aquatic life, and contaminates local sources of drinking water.

Improper cattle grazing contributes to environmental degradation in the forms of devegetation, deforestation, water pollution, desertification, and loss of biodiversity. Grazing cattle degrade soil quality by compacting the dirt and reducing vegetation cover, leaving topsoil exposed to wind and water erosion. They affect biodiversity by altering the species composition and vegetation quality on grazing lands and in other natural areas.

Animal slaughtering and rendering dump toxic by-products into local ecosystems and noxious odors into the air. Agroprocessing contributes its share of environmental damage via effluent runoff and other by-products. The expansion of small-scale farming to previously untouched ecosystems produces yet more environmental degradation through (often widespread) deforestation, loss of biodiversity, and soil erosion.

3. In rural areas, microenterprises include small-scale farming, agroprocessing, livestock rearing, aquaculture, and silviculture.

The small-scale trade in natural products (e.g., medicinal plants, wild game, building materials, fuel wood, fodder, artisan materials and supplies) in both rural and urban areas can also have significant and adverse environmental consequences, particularly when involving rare or endangered animal or plant species.

Workplace Health and Safety

Health and safety issues are closely related to environmental issues within the microenterprise sector. According to the International Labour Organization (ILO), a major part of the workforce in developing countries is involved in agriculture, services, and cottage industries characterized by heavy workloads, multiple tasks, and exposure to health risks such as poor hygiene, sanitation, and nutrition; parasitic disease infection; repetitive motion stress; and exposure to smoke, solvents, chemicals, heavy metals, fungicides, toxic gasses, corrosive acids, etc. Overall, two-thirds of workers in these countries work under conditions that do not meet minimum safety standards.

Low compliance with health and safety norms among microenterprises is due to multiple factors:

- Nonexistent or weak regulatory structure
- Lack of knowledge about safety and health practices, the consequences of those unsafe practices, and ways to mitigate them
- Fear of being noncompetitive with others who do not adhere to safety norms
- A preference for allocating scarce resources to productive or household needs
- The cost of safety equipment
- The lag time for certain health effects (e.g., repetitive motion stress) to manifest themselves

Examples of Microenterprise Activities that Adversely Impact the Environment

Of course, not all microenterprise activity is harmful to the environment, and in some cases it can actually be environmentally healthy. Microenterprises that use green inputs for production (e.g., certified or sustainably grown lumber, organic seeds, compost or green fertilizer, organic dyes); that use sustainable production techniques (e.g., reforestation, controlled water usage, natural pesticides, microdrip irrigation, solar water pumps); that recycle trash or used goods; or that use recycled materials as inputs can benefit the environment.

Certain microenterprise activities, however, are generally accepted to have pronounced adverse environmental impacts.

Leather tanning produces several noxious pollutants, including heavy metals, organic compounds, and liquid detergents, that are frequently discharged into sewer systems, streams, and rivers.

Brick and tile manufacturing contributes to air and water pollution and land degradation. Its environmental impact often depends on its proximity to densely populated areas and on the extent to which producers depend on "dirty fuels" (scrap wood with varnish on it, tires, plastics, used motor oil, and solvents) as a low-cost alternative to clean wood or propane gas.

Agriculture adversely impacts the environment where farmers engage in improper methods to store, use, and dispose of fertilizer, pesticides, and herbicides. Such practices can result in soil infertility, water runoff, soil erosion, increased sedimentation of water sources, contaminated drinking water, and loss of aquatic life.

Aquaculture produces a loss of biodiversity due to high conversion rates of wetlands and mangroves to fish ponds; water pollution caused by the improper disposal of blood and offal; water runoff, soil erosion, and salinization from poor pond-construction practices; and the elimination of other species in the ecosystem due to use of toxic chemicals to control predator and competitor fish species.

Metalworking and electroplating discharge heavy metals in sewer and water systems, contaminating aquatic life and posing health threats to humans who consume contaminated fish.

Small-scale mining produces land degradation and chemical pollution. Mining operations move significant amounts of rock and soil that produce substantial changes in surrounding landscapes. Alluvial mining operations result in erosion, riverbank destruction, and dam siltation. The processing of mined ore, especially gold, releases significant quantities of mercury and cyanide into the ecosystem, negatively affecting local plant, animal, and aquatic life.

Painting and printing use a number of toxic substances. The improper disposal of pigments, inks, paper waste, and solvents can contaminate soil and water with heavy metals.

Automobile and motor repair contaminate the environment through the inappropriate disposal of oil, battery acid, and engine sludge into sewer and water systems.

Wood processing and metal finishing use glue, paints, and solvents. The improper disposal of these items degrades soil and water resources. The increased demand for wood, coupled with outdated harvesting technology and inadequate regulation, may also contribute to unsustainable logging practices.

Charcoal making contributes to deforestation through unsustainable tree harvesting and to air pollution.

Textile dyeing can lead to large discharges of particulates, such as alkali, into local water sources.

Food processing plants can discharge significant amounts of untreated wastewater and offal into local water systems. The degraded water quality has adverse consequences for aquatic life, downstream communities, and human health. When water runoff is trapped in stagnant pools, moreover, it can be highly odorous and serves as a breeding area for mosquitoes.

Animal slaughtering and rendering discharges a variety of harmful items into local ecosystems including wastewater, suspended solids, nitrogen, solid waste (offal), and toxic compounds. It also releases noxious odors that adversely affect the quality of life for people living in geographical proximity to the slaughtering/rendering operations.

Trade in exotic or rare plants and animals can produce unsustainable harvesting practices and threaten the viability of several plant and animal species.

THE ENVIRONMENT AND THE POOR

The effects of environmental degradation on the poor are probably greater than on the well-off. Relative to the well-off, the poor tend to rely more heavily on natural resources and ecosystem services for their livelihoods. They also tend, therefore, to suffer more from natural resource degradation and biodiversity loss.

The biodiversity found in ecosystems—such as forests, agro-ecosystems, grasslands, wetlands, coastal waters—provide many essential services that contribute to productive activities, expand livelihood options, and provide natural safety nets against environmental shocks. Examples include the provision of natural habitat for wild pollinators essential to food crops; natural predators that control crop pests; soil organisms important to agriculture productivity; watershed protection and hydrological stability that mitigate drought or flood conditions; maintenance of soil fertility through storage and cycling of essential nutrients; and the breakdown of waste and pollutants.

The poor, moreover, tend to live in marginal areas with little access to water, sanitation, and clean air and land. As such, they are hit hard by pollution for which they pay with their health and livelihoods. They can also expect to be hit hard by the effects of global climate change, including drought, loss of arable land, loss of freshwater sources, loss of coastal lands and islands, and increased incidence of severe weather events (from which they have the least protective shelter, ability to relocate, and ability to recover afterward).

WHY MICROFINANCE SHOULD CARE ABOUT THE ENVIRONMENT

Having demonstrated that microenterprises can impact the environment for good or ill (and perhaps both at the same time), why should the microfinance industry care? The industry ought to be involved for six reasons: scale, risk, regulation, access to funding, competition, and ethical considerations.

Scale

According to the Microcredit Summit, at the end of 2004, microfinance institutions had reached 92 million clients, representing a nearly seven-fold increase from the 13.5 million loan recipients in 1997.[4] This figure, however, still represents a small fraction of the total number of micro- and small enterprises operating in developing countries. It is reasonable, therefore, to expect the scale of worldwide microfinance activity to continue to grow over time, potentially reaching well into the hundreds of millions of clients.

Even if microfinance exerts only a small impact on business formation and growth, the cumulative environmental impact of hundreds of millions of clients starting and expanding businesses, most outside any formal regulatory structure, through access to financial services will be large. If the industry is to make serious efforts to address its environmental responsibility and impact, it is better to start soon, before its environmental effects begin to reach critical mass.

Risk

Environmental issues can affect an MFI's profitability by increasing its risk. Poor people are more dependent on natural resources, frequently using natural resources as inputs for their production. The depletion of these inputs reduces the sustainability of the business. As the inputs become more scarce, they become more expensive, jeopardizing the client's ability to save or repay loans. Since MFIs often support sectors in which many clients are engaged in similar activities, natural resource depletion can put an MFI's loan portfolio at risk.

Environmental outcomes that negatively affect the health of poor or marginal business operators impose further risks to MFIs. As mentioned earlier, the effects of environmental degradation are acutely felt by the poor and other marginal groups. When microentrepreneurs become sick from pollution, for example, they are less productive, and their ability to pay off loans or save decreases.

If microentrepreneurs are destroying natural habitat in order to make a living, they may be increasing their vulnerability to landslides, floods, or other natural disasters. The loss of business and life in the event of a natural disaster caused or exacerbated by environmental destruction will likewise affect an MFI's bottom line.

4. www.microcreditsummit.org

MFIs are also at risk of decreased cash flows due to unforeseen environmental costs faced by borrowers. These costs might include compliance with costly environmental regulations, fines for noncompliance, clean-up costs, lost revenue from damaged reputation, production limitation or termination, and so on.

Environmental crises among microenterprise clients pose a number of risks to MFIs in terms of tarnished reputation, damaged brand identify, and lower profits. An often-ambiguous legal structure opens the door to private suits for environmental damage against parties with deep pockets, including many MFIs. MFIs are also at risk for environmental activism by community or other public-interest groups. Failure to take prudent steps today to anticipate and mitigate these risks increases the likelihood that an environmental crisis down the road does serious damage to an MFI's (and the industry's) reputation and profitability.[5]

Finally, environmental considerations are expected to play an increasingly important role in the competitiveness of micro- and small enterprises in globalizing markets, as end markets insist on products that are healthy, nontoxic, and produced under environmentally friendly conditions by manufacturers who adhere to safe labor standards.

Regulation

There is no guarantee that microenterprises will remain outside a country's regulatory regimen. Rather, there is good reason to believe that many countries will close many of these regulatory gaps over time. If clients are engaged in covered activities or are located in biosensitive regions, environmental regulations may significantly affect the way they do business, and even their ability to do so.

There is any number of regulatory actions governments might take that affect microenterprise operations, profits, and sustainability, both within and across sectors. As countries continue to grapple with and, over time, address their development needs, the environment is expected to emerge as an increasingly important item on the policy agenda. When this occurs, it is unlikely that microenterprises will continue to fly under the regulatory radar to the extent they have to date.

Access to Funding

To the extent corporate social responsibility becomes a mainstream business practice over time,[6] MFIs will increasingly be evaluated according to triple bottom line criteria. Many socially responsible investment funds and the foundations linked to them use environmental criteria in their due diligence procedures. An MFI's ability to attract financing, in addition to its brand reputation, will increasingly depend on its environmental policies and practices.

Competition

The competitive landscape of the microfinance industry is dynamic. New entrants and traditional rivals (e.g., credit unions, informal savings and loan associations) are increasingly competing for a slice of the microfinance pie. Environmental technologies and practices that save micro- and small enterprises money and in turn increase their productivity offer certain MFIs an opportunity to differentiate themselves from the competition while providing valuable, and profitable, services to clients and communities. Examples

5. The mitigation of such risks is one of the primary reasons, and benefits, for engaging in corporate social responsibility practices. For more on this, see the chapter on the Business Case for Corporate Social Responsibility in the Social Performance Map.

6. Of course, there's no guarantee this will happen. See the chapter on Corporate Social Responsibility (CSR) in the Social Performance Map for a discussion on mainstreaming CSR.

of such practices and technologies include solar technologies (e.g., solar panels, cell-phone chargers, water pumps, cookers), microdrip systems, and low-wood-use (e.g., Lorena) stoves.

Ethical Considerations

Aside from the practical (or self-interested) reasons for addressing environmental issues, there are also ethical considerations at stake. Many believe that humans have an ethical responsibility to care for the environment, and this belief is reflected in the policies and practices of many industry stakeholders. While the intensity of this belief—and the willingness to put it in practice—vary widely, it is an idea with widespread and growing cache. The developing world lags behind the developed world in this regard, but the gap is expected to close over time.

At the moment, ethical considerations are not by themselves potent enough to motivate generalized action, and it is questionable whether they ever will be. That said, when combined with sound, practical arguments for protecting the environment, they can provide an extra and important legitimacy to the arguments. If, as expected, environmental concerns begin to climb up the priority ladder in developing countries over time, ethical considerations are expected as well to play an important, if subsidiary, role.

WHAT CAN MFIS DO?

Owing in part to the informality of the microenterprise sector, microfinance can provide an important interface to address environmental issues in the sector. In general, there are three broad approaches to mitigate the environmental impacts of microenterprises: command and control, economic incentives, and increased lender liability. The first two approaches have to do with the regulatory and policy environment and are largely outside of the MFI sphere of influence.

The third approach, increased lender liability, is to use MFIs to support supervisory and policy bodies to enforce environmental standards or to promote adoption of environmentally friendly technologies and practices. This approach is attractive because the MFIs interact closely with the microenterprises and are thus in a position to influence their behavior and environmental performance. (A potential downside is the imposition of additional and expensive administrative burdens on the MFI for which it may or may not possess the appropriate resources and technical capacity.) Within this broad approach an MFI has numerous options either to promote sound environmental technologies and practices or to punish unsound environmental technologies and practices. Some specific methods include environmental education and training, environmental assessment and screening, adapting product mix, market research, participatory subsector analysis, partnership/building networks, and promoting regulation. These options are reviewed below.

Before deciding what its specific approach is, the MFI should first look inward to assess its own environmental performance as the precursor to developing a formal environmental policy. Does it, for example, engage in environmentally sustainable pursuits? Is it funding environmentally damaging activities? If so, is it transitioning away, or how can it transition away, to more environmentally friendly activities? What is its own carbon footprint or waste stream in the communities in which it operates?

The **environmental impact assessment** (EIA) is an effective method for assessing an organization's environmental performance. Although often used as an external reporting requirement (i.e., as a condition for receiving a loan),[7] the EIA is also a useful internal assessment tool. A discussion of the EIA is found below, followed by a review of the aforementioned options available to MFIs to promote greater environmental responsibility among their clients.

7. Spurred by the Global Reporting Initiative and the United Nations Environmental Financial Initiative, many large commercial banks have begun to implement EIAs.

Environmental Impact Assessment

The environmental impact assessment is "the process of identifying, predicting, evaluating, and mitigating the biophysical, social, and other relevant effects of development proposals prior to major decisions being taken and commitments made."[8] Its purpose is to ensure that decision makers consider the environmental impact before deciding whether to proceed with new projects.

There is no single approach to EIA; the specific implementation of the EIA varies from organization to organization and it ranges from simple to complex. In general, however, it can be said to involve at least five basic steps:[9]

1. ***Screening:*** What project activities may be of concern?
2. ***Baseline Conditions:*** What environmental conditions surround the project?
3. ***Prediction of Effects:*** What are the effects and how important are they? Can adverse effects be minimized?
4. ***Reporting:*** What information was found, analyses made, and conclusions reached?
5. ***Environmental Protection Plan:*** What can be done to ensure operations meet all guidelines, codes, and regulations?

A number of methodologies and tools can be used to conduct an EIA and identify potential environment effects. Two common and relatively simple tools are checklists and matrices. Checklists provide a systematic method for measuring environmental impact by identifying the features or factors of program activities that need to be addressed. They vary in complexity and purpose from a simple checklist to a structured methodology that assigns significance by scaling and weighting factors. Checklists can be improved and adapted in accordance to local conditions, particularly as organizations gain experience in their use. Items in a checklist might include, for example, air, water, geology, soils, natural vegetation, wildlife and fisheries resources, heritage resources, land use on adjoining property, noise pollution, and solid or liquid waste and disposal.

Where checklists are effective for systematically working through the expected or potential environmental impact of program activities, they are less effective for identifying higher order impact or the interrelationships between effects.[10]

Matrices are used to identify the interaction between program activities. They consist of gridlike tables that list program activities on one axis and environmental characteristics on the other axis. Within the matrix, environment-activity interactions are noted in the appropriate cells or at intersecting points in the grid. Entries in the cells are made to note the severity of impact or to highlight other features related to the nature of the effect, and can consist of (1) ticks or symbols to identify effect type (such as direct, indirect, cumulative), (2) numbers or a range of dot sizes to indicate scale, or (3) descriptive comments.[11]

In addition to—or in place of—an EIA, MFIs can undertake a variety of actions to assess their environmental impact or develop their environmental policies. Examples include loan application analysis, participatory subsector analysis (PSA), training/environmental awareness, regulation, incentives, and partnering/building networks.

8. Association for Impact Assessment, (1999), "Principles of Environmental Impact Assessment Best Practice."

9. www.axys.net/expertise/assessments/eia.htm

10. An example of a checklist can be found at http://eia.unu.edu/wiki/index.php/Sectoral_Checklist or in the Annex of Abhishek Lal, "An Overview of Microfinance and Environmental Management."

11. An example of a matrix can be found at http://eia.uu.edu/wiki/index.php/Assessment_Matrix.

The EIA (or other form of environmental self-assessment) provides the MFI with the basis for an institutional environmental policy. The institutional environmental policy may be a separate policy, or it may be part of a broader corporate social responsibility (CSR) policy. Once the formal environmental policy is in place, the next steps (easier said than done) are to develop internal systems for putting the policy into practice, implement the policy, and monitor its implementation.[12]

Environmental Education and Training

The main incentives for microfinance clients to adopt sound environmental technologies and practices are perceived profit, health benefits, and sustainability of their resource inputs. Any approach to promoting greater environmental responsibility among clients should build on these incentives.

Many MFIs offer training services to their clients, often as a condition for receiving loans. It should be possible to cost-effectively graft an environmental training component into the course content. For MFIs that do not offer training services, there are other ways to integrate environmental education and training into the lending process. The training/education would seek, among other things, to inform clients on the environmental or health and safety consequences of their business activities and offer options for mitigating them.

Environmental Assessment and Screening

MFIs can use simplified environmental assessment tools to identify an enterprise's environmental impact and, depending on the outcome of the assessment, screen out certain enterprises or require others enterprises to adopt a mitigation strategy as a condition for receiving a loan. The loan application offers a convenient means to carry out the environmental assessment.

An alternative (and complementary) approach is to develop a list of and automatically screen out businesses that are known unequivocally to pose serious environmental and occupational safety risks—the so-called "worst offenders." FMO Finance for Development, for example, has developed an Environmental and Social Risk Audit (ESRA) that combines these two approaches into a single assessment and screening tool. (See this section's annex for a description of the ESRA.)[13]

Adapting Product Mix

Adapting the product mix to promote environmentally sound technologies and practices incorporates a forward-looking approach to lending that views sustainable production as viable investment opportunities. Within this environmental lending paradigm, MFIs can selectively target certain sectors or businesses with a positive or (at worst) benign environmental impact. Specific examples in urban areas might include supporting waste collection and recycling businesses. In rural areas examples might include farming activities utilizing crop and livestock rotation or linking clients with selected input suppliers to promote sound and sustainable farming practices.

MFIs can also adjust their product mix by offering new products or embedding positive incentives into existing products to encourage clients to adopt environmentally friendly technologies or practices, or by linking loan approval to adoption (avoidance) of environmentally constructive (destructive) technologies or practices.

12. Creating and implementing a system to manage environmental performance compromise part of what is called the social performance management (SPM) system. This is discussed in much greater depth in the Social Performance Management chapter of the Social Performance Map.

13. See Wenner et al. pp. 12–14 for an example of a simple assessment and screening tool.

In the case of urban polluters, for example, the MFI could provide products, perhaps at favorable terms, to finance the acquisition of alternative technologies or alternative types of fuel. In rural areas, the MFI might embed incentives into the loan terms to encourage crop or livestock rotation or to encourage clients to deal with the selected suppliers. The long-term individual loan is one type of product that appears well-suited to finance technology acquisition. Savings also might be used to provide collateral or down payments for technology acquisition. Equipment leasing might also be used for acquisition of environmentally appropriate technologies.

A caveat is appropriate here. Using financial services to encourage microenterprises to adopt environmentally friendly practices and technologies is not easy. There are many challenges in this area, and there have been many failures. Challenges on the supply side include the unavailability of relevant technologies, inadequate distribution networks, quality and capacity limitations of technology providers, and the quality of the technologies themselves. From the demand side, challenges include affordability, inadequate knowledge about appropriate technologies, and uncertainty about returns.

The market is addressing some of these challenges. Many alternative technologies have fallen in price to within the reach of the poor (e.g., small-scale solar electric systems, biogas, efficient stoves, water-saving devices, cleaner fuels and manufacturing equipment, etc.). In some countries, these technologies are being locally assembled or manufactured, further reducing their cost. Global consciousness about environmental problems, both past and future, is pushing research and development of new inexpensive technologies of improving quality.

From the MFI perspective, there are a number of other factors that also pose additional obstacles to the promotion of environmentally friendly technologies. MFIs themselves do not understand the technologies, and many MFIs are reluctant to finance assets that do not clearly relate to income generation. Many MFIs are not familiar with using assets as collateral, and there are few MFIs with experience in leasing. The push by donors to achieve financial sustainability, moreover, limits MFIs' ability to innovate and experiment with new products. On top of this, MFIs tend to be risk-averse, and most are not facing the kind of competition that would incentivize them to make environmentally friendly innovations for new markets.

There are, nonetheless, some successful examples of uptake of environmentally friendly technologies using microfinance. These often come out of a long-term and workable relationship between a financing institution, its clientele, and a technology distributor—a relationship that takes time and perseverance to develop. MFIs that have provided financing for the acquisition of environmental technologies include Prodem in Bolivia, ADEMI in Dominican Republic, Al Amana in Morocco, and SEWA in India. Conservation International in Costa Rica, which serves small farmers working in proximity to a nature reserve, has successfully adopted a loan policy that lends only to activities that it judges to be environmentally benign.[14]

Market Research

As MFIs expand into new sectors and geographical areas, this opens the possibility of using environmental criteria in selecting locations and markets. MFIs may want to consider (1) whether there are sensitive biological systems in the areas, (2) whether and how the MFI might ensure that its services and products will not damage the area, (3) whether and how financial services should be used to minimize the environmental impact, or (4) whether it is better not to finance these harmful activities.

14. Interested readers can also refer to the National Renewable Energy Laboratory's publication *Renewable Energy for Microenterprises,* SELCO, and the Grameen Bank's renewable energy subsidiary Grameen Shakti.

Participatory Subsector Analysis

Participatory subsector analysis (PSA) is already used by MFIs to help microenterprise operators identify inefficiencies in production processes. Given that many of these inefficiencies are themselves sources of environmental degradation, PSA can also be used to identify processes that negatively affect the environment.

Partnering/Building Networks

Networking with NGOs, government institutions, MFIs, input suppliers, etc., is an effective method for obtaining information on environmental management techniques and for facilitating partnerships in tackling environmental issues. Partnerships build on the relative strengths and combined resources of organizations to undertake activities that might not have otherwise been possible alone. Partnerships might, for example, be used to provide training in environmental management, promote adoption of new technologies, obtain environmental or organic certification, promote policy reforms, monitor or encourage compliance with environmental regulations, and so forth.

Further on up the ladder, investors and donors are in a position to exert a significant influence on MFIs, and thus MFI clients, with respect to the incentives they offer to MFIs to incorporate environmental considerations into their operations, product mix, and educational efforts.

Promoting Regulation

MFIs can also play a role in advocating for national regulatory policies in order to advocate for effective approaches to environmental concerns on the part of MFIs and their clients. National microfinance networks are particularly well placed to take on this role of engaging with national policymakers, MFIs, microenterprises, and other sector stakeholders to promote reasonable regulatory reforms.

MOVING FORWARD

The microfinance industry lags behind the curve in terms of environmental awareness and action. There are, to be sure, organizations in the sector promoting both,[15] but these tend to operate along the fringes, not only within the sector itself, but also within the microfinance social performance movement, itself still a fringe (non-mainstream) movement within the broader sector. Much work remains to bring the environment to the microfinance agenda.

There are a number of steps that can be taken in the short run toward this end. One relatively easy step is to introduce the environment into the agenda of the microfinance social performance movement. For reasons described elsewhere in the Social Performance Map,[16] the microfinance social performance movement has developed along a different path from that in the business sector. The latter has tended to focus on issues related to the triple bottom line, while the former has tended to focus on developing proxies for social impact related to the unique characteristics and objectives of microfinance, dominated by concerns for poverty outreach and impact. There are reasons for believing, however, that the paths will converge at some point in the future (more likely that microfinance will converge on mainstream social performance frameworks and standards than the converse).

In anticipation of this convergence, it makes sense for the sector to end its ongoing courtship of the double bottom line (financial and social performance) to fully embrace the triple bottom line (financial,

15. See, for example, Green Microfinance, FMO Finance for Development; EcoVentures International.

16. See the chapter on the Business Case for Corporate Social Responsibility.

social, and environmental performance). Advocates who have effectively promoted the double bottom line to date are well positioned to promote the triple bottom line as well.

Some may resist taking this step due to a concern that broadening the social performance framework will weaken the relative position of poverty outreach/impact in the sector's hierarchy of values, while giving MFIs an opt-out from being held accountable for their poverty outreach/impact. This is a legitimate concern, but there is no reason that poverty concerns cannot continue to hold a prominent place within a triple bottom line framework, particularly for those MFIs that claim a poverty outreach/impact agenda. Rather than use such concerns to delay a transition to the triple bottom line, a more productive approach is to work closely with industry stakeholders to ensure that poverty retains a preeminent position within an expanded triple bottom line framework.[17]

Another short-run step to integrate environmental concerns into actual practice is to support grassroots efforts to increase the level of environmental awareness among MFI staff and clients. Where it is appropriate, staff and clients can be referred to qualified third parties for guidance in environmental management. Such actions need not require excessive effort and can be scaled up reasonably quickly. Donors will likely need to play a large role in this effort.

It is best early on, however, to work within existing MFI practices while increasing general awareness and promoting reasonable mitigation strategies, rather than try to prescribe, or proscribe, certain activities. (An exception to this policy might include worst-offender enterprises.) Starting out of the gate with a heavy-handed approach to environmental protection increases the risk of introducing market distortions and inefficiencies—such as artificially high transactions costs—without producing corresponding environmental benefits and potentially reducing access to credit by the poor.

The preferable approach is to help microenterprise operators educate themselves about the environment, adopt more environmentally sound technologies and practices, and improve occupational safety standards. The emphasis of these efforts should be on convincing microentrepreneurs of the economic (e.g., increased productivity and profits) and health benefits of adopting such technologies and practices.

Assistance might consist of loans and grants to increase environmental and occupational safety awareness, develop and diffuse environmentally friendly technology, and strengthen the government's capacity to adopt and enforce standards. This will require cooperation by multiple industry stakeholders to work jointly toward the goal of improved environmental protection and improved occupational safety and health.

17. The Global Reporting Initiative (GRI) is recommended in this Social Performance Map as the most appropriate triple bottom line framework for microfinance. The GRI is described in detail in the chapter on Social Auditing.

ANNEX: FMO ENVIRONMENTAL AND SOCIAL RISK AUDIT[18]

FMO Finance for Development is a Dutch development finance company that has developed a tool to help MFIs minimize the negative environmental and social impacts of the microenterprises they support.[19] The Environmental and Social Risk Audit (ESRA) combines positive and negative approaches to promote greater environmental consciousness among MFI staff and clients and to bring clients' business practices in line with sound environmental practices. The ESRA includes support tools, a course, and Internet support to help MFIs build an environmental and social (E&S) risk management system.[20] It is highlighted here as a good example of an integrated approach to environmental management.

A premise underlying the ESRA is that social and environmental factors must be included with other (traditional) factors in making loan decisions. The ESRA breaks the lending process into four phases—application, appraisal, contracting and disbursement, and reporting—and integrates environmental and social risk assessment into each phase.

LOAN APPLICATION

The exclusion list is the main instrument of the ESRA during the loan application phase. The exclusion list is a list of sectors and activities that, in the opinion of FMO, should under no circumstances be financed. It includes

activities regulated or prohibited under international agreements and by national laws,

activities that may give rise to significant environmental or social problems or that may lead to significant adverse public reaction, and

activities prohibited under the MFI's contractual agreement with FMO.

MFIs financed by FMO are legally obliged to include all the sectors and activities of the FMO exclusion list, as follows:

- Production or activities involving forced labor or child labor
- Production or trade of any product or activity deemed illegal under host country legislation or regulations or international conventions and agreements
- Production or trade of weapons and munitions
- Trade in wildlife or wildlife products regulated under the international treaty CITES

18. The information and much of the language in this chapter is taken from the FMO website.

19. www.fmo.nl/en/publications/environmental_social_risk_management_tools_MFI.php

20. Support tools offered by the FMO include (1) an exclusion list, (2) an activity assessment tool, and (3) environmental and social evaluation guidelines. The latter of the three provides guidance on how environmental and social risk evaluation and follow-up processes can be implemented in alignment with an MFI's evaluation, approval, monitoring, and reporting processes.

- Production, use, or trade of hazardous materials such as radioactive materials, unbounded asbestos fibers, products containing PCBs and chemicals subject to international phaseouts or bans
- Commercial logging operations or the purchase of logging equipment for use in any primary forest or forest areas with a high biodiversity value or any other activity that leads to substantial clear-cutting of such forests
- Production or trade of pharmaceuticals subject to international phaseouts or bans
- Production or trade of pesticides or herbicides subject to international phaseouts or bans
- Production or trade of ozone-depleting substances subject to international phaseout
- Drift net fishing in the marine environment using nets in excess of 2.5 km in length

LOAN APPRAISAL

In the loan appraisal phase, the MFI decides whether to make the loan. In reaching this decision, the MFI will consider environmental and social factors in addition to traditional loan criteria. Environmental and social factors include information, or projections, about the occurrences of environmental, health and safety, and labor risks or defaults.

The source for information on environmental and social factors is the **activity assessment tool** and the **sector factsheet.** The former is a matrix summarizing the key environmental and social risks for the various sectors in which MFIs work, including agriculture, trade, services, and manufacturing. The latter lists observed client behaviors, analyzes whether they pose a risk, discusses the relevance of the behavior, and offers suggestions to the client about possible mitigation strategies.

There are three possible outcomes of social and environmental appraisal:

1. Raise awareness of the client about social and environmental impact.
2. Train/educate the client regarding social and environmental improvements.
3. Include specific clauses in the loan contract to mitigate specific social and environmental risks.

Which of the three outcomes occurs depends on the social and environmental risk and size of the loan, among other factors.

LOAN CONTRACTING

The MFI builds into the loan contract a set of standard mitigation actions to which the borrower must commit as a condition for receiving the loan. The language is as follows:

> I, . . . , undertake to carry out my business in a way that avoids, reduces, and compensates for damage to nature, public services, or the well-being of the individuals who work with me and who live in the vicinity, by continuing with or taking the following actions:

- Operate and maintain machines and equipment professionally and with proper (safety) measures.
- Don't employ children.
- Use (toxic) chemicals with proper safeguards and store them properly.
- Comply with accepted standards and regulations regarding land cultivation.

- Reduce the amount of waste by improving the process or recycling.
- Prevent land erosion or degradation.
- Take precautions in waste disposal, not dump liquid or solid waste in public places.
- Avoid, reduce, control processes that pollute the air.
- Take steps to protect my own health and that of my employee, clients, or neighbors.
- Comply with municipal regulations on environmental protection, health and safety, hygiene, labor.
- Comply with government regulations.

I have been informed that the entity granting me the loan may take a visit to evaluate my activities from the environmental, health and safety, and labor standpoints and that I may only obtain a new loan if, in addition to complying with the financial conditions, I also comply with my environmental, health and safety, and/or labor commitments.

In addition to the standard contractual language, the MFI may also specify loan clauses aimed at mitigating risks particular to that loan. In most cases, these can be simple adaptations of the standard clauses.

REPORTING

Once a lending decision has been made, the next step is to integrate the information into the MFI's management information system (MIS). Information entered into the MIS includes

whether an environmental and social appraisal has been performed,

what the most important environmental and social aspects of a client or a loan are,

what clauses have been added to the contract, and

whether a client has made the necessary improvements.

Once this information has been logged into the MIS, the MFI can utilize it in a number of ways:

monitor progress and compliance with loan clients' contractual obligations,

assess status and progress for future loan appraisals with the same client,

generate cross-loan-book overviews about the nature and magnitude of the environmental and social risks, and

reporting to investors and donors about environmental impact.

For MFIs adopting the ESRA, FMO will produce a specific set of monitoring indicators based on the experiences of MFIs using the tool.

5. SOCIAL PERFORMANCE MANAGEMENT IN MICROFINANCE[1]

INTRODUCTION TO SOCIAL PERFORMANCE MANAGEMENT

Achieving Social and Financial Performance

In the microfinance arena, performance has long been associated with financial outcomes measured by loan portfolio quality, cost recovery, and profitability. With significant investment of talented minds, committed organizations, and donor dollars, the measures of financial performance have been tested, revised, refined, and largely standardized across the industry. Yet such progress in measurement, though considerable, tells only half of the performance story in microfinance. Most microfinance institutions (MFIs) strive to meet interrelated financial *and* social goals, managing a double bottom line where strong financial performance facilitates the fulfillment of a social mission. Social performance is effective translation of an institution's social mission into practice. Monitoring and assessing social performance is emerging as a vital activity in the industry as practitioners increasingly acknowledge that achieving the social outcomes inherent in their missions requires more deliberate strategies and more systematic monitoring.

Understanding Client Preferences and Needs

The renewed interest in the social goals of microfinance is part of a historical shift in industry practice from a nearly exclusive focus on the financial performance of institutions to a more active concern for their clients. This shift is marked by a surge of interest in various types of impact assessment, market research, and product development, all directed at improving understanding of clients and how to best serve them. Historically, each client's repayment record is closely tracked, but little is known about how she managed to repay the loan or how she gained from it. Such knowledge would likely influence operational and product decisions in her favor. As the industry matures and grows more competitive, retaining clients and attracting new ones increasingly depends on the MFI's ability to meet client needs and help them make the most of the institution's products and services. In microfinance, social performance and financial performance are linked and mutually reinforcing. Those who pay attention to their mission to improve the lives of people are likely to improve their financial bottom line as well.

Managing Social Performance

Social goals are certainly not new to microfinance. Microfinance has for years worked to empower women, alleviate poverty, or support community development, to name but a few such social goals. Yet less emphasis has been given to monitoring progress toward this achievement. Imp-Act has embraced **social performance management (SPM)** as the systematic assessment of performance relative to social objectives and use of this information to improve practice. SPM encompasses the renewed focus on clients within

1. This chapter of the Social Performance Map is excerpted from the document "Social Performance Management in Microfinance: Guidelines" published by the Imp-Act Consortium. To read the complete document, go to http://www2.ids.ac.uk/impact/support/guidelines.html. For Imp-Act Consortium practice notes on SPM, go to http://www2.ids.ac.uk/impact/support/practice_notes.html.

microfinance (e.g., market research, client assessment, product development, customer service etc.). SPM as yet has no precise parallel to the widely accepted systems for measuring and managing financial performance. These guidelines introduce a framework that manages the steps necessary to achieve the social mission. It details methods for regularly monitoring and assessing effectiveness in defining and reaching target clients, in providing clients with services appropriate to their needs, and in achieving the changes in clients defined by the social mission. It also looks at how information can be analyzed and findings communicated so that MFIs can make corresponding adjustments to products or service delivery and strategy.

The Core of Social Performance Management

At its core, SPM helps an MFI build a better understanding of who its clients are and how they use and benefit from the institution's products and services. Such information is critical to the MFI's ability to demonstrate programmed impact for a range of stakeholders and improve programmed services. Understanding how clients interact with the programs improve operational and product decision making in response to their needs and preferences.

There are six key questions to consider before implementing SPM. These questions incorporate not only the collection of information, but also its use. Consequently, some of the questions below target clients and client behavior while others focus on how the MFI will use that information in its daily operations and in strategic planning.

1. What are your social objectives and how do you seek to achieve these?

By clearly articulating its social objectives and strategies the MFI will be able to tailor its services to its clients' needs and monitor the extent to which these services are meeting its objectives. Attaining social objectives does not happen haphazardly. Like financial objectives, they require a deliberate strategy and a conscious effort to monitor its implementation.

2. How do you monitor who uses, and who is excluded from using, your services?

Clients' needs and programmed participation often differ depending on their age, sex, level of education, and type of business. Matching clients' demographic characteristics to the services they use is valuable information for adapting and/or diversifying products and services in response to distinct market segments. There are many ways to group or categorize clients; in addition to the specific categories, it is important to determine how each category is represented in the overall portfolio. It can also be useful to know who, within the target market, does *not* participate, and why. Such information may suggest adjustments to existing services or even new ones that will attract these potential clients.

3. How do you monitor and understand the ways in which clients use your services, whether or not their needs are met, and why some clients leave or become inactive?

A wide variety of factors can influence a client's decision to stop borrowing, leave her savings account dormant for long periods, or withdraw from the programs. Some factors are not related to the work of the programs. The client's business may be well enough established that she no longer feels the need to borrow, personal issues or illness might be temporarily preventing her from running her business, or there may be periods of inactivity according to the season. However, other explanations—such as dissatisfaction with some aspect of the program or preference for another MFI—should sound an alarm for management. They are an indication that the existing program is not meeting clients' needs in some way; left unaddressed, the rate at which clients leave is likely to increase, negatively affecting both financial and social performance.

The connection between client retention and overall performance—both social and financial—is an area of increasing concern for MFIs. Beyond client satisfaction, exit rates can also be an important indicator of social performance. If clients are leaving because they cannot afford to stay, the MFI is probably not achieving the desired impact on their livelihoods. Clients who leave the program in the aftermath of external shocks (e.g., natural disasters, accidents, illness) were probably highly vulnerable in the first place, again an indicator that impact may be limited.

On the financial side, losing established clients is expensive because they have to be replaced with new borrowers who cost significantly more to recruit, orient, and assess. Close monitoring of clients who leave is a key to managing and minimizing this costly trend. Exit surveys can reveal clients' satisfaction with the products and services, and help the MFI adjust to improve its benefits and impact.

4. How do you monitor and understand the effect of your services on current clients?

What changes are clients experiencing? Are their incomes increasing? Are their businesses growing? Is their nutrition improving? Is their poverty status changing? These questions reflect a tiny sample of the possible indicators of client status—practitioners must choose those that most appropriately measure progress toward their institution's specific social objectives. Once selected, regular monitoring is recommended to get a sense of the changes that are, or are not, occurring over time. It will also help clarify the process by which change occurs: are the changes limited to particular branches or linked to a particular product? Such information can help identify programmatic strengths to reinforce or weaknesses to correct.

Routine monitoring of client status through regular collection of data is only part of the process. On its own, monitoring generally does not explain *why* the observed changes have taken place, nor the extent to which they can be attributed to the MFI. In addition, it may not be sufficient to identify market trends, or economic changes that affect the way microentrepreneurs do business or their financial strategies for loan use. These more complex aspects of client behavior and programmed impact require more rigorous research that most institutions undertake only periodically. SPM includes both routine monitoring and more intense follow-up research.

5. How do you use social performance information to improve your services?

Collecting information on the questions above is only helpful if it is put to use. An SPM system includes a process for communicating the information collected to meet the needs of various stakeholders and inform decisions about operations, products, and service delivery. The vehicles of communication can range from analytical reports prepared for specific decisions to more informal processing of observations. Social performance data can be presented to the organization's board, it can be used to demonstrate programmed effectiveness to donors, it can be organized into reports that inform the work of special committees, it can be used as the basis for staff incentives, or it can be summarized for regular staff meetings. There are infinite ways to package and present this data, but the way it is used requires planning and attention.

6. How can you improve the systems and processes through which you answer these questions?

SPM is dynamic. MFI objectives, clientele, and context typically evolve over time, and so must the processes by which they are monitored. Periodic reviews of the system, which are an integral part of the SPM process, ensure that the information being collected is both useful and reliable.

Figure 1. Framework for Achieving Social Objectives

INTENT AND DESIGN

What does the MFI seek to achieve?
How are services and performance objectives designed toward this end?

↓

ACTIVITIES

How will services be provided to target clients through a specific organizational structure and designed to reach organizational objectives?

↓

OUTPUT

What services are delivered to whom—breadth and depth of outreach?
What is the quality of service?
Are they sustainable?

↓

OUTCOME/IMPACT

What changes result from the services provided (e.g., business growth, increased income, new skills)?
What are the longer-term sustainable changes produced by these outcomes (e.g., poverty reduction)?
What are the unintended consequences?

BUILDING A SYSTEM FOR SOCIAL PERFORMANCE MANAGEMENT

SPM as elaborated by the core questions above requires a system built on the MFI's social mission and based on clear objectives. It needs to be implemented with defined methods for collecting and analyzing data, and for communicating and using the results. An SPM system offers the organization's staff the means to understand how clients are interacting with the program, to identify how to improve that relationship, and to participate in the analysis of why the program is affecting clients in certain ways.

Looking at Impact Processes

Traditional evaluation has focused on end results, but SPM interprets and manages the whole process by which impact is achieved. SPM's regular monitoring of that process highlights possible adjustments at multiple points along the way to improve practice (see Box 1). Improving programmed practice to be more responsive to clients will ultimately increase programmed impact. The information collected will also serve as evidence of impact to external stakeholders.

Starting Out

All MFIs can design and put into practice an SPM system if they work within their capabilities and keep things as simple as possible. Although SPM systems cannot be standardized or packaged for purchase, they can be built step-by-step, starting with data collection practices that are already in place. Start small, building up the system gradually over time, rather than trying to do too much at first.

THE COSTS AND BENEFITS OF SOCIAL PERFORMANCE MANAGEMENT

An MFI's success is closely linked to the success of its clients. In a context of greater availability of services and growing competition among providers, MFIs that do not meet the needs of their clients will lose them. Those that are focused on and responsive to their clients will retain them, and increase their share of the market. Thus, in microfinance, financial and social goals are mutually reinforcing. Strong financial performance enables an MFI to pursue its social objectives, and achieving social objectives is good for business. Through active monitoring and assessment of client interaction with products and services, SPM helps MFIs to remain faithful to their mission and maximize both sides of the performance coin.

There are costs involved in SPM, but the benefits are well worth the investment over time. SPM will lead to better, client-focused services and organizational culture, more satisfied clients, stronger management, and improved financial performance. SPM serves as the social lens through which all organizational systems can be viewed and aligned.

SPM will help managers

- ***Balance financial and social objectives*** to make better business decisions based on a more thorough understanding of the trade-offs each involves
- ***Generate baseline information*** that is invaluable for more in-depth assessment of social performance
- ***Track performance against targets,*** both social and financial
- ***Identify problems*** at an early stage before they become damaging for the organization

SPM will benefit clients, giving them

- Services more appropriate to their needs
- More product choices
- Better customer service
- A greater "voice" in the programs

SPM will improve outreach, services, and products, enabling the MFI to

- ***Segment its portfolio*** to examine differences in performance by client characteristics, and thereby identify market niches, opportunities, and problems
- ***Monitor how clients use services*** to determine how well they "fit," assessing the appropriateness of its services to the needs of its target clients, as well as how to adapt them
- ***Innovate*** to improve client satisfaction and loyalty through better products, better customer service, and greater flexibility
- ***Verify the results of programmatic changes*** to determine if they have made a difference
- ***Track intended and unintended impacts on clients' lives*** and on the wider community, and understand the role that the organization plays in promoting these changes

SPM will improve financial performance, resulting in

- ***Higher retention of clients*** through monitoring of and responsiveness to their satisfaction with programs. Higher retention rates translate into lower costs and higher profits.
- ***Program growth,*** by making the institution more attractive to potential clients because of demand-driven products and services and word of mouth from current satisfied clients.
- ***Lower operational costs*** as resources are used more effectively based on better understanding of the best investments.
- ***Demonstration of social performance to stakeholders,*** thus improving position in a competitive funding market.

Box 1. A Profile of SPM: Prizma in Bosnia-Herzegovina

In the highly competitive Bosnian microfinance market, Prizma has strategically positioned itself at the low end, targeting poor entrepreneurs, particularly women. Prizma's social performance management system has been tailored to monitor its performance related to three social goals: (1) to deepen outreach to poor women; (2) to strengthen impact; and (3) to ensure the quality of services. It serves 12,278 clients and has an active portfolio of US$8.4 million (as of December 2004). Its average loan size is US$695. Prizma achieved full financial self-sufficiency in 2001, and today it generates an annual surplus in excess of $100,000.

Prizma's social performance management system consists of three core components:

Poverty status monitoring is conducted for all clients on entry and at the start of each loan cycle using a poverty scorecard comprised of seven indicators: education of the head of household, location and size of residence, household assets, transportation assets, meat consumption, and sweets consumption.

Exit monitoring, using a short, semistructured interview, is conducted by field staff twice a year to answer questions such as: Who leaves? What is the magnitude? What are the characteristics of dropouts? Why do they leave?

Focus groups provide information on how Prizma is reaching, serving, and affecting its target market: Which groups does Prizma reach? Which groups are excluded? What kind of products and services should Prizma develop to reach and serve its target clientele?

The management information system (MIS) can generate a custom report that provides aggregate poverty scores for any segment of the client base, or by any of the 30 other variables in the system. The capacity to thus segment its market helps Prizma to achieve the correct design of products and services for its target clientele. It can adjust delivery, price, or other attributes of one or more products to better meet the preferences of any given segment, or pilot a new product in response to a significant need among a large number of clients.

For example, poverty and exit monitoring data enable Prizma to segment its market to identify the characteristics of clients most vulnerable to performing poorly and eventually leaving the program. If these vulnerable clients are strategically important, more attention can be invested in retaining them. If they do not constitute an important group (for example, those clients who "shop" for loans across the market and are less likely to become loyal clients), Prizma can save time and resources on efforts to keep them.

The information also supports the design of staff incentive schemes, delinquency management, business plan projections, and branch performance comparisons. It strengthens ongoing market-research activities, strategic positioning, product promotion, and branding. Focus group discussions enable Prizma to investigate the reasons behind the patterns and trends in client status highlighted by the monitoring data.

The vision for SPM has become a part of Prizma's organizational culture due to the strong support from the board and senior management. Overall, the new system has provided stronger, more timely, and more accurate reporting, tighter internal control, and the ability to manage multiple products and increased scale. All employees are able to monitor branch and loan officer performance, portfolio quality, or other institutional or client data.

Staff access to critical performance data has been at the heart of Prizma's effort to build strong decentralized profit centers, greater staff ownership of and accountability for individual and team results, and consensus for management decisions intended to strengthen both the institution's financial health and its ability to fulfill the mission.

To cover the cost of developing these tools, Prizma estimated that it would need to retain an extra 152 (2.2%) of its group enterprise loan clients for one additional loan cycle—on the assumption that each retained client is worth $278.

6. SOCIAL AUDITING

DEFINING SOCIAL AUDITING

The precise definition of **social auditing** varies depending on the person or organization. Common to these different definitions, however, is the basic concept that social auditing is a process by which an organization accounts for its social performance to its stakeholders and seeks to improve its future social performance. (See Box 1 for sample definitions.)

Box 1. Various Definitions of Social Auditing

- "An examination of the records, statements, internal processes, and procedures of an organization related to its social performance. It is undertaken with a view to providing assurance as to the quality and meaningfulness of the organization's claimed social performance." SEEP Social Performance Glossary
- "Social auditing is a process [that] enables organizations and agencies to assess and demonstrate their social, community, and environmental benefits and limitations. It is a way to measure the extent to which an organization lives up to the shared values and objectives it has committed itself to promote." The Social Economy Network
- "Social Accounting and Auditing is a way of measuring and reporting on an organization's social and ethical performance. An organization which takes on an audit is transparent and makes itself accountable to its stakeholders." InterPraxis
- "Social Accounting and Audit is a process to create a flexible framework which enables the organization to account fully for its social, environmental and economic impact, to report on its performance, and to provide the information essential for planning future action and improving performance." Social Audit Network

BRIEF HISTORY OF SOCIAL AUDITING

The concept of the social audit goes back at least as far as the 1950s. At its roots the social audit was conceived as a means to make business more accountable to the community and a method to communicate the noneconomic impact of business, both good and bad, to community members. In the age of increasing globalization, the social audit became a means to wrest back some measure of influence over corporations operating in local communities. As impact assessments of corporate behavior evolved, the terminology changed.

The term **social audit** has come to refer to a very different kind of evaluation process in which an organization assesses and thereby improves its social performance. The first recorded example of a social audit methodology was developed in 1978 at Beechwood College (an independent worker cooperative training center in England), which later published the first social audit manual—*A Management Tool for Co-operative Working* by Freer Spreckley—in 1981. The manual has since undergone a number of revisions, the most recent one in 2000 and titled *Social Audit Toolkit* published by Social Enterprise Partnership.

One of the first social audit reports was published by the Migros Co-operative (a large Swiss multi-functional organization) in 1978. In the ensuing years, a number of community arts organizations undertook community social audits looking at physical and social assets, natural resources, and stakeholder needs, though these were done primarily as one-off exercises. The Co-operative Retail Society's 1984 social audit prompted larger organizations to consider them. During this time, the framework in the Social Audit Toolkit remained predominant.

The New Economic Foundation (NEF), in conjunction with Strathclyde Community Business Ltd. (SCB), was the first to propose an alternative method to the Social Audit Toolkit. They collaborated with the fair trade NGO Traidcraft plc to issue the first set of social accounts in 1993. A number of private companies followed suit in the ensuing years, including, notably, the Body Shop and Shared Earth in 1993 and Ben & Jerry's in 1995. In 1996 the NEF established the Institute of Social and Ethical Accountability, which drafted a set of standards for monitoring the application of the social audit called the AccountAbility 1000 (AA1000) framework. A number of large corporations—such as Shell, BT, and Barclays Bank—have used the AA1000 to produce and present social reports to the public.

In recent years, the scope of the social audit has been expanding to include greater integration of the **social accounting processes,** which involve a detailed preparation and accounting of social accounts, targets, and milestones. Social accounting is the process by which the organization collects, analyzes, and interprets information on its social performance or, more technically, its social accounts. Social accounting and social accounts are akin to financial auditing and financial accounts and serve largely the same purpose. The social accounts are part of what the social auditor (assurance provider) examines during the actual social audit, and they form the basis for social targets and milestones. An implication of this trend is that the original social audit is increasingly being seen as a method for social organizations to apply good governance.

PURPOSE, CONTENT, AND SCOPE OF THE SOCIAL AUDIT

Stakeholder engagement is integral to the social audit. The organization is interested not only in how it (e.g., board of directors and senior management) views its own social performance but also in how diverse stakeholders (e.g., board of directors and senior management *plus* employees, customers, suppliers, community members, policymakers, etc.) view its social performance.

The purpose, content, and scope of the social audit vary depending on the particular approach (as seen below). Generally, however, a social audit has (at least) the following six characteristics:

1. ***Multiperspective:*** It aims to reflect the views of all the stakeholders involved with or affected by the organization.

2. ***Comparative:*** It provides a means whereby the organization can compare its own performance year to year and against appropriate external norms or benchmarks (and potentially also provide for comparisons to be made between organizations doing similar work and reporting in similar fashion).

3. ***Comprehensive:*** It aims to report on all material aspects of the organization's social performance.

4. ***Regular:*** It aims to produce social accounts on a regular basis such that the concept and practice become embedded in the culture of the organization.

5. ***Verified:*** It ensures that the social accounts are audited by a qualified social auditor (or assurance provider) independent from management and with no vested interests in the outcome of the audit.

6. ***Disclosed:*** It ensures that the audited accounts are disclosed to stakeholders and the wider community in the interests of accountability and transparency.

USES AND BENEFITS OF THE SOCIAL AUDIT

The social audit has a number of potential uses from which are derived a number of potential benefits. The social audit:

1. Monitors the social and ethical impact and performance of the organization and its impact on stakeholders.
2. Determines how well the organization is living up to the mission and values it espouses.
3. Provides a basis for shaping management strategy in a socially responsible and accountable way and to identify opportunities and potential problems before they arise.
4. Facilitates organizational learning on how to improve social performance.
5. Facilitates the strategic management of institutions, including concern for their influence and social impact on organizations and communities.
6. Informs the community, public, and other organizations and institutions about the allocation of their resources (time and money); this refers to issues of accountability, ethics (e.g., ethical investment), etc.
7. Increases the organization's accountability to the groups it serves and on which it depends.

Benefits of the social audit are as follows:

1. Enhances organizational reputation. By demonstrating its social performance and its commitment to social objectives, the organization enhances its reputation and gains political capital with stakeholders.
2. Alerts the board and management to stakeholder trends. Stakeholder trends present both opportunities and threats that must be addressed to enhance social (and financial) performance while avoiding brand-damaging public relations mistakes.
3. Affects positive organizational change. Information on social performance allows management to take constructive action to improve it.
4. Increases accountability. The social audit entails more than simply assessing social performance. It also entails a process for reporting on social performance to stakeholders and responding to their concerns. Much as the financial audit is a means to hold the organization accountable to its shareholders, the social audit is a means to hold the organization accountable to its stakeholders.
5. Assists in reorienting and refocusing priorities. Information on social performance is useful to help the organization manage any tension between financial and social objectives or, alternatively, tensions between competing social objectives.
6. Provides a road map on how to productively move forward on social issues and for addressing/managing stakeholder concerns.
7. Improves financial performance. Social and financial objectives are not necessarily in tension but are frequently mutually supportive. The social audit process and the resulting social information

develop the organization's capacity to manage diverse stakeholder needs and identify threats and opportunities, while equipping the organization with the information to identify and tap into the synergies between financial and social considerations.[1]

8. Allows the organization to report on its achievements based on verified evidence rather than on anecdotes and unsubstantiated claims.

THE SOCIAL AUDITOR

The social auditor (assurance provider) is responsible for carrying out the social audit, either alone or with other social auditors as part of a social audit team. The social auditor should, at a minimum, possess the following characteristics:

- ***Unbiased and independent.*** The social auditor should have no stake in the outcome of the audit and should be totally independent of management.
- ***Expertise in social auditing.*** The social auditor should be someone who specializes in conducting social audits with the appropriate training and experience.
- ***Inquisitiveness coupled with a healthy skepticism.*** Social auditing is more art than science. It requires someone unwilling to accept things at face value and capable of digging down deeper to uncover what lies below the surface.
- ***Ability to understand programs and their wider social context.*** Social performance must be understood within the context of diverse stakeholders and a diverse set of perceptions, values, objectives, etc. An effective social auditor must be both willing and able to consider a variety of sources and perspectives to paint a more comprehensive portrait of social performance.

FIVE APPROACHES TO SOCIAL AUDITING

The remainder of this part of the Social Performance Map describes five different approaches to social auditing: the Social Performance Indicators tool from CERISE (SPI), the USAID Social Audit Tool (SAT), the MicroFinance Centre Quality Audit Tool (QAT), the Social Audit Network (SAN), and the Global Reporting Initiative (GRI). The GRI section also devotes some time to describing the assurance process and the AccountAbility 1000 Assurance Standard.

Common to all five approaches to social auditing are the following five steps:

1. Creation of social accounts (social accounting)
2. Collection and review of relevant background/supporting documents and social accounts (audit preparation)
3. Audit implementation with multiple stakeholders
4. Stakeholder feedback
5. Dissemination of audit findings

1. See the chapter on the Business Case for Corporate Social Responsibility for more on the relationship between social performance and financial performance.

A sixth step that is not strictly part of the social audit process, but is nonetheless critical for the audit to have its intended effect (e.g., improvement of social performance), is integration of audit findings into organizational governance and operations.

The five methods of social auditing described here adopt a combination of different auditing approaches: the compliance audit, the benchmark audit, and the process audit. Table 1 describes each of these approaches and shows which of the five sample audit methods use the relevant audit approach. As seen there, SPI, SAN, and GRI focus primarily on compliance and benchmarking, whereas the QAT focuses primarily on benchmarking and processes auditing. The SAT and QAT incorporate some of each approach into their methodologies. The SPI, SAT, and QAT also differ from the SAN and GRI in that each also compare processes and performance to the organization's stated mission and objectives and their effectiveness in achieving them.

Table 1. Comparison of Social Audit Methodologies

Audit Approach	Description	Social Audit Methods Using Audit Approach
Compliance Audit	Focuses on compliance by conducting an audit trail looking in detail at the data the organization has available on its social performance and checking compliance with policies, procedures, and standards.	SPI SAN GRI SAT
Benchmark Audit	More normative audit that assesses organizational intent and design and assesses the social performance of an organization in relation to agreed indicators or accepted development norms.	SPI SAN GRI SAT QAT
Process Audit	Examines the status and effectiveness of organizational systems.	SPI SAT QAT

CERISE SPI TOOL

The CERISE Social Performance Indicators (SPI) tool assesses the social performance of microfinance institutions (MFIs) by evaluating their intentions and actions. By analyzing internal systems and organizational processes, the SPI tool determines whether the MFI has the means in place to attain its social objectives. As with other audit tools, the underlying assumption is that the soundness of internal processes is a reasonably reliable proxy for actual social performance.

The SPI tool is designed to be simple enough so that any MFI wanting to conduct a self-assessment can use the tool on its own. It can be downloaded for free at www.cerise-microfinance.org. However, an auditor can also be called upon to help an MFI use the tool and make recommendations based on the findings. If the findings are released to stakeholders or the general public, an external auditor is required to validate results. The auditor can be someone from the MFI's affiliate network specialized in social performance and familiar with the SPI tool.

The SPI tool focuses on process management, looking at the MFI's stated objectives and the effectiveness of its systems for achieving them. It analyzes social performance using a wide range of indicators (12 criteria grouped under four dimensions), thus giving MFIs an exhaustive overview of how their mission and actions size up against a number of common social objectives. (See the CERISE website for the full SPI questionnaire.)

Table 2. Four Dimensions and 12 Criteria Used by the SPI Tool

Dimensions	Criteria
Outreach to the poor and the excluded	Geographic targeting
	Individual targeting
	Use of pro-poor methodology
Adaptation of products and services to target clients	Range of traditional services
	Quality of services
	Innovative and non-financial services
Improvement of clients' social and economic situation	Economic benefits for the clients
	Client participation
	Client empowerment
Social responsibility of the institution	SR toward employees
	SR toward clients
	SR toward the local community and environment

The same criteria can be applied to all MFIs, making it possible to compare institutions, promote peer-group analysis of social performance, and analyze the relationship between social and financial performance. On an individual level, an MFI's results are analyzed against its own objectives, defined in accordance with its stated mission.

There are two ways to use the SPI tool:

1. A "centralized" approach, involving only management during the implementation phase. This allows the MFI to take stock of its actions and judge how consistent and effective they are for achieving its social mission.
2. A "participatory" approach, involving various levels of MFI stakeholders (senior management, branch management, elected representatives, external partners, clients, etc.). By culling the opinions of different actors, this approach encourages dialogue and internal analysis of the MFI's practices. Experience shows that this approach has many advantages; the assessment tends to be more representative of the institution as a whole and thus conclusions and operational recommendations are more likely to be appropriated by staff.

Application of the SPI tool can be broken down into three distinct phases: preparation (0.5 day), implementation (1 to 3 days, depending on the stakeholders involved), and reporting (1 day).

Preparation Phase

During the preparation phase, the SPI tool is introduced to the MFI. Generally this entails a half-day workshop to discuss the tool's underlying principles and content. This introduction is facilitated by the auditor. CERISE and the ProsperA (Promotion of Social Performance) Alliance are actively investing in the training of trainers as well as quality-control processes and monitoring and evaluation protocols, in order to offer support for new auditors and to promote social performance assessments in the microfinance community.

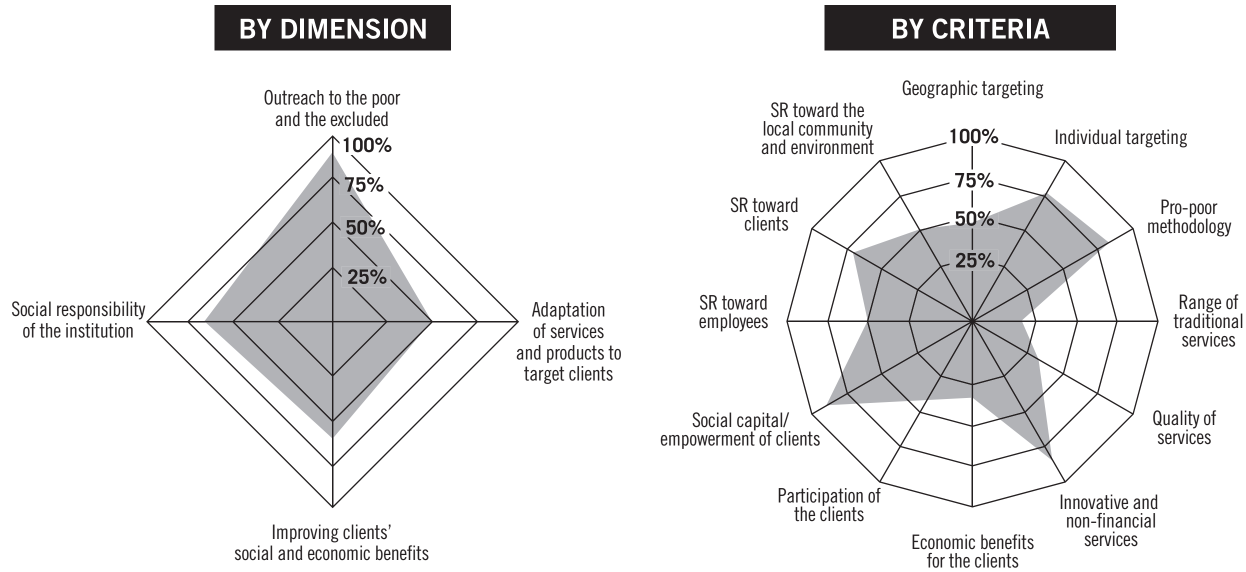
Depending on the approach, the introductory workshop may address senior management only (centralized), or a wider range of MFI stakeholders who will participate in the SPI audit (participatory).

Implementation Phase

Once the MFI is familiar with the tool, the questionnaire is applied. The questionnaire is filled out either by the MFI itself (by management only or by various stakeholders, again depending on the approach) or the auditor, based on interviews with those involved in the assessment: management (headquarters and field), staff (headquarters and field), directors, donors, investors, clients, and other stakeholders. Focus groups with MFI users may also be organized to gather client feedback.

Next, results of the questionnaire are presented to the MFI for discussion. This may take the form of a participatory workshop or a written report, drafted by the auditor. The graphic representation of results (the four dimensions are represented by a diamond graph and the 12 criteria by a radar graph; see Figure 1 below) offers a helpful overview of findings and highlights the strengths and weaknesses of the MFI's social performance. This step of the audit enables stakeholders to compare viewpoints in terms of expected and effective social performance, thereby strengthening a common vision of institutional strategy.

Figure 1. Graphic representation of SPI results



Reporting Phase

The SPI report is comprised of the questionnaire enhanced with comments and details that make it possible to attribute a score to each criterion. A two-page summary offers an overview of results for each of the four dimensions and a graphic representation of the dimensions and criteria. It also compares social performance with financial performance and offers recommendations for improving social performance.

By transmitting results to the ProsperA database, which consolidates SPI results[2], the MFI will receive personalized analysis comparing its SPI scores with its different peer-groups: MFIs in its country, region, of similar size (clients, portfolio), age, geographic intervention (urban, rural, mixed).

Use of SPI results

Internally

SPI results are used first and foremost internally by the MFI to inform its board of directors or management team of its social performance. The SPI audit offers an objective, concise, and visual description of the systems in place to achieve an MFI's social mission, and the how the latter affects operational and financial performance. In addition, indicators can be monitored over time by management, to help inform strategic decision making. Occasionally, additional facilitated training workshops for employees on how to analyze the social audit results may be necessary. These workshops often lead to richer debates, more systematized results, and concrete measures for improving social performance (formalized in a business plan). In this sense, the audit helps identify the MFI's strong points and limitations when it comes to changing practices to improve social performance and increase impact on clients.

Following an SPI audit, the MFI may be prompted to analyze its governance to assess the decision-making chain concerning the different dimensions of social performance, and to determine which links of this chain—from planning to implementation and control—need to be enforced so that the MFI's actions are congruent with its social mission. This type of governance analysis looks at all the aspects of an MFI's operations (institutional, financial, and operational) and can complement a social audit with a balanced perspective of the MFI as a whole.

Externally

The SPI report can also be disseminated to external stakeholders to highlight the MFI's social performance. The results are used to enhance MFI reporting (in annual reports, performance reports, or public relations material, for instance). Many MFIs also use the SPI as a basis for dialogue and discussion with their investment partners and donors.

Increasingly, MFIs are lobbying authorities to create regulatory or self-regulatory protocols in conjunction with their affiliate networks that take into account social performance. This drive for transparency is important for improving dialogue on social performance within the microfinance sector, consolidating relationships between the sector and government authorities, and improving microfinance's image in public opinion.

USAID SOCIAL AUDIT TOOL

The USAID social audit tool (SAT) uses a **process auditing approach** to assess social performance in reference to the MFI's stated social mission. It answers the following question: To what degree do the internal processes promote fulfillment, or lack of fulfillment, of the MFI's stated social mission?

Process auditing involves an in-depth assessment of six internal processes critical to the MFI's social performance: (1) mission statement and management leadership, (2) strategic planning, (3) customer service, (4) monitoring systems, (5) recruitment and training, and (6) incentive systems. The six internal pro-

2. Results from 130 MFIs were catalogued as of 07/31/2008; results from 200 MFIs are expected by end-2008 Contact: cerise@cerise-microfinance.org

cesses are common to all MFIs, which makes comparisons across MFIs possible and promotes standards development. (Annex 1 provides a rationale for including each of these six internal processes in the social audit.) The decision to use a process auditing approach stems from the methodological difficulty and high cost of measuring actual social outcomes or impacts.

The assumption underlying the process audit is that the soundness of internal processes is a reasonably reliable proxy for actual social performance. In other words, assessment of internal processes allows social auditors to estimate with a high degree of reliability the likelihood that the MFI fulfills its social mission.

In addition to the six internal processes, the SAT also assesses the MFI's performance in relation to its corporate social responsibility (CSR). CSR is the predominant framework for understanding and assessing social performance outside of the microfinance sector.[3]

An integral part of the process audit is a review and evaluation of the MFI's social accounts. To the extent the MFI has produced social accounts (e.g., collected or monitored certain social indicators; carried out or sponsored impact assessments, poverty assessments, or other evaluations; conducted client exit or satisfaction research; etc.), the auditors will evaluate the quality and materiality of the social accounts and describe their implications for the MFI's overall social performance in the final social audit report.

The USAID Social Audit Tool has three distinct phases: preparation, implementation, and reporting.

Preparation Phase

Prior to conducting the social audit, the auditor will request the subject MFI to submit internal and external documents in its possession relevant to its social performance. The auditor should also search for relevant public access documents. Information sought at this stage includes

- mission statement, vision statement, values statement, and strategic objectives (including any document describing the MFI's strategic objectives);
- annual reports or equivalent documents;
- marketing, impact, or social performance activities undertaken along with any reports resulting from those activities;
- products and services offered, along with related terms, conditions, and policies;
- management information systems (MIS);
- human resource policies;
- CSR policy; and
- codes of conduct.

Much of the above information can be found in a few internal documents, such as the operations manual, human resource manual, MIS manual, or strategic plan. The auditor will next review this information and make note of gaps, surprising or notable items, and items that require clarification or follow-up during the audit.

3. See the chapter on Corporate Social Responsibility for an in-depth discussion of CSR.

Implementation Phase

The Implementation Phase takes place in the field and has three parts. The first part consists of in-depth, semi-structured interviews with management (HQ and field), staff (HQ and field), directors, donors, investors, clients, and other stakeholders. (As appropriate, focus group discussions may be used for client interviews.) Some of the interviews (such as with certain directors, donors, or investors) may need to be conducted via phone or other means depending on their availability.

The second part of the implementation phase involves relevant members of the MFI management team and staff in a review of existing social accounts and the social accounting system. Issues considered during this review include the sources of the social accounts, the methodology used to create them, and their content. Assessment of these issues allows the social audit team to make an informed judgment as to the credibility and materiality of the social accounts and their implications for the MFI's social performance.

In the third part of the implementation phase, the social audit team prepares a draft report that it presents to a meeting of the social audit panel. During this meeting, the social audit panel is given the opportunity to comment on and discuss the draft report. The meeting is also intended to give the social audit panel the opportunity to discuss the implications of the report for operations, policies, products, etc., and measures for addressing them. The social auditor is expected to play an active role in helping members of the panel highlight, prioritize, and plan measures to address deficiencies or take advantage of strengths.

Reporting Phase

At the conclusion of the social audit, the social auditor returns home to prepare the final audit report and any agreed-on action plan. On completion, the auditor sends the final report and action plan to the members of the social audit panel for comment and feedback. Once the final revision is completed, the auditor sends the finalized report and action plan to the board. The final report and action plan forms, in essence, a strategic governance document. Management is responsible for implementing this action plan, whereas the board, in turn, is responsible for monitoring and encouraging compliance.

QUALITY AUDIT TOOL[4]

The QAT is aligned to the social performance management (SPM) approach developed by the Imp-Act Consortium. SPM is the internal process by which an organization defines its social goals and objectives, makes decisions in line with its social objectives and thereby improves its social performance. The day-to-day management decisions of MFIs and the design and quality of their management systems have a direct effect on the achievement of their social mission.

The QAT assists external stakeholders in understanding the social performance of MFIs, thereby contributing to greater social transparency. It defines social performance as the effective translation of mission into practice, in line with accepted social values. This definition emphasizes that social performance is not only the end result but also the process to achieve that end and that there are certain social values associated with microfinance whether they are explicitly stated in the MFI's own mission or not.

The QAT methodology has been designed to correspond with social rating methodology used by M-CRIL and Microfinanza Rating.[5] This methodology examines management processes and internal systems and assesses the status and effectiveness of each for achieving the MFI's stated social mission and for aligning the MFI's social performance with accepted social values. Based on this assessment, the method-

4. The language used to describe the QAT draws heavily from the document "Quality Audit Tool for Managing Social Performance: Overview" and the "From Mission to Action Toolkit" published by the MicroFinance Centre.

5. See the chapter on Social Rating for an in-depth discussion of social rating.

ology identifies areas, along with recommended actions, in which the MFI should focus its attention so as to better align internal processes and systems with social performance and make more effective and balanced decisions. In practice this means that information gathered through the QAT can be used directly to inform the social rating process. The use of the QAT in conjunction with a social rating provides an objective assessment of social performance and allows for comparison between MFIs.

The QAT Methodology

The QAT is designed to be primarily an internal review and therefore focuses on gathering different perspectives within the MFI rather than trying to look for "objective" evidence regarding the alignment of an MFI's processes and systems with its social mission. The QAT focuses on process management and not procedural compliance. It looks at the MFI's stated objectives and the effectiveness of its systems for achieving this. MFIs have different goals and capacities, and work in different contexts, therefore the focus is to review the coherence and effectiveness of the route an individual MFI charts rather than strictly defining specific procedures or activities it must follow.

The QAT tool is aligned to the Imp-Act SPM framework, as reflected in the three critical questions addressed by the tool:

1. Does the MFI have clear social objectives and systems in place that are likely to lead to their achievement?
2. Does the MFI have relevant, reliable, and consistent information on the extent to which it achieves its social objectives?
3. Does the MFI have effective management systems for improving and managing social performance?

The QAT assesses social performance in three dimensions and nine subdimensions, as shown in Table 2. (See Annex 3 of this chapter for a presentation of the QAT Discussion Guide.) It brings together perspectives from all levels of an organization, drawing on both objective evidence and qualitative views and insights around management decisions and field operations. It uses a quantitative questionnaire to guide qualitative follow-up discussions. This allows for triangulation of information from the perspective of different stakeholders and leads to an understanding of the factors that contribute to reaching the MFI's social objectives.

Table 2. QAT Framework

QAT Dimensions	QAT Subdimensions
1. Intent and design	Setting social performance objectives Strategy for achieving social performance objectives
2. Information system	Systems for monitoring and understanding performance Information system quality and appropriateness Information analysis and communication
3. Management systems	Information use Decision making Organizational culture Alignment of organizational systems

The QAT is implemented over a six-day period by an implementation team consisting of an internal staff member and an external facilitator. The six-day period includes two days for preparation and four days for implementation. The implementation team must have the ability to take an objective view of the MFI and its systems, have the analytical skills necessary to understand the key elements of the SPM, and be able to synthesize different perspectives highlighted during the audit process. It is possible for the audit to be conducted as a purely internal process. However, for most organizations it is necessary to bring in additional social research and analysis skills, and there is significant value in having an objective external view.

There are four steps in the QAT implementation.

1. ***Gap analysis:*** Presents detailed questions that are used to assess social performance management and using simple "yes," "no," or "partially" responses in addition to a short explanation where appropriate. The gap analysis is conducted with senior management as part of an initial audit.
2. ***In-depth follow-up:*** Involves gathering more detailed information to verify and better understand the gap analysis. Includes interviews with staff and clients at different levels of the MFI; examination of documents, such as management reports, research reports, and MIS reports; and analysis of auditing processes, such as information flows. Triangulation of information from different sources gives perspective to the issues and establishes rigor in the results.
3. ***Analysis and draft report:*** The assessor pulls together the audit findings and drafts a report highlighting organizational strengths and weaknesses in each of the dimensions covered in the gap analysis. This report captures the perspectives of different stakeholders so that these can be discussed in the audit panel meeting that follows.
4. ***Audit panel:*** A presentation of a draft audit report to a meeting of key organizational stakeholders, including staff from all levels of the organization, directors, clients (where appropriate), and other key stakeholders as identified by the MFI. The audit panel meeting gives panel members the opportunity to identify and discuss organizational strengths and weaknesses; clarify controversial or unclear matters; and identify and discuss issues for improvements in system usefulness, reliability, and cost effectiveness. (If possible, it is useful to include a short gap between the completion of the draft audit report and the social audit panel so as to allow for sufficient time for the panelists to prepare for the meeting. Where an external auditor is not based near the organization, it may be logistically difficult to do this.)

Following the social audit panel, the assessor produces a final audit report, as in the SAT. The final report should include an overall comment about the audit process and results; a report on all of the questions in the audit questionnaire; a commentary on the audit panel meeting, highlighting where there are differences between stakeholders' perspectives; and agreed-on action points.

SOCIAL AUDIT NETWORK[6]

The purpose of the SAN social audit is to assess the quality and completeness of the social accounting process and the fairness of the interpretations given in the accounts. What the SAN social audit does *not* do is evaluate the social performance of the organization—that is for the organization and its stakeholders to do for themselves, making use of the social accounts in the knowledge that their content and interpretations have been verified by an independent social audit panel and can therefore be considered trustworthy.

6. The language used to describe the SAN social audit draws heavily from the description of the social audit process found at the SAN website.

The Social Audit Panel

The verification of the social accounts—the actual social audit—is carried out via a social audit panel. The panel consists of three to five persons appointed by the organization. It is recommended, however, that the panel chairman be someone who is on the SAN list of approved social auditors who have experience chairing social audit panels. Members of the panel have to commit to reading the draft social accounts and attachments and to attending the panel meeting, which will take up the greater part of one day.

The social audit panel considers three broad dimensions: scope and completeness of the social accounts, process, and learning. Each dimension includes several specific questions falling under nine subdimensions, as seen in Table 3. (See Annex 4 for a more in-depth description of the social audit panel framework.)

Table 3. Social Audit Panel Framework

Social Audit Panel Dimensions	Social Audit Panel Subdimensions
Scope and completeness of social accounts	Comprehensiveness Multiperspective Environmental Compliance Comparisons Social audit trail
Process	Regular Disclosure and dialogue
Learning	Methodology and resources

Members of the panel should have no vested interest in the organization being audited but know something about the field or about the community or district in which it works. The panel must be seen as objective and impartial, for the credibility of the audit will depend on whether the opinion of the panel is perceived by stakeholders to be objective and trustworthy.

The chairman of the social audit panel has the following responsibilities:

- Coordinate the arrangements for the panel meeting, including circulating the agenda and briefing papers to the panel members.
- Discussing the process with panel members ahead of the meeting.
- Organizing the "audit trail."
- Chairing the panel meeting.
- Writing up (or approving) the notes of the meeting and circulating them.
- Negotiating over and approving subsequent changes to the draft social accounts.
- Issuing the **Social Audit Statement** on behalf of the social audit panel.

The draft social accounts and attachments should be circulated to the panel members at least one week before the panel meeting to give them good time to read the documentation and prepare themselves for the panel meeting.

The Audit Trail

Before the panel meeting the chairman may arrange a visit to the organization to carry out a sample check of the social bookkeeping data and systems and the stakeholder consultation processes. This involves checking evidence of information and views reported in the social accounts and also verifying the existence of data quoted in the social accounts. It may include telephone interviews with stakeholders who have been quoted to corroborate their statements. The audit visit may be carried out by the panel chairman, maybe with one of the other panelists, or the task may be delegated to some other independent person acting on behalf of the panel. Whichever, a report will be submitted to the panel detailing which items were checked, whether the records are systematically stored and are accessible, and whether ongoing social bookkeeping systems appear to be in place.

Alternatively, if it is not possible to arrange an audit trail visit before the panel meeting, the audit trail may be conducted as part of the panel meeting. This arrangement has the practical merit of conducting all aspects of the social audit on one day and for reasons of cost and practicality is most usually followed.

The Social Audit Panel Meeting

The social audit panel meeting is likely to last between four and seven hours and will include the opportunity for both panel members and the organization's representatives to comment overall and to go through the accounts section by section and page by page. Usually, the organization will be represented by the social accountant and his/her social audit group. Often the chairman of the board or management committee will also attend. In the course of the meeting the panel will endeavor to address all the questions in the panel framework that follows.

Notes of the Panel Meeting

Following the social audit panel meeting, comprehensive notes will be prepared (usually by the chairman), covering the items listed in the framework and including a detailed page-by-page commentary. In particular the notes will identify changes that the panel require to be made to the draft before issuing a social audit statement and recommendations regarding the scope, methodology, and process for the next social audit cycle.

The notes are circulated for comment to all those who had been part of the social audit panel meeting. The social accountant of the organization then has the task of incorporating the required changes to produce a revised draft for the panel chairman. In the case of disagreement or dispute over any of the recommended changes, the panel chairman will negotiate with the organization on behalf of the panel. Usually there is little disagreement as all the changes will have been discussed and agreed upon during the panel meeting and will be seen as constructive and contributing to the quality and completeness of the social accounts. In the event of an irresolvable difference, the chairman will consult with other panel members and, in the final analysis, will either refuse to issue a statement or will include an appropriate qualification in the statement.

The Social Audit Statement

At the conclusion of the social audit, the social audit panel issues a social audit statement that contains a formal opinion on the quality of the organization's social accounts. The social audit statement is akin to the financial audit statement offered by public accountants. Annex 5 provides an example of a generic social audit statement.

GLOBAL REPORTING INITIATIVE[7]

The Global Reporting Initiative is a large multistakeholder network of 30,000-plus experts in dozens of countries worldwide who participate in GRI's working groups and governance bodies, use the GRI Guidelines to report, access information in GRI-based reports, or contribute to developing the reporting framework in other ways—both formally and informally.

The cornerstone of the GRI is the Sustainability Reporting Guidelines. The third version of the Guidelines—known as the G3 Guidelines—was published in 2006, as a free public document. This framework sets out the principles and indicators that organizations can use to measure and report their economic, environmental, and social performance.[8] To date, more than a thousand organizations, including many of the world's leading brands, have declared their voluntary adoption of the guidelines. Consequently, the G3 Guidelines have become the de facto global standard for sustainability reporting. Other components of the framework include Sector Supplements (unique indicators for industry sectors), Protocols (detailed reporting guidance), and National Annexes (unique country-level information).

Sustainability reports based on the GRI framework can be used to benchmark organizational performance with respect to laws, norms, codes, performance standards, and voluntary initiatives; demonstrate organizational commitment to sustainable development; and compare organizational performance over time. GRI promotes and develops this standardized approach to reporting to stimulate demand for sustainability information that will benefit reporting organizations and those who use report information alike.

In order to ensure the highest degree of technical quality, credibility, and relevance, the GRI reporting framework is developed and continuously improved through a consensus-seeking process; participants are drawn globally from business, civil society, labor, and professional institutions, representing a cross section of global stakeholders who share the vision that reporting on economic, environmental, and social performance by all organizations should become as routine and comparable as financial reporting. In order to support widespread uptake of this standardized global framework for sustainability reporting, GRI develops learning materials and accredits training partners. Special guidance is also available for small and medium-sized enterprises.

Principles for Defining Report Content

The G3 Guidelines include principles for defining report content and ensuring report quality in addition to guidelines for standard disclosures that include an extensive list of indicators with definitions and guidelines for implementation. Principles for defining report content include the following:

1. ***Materiality:*** The information in a report should cover topics and indicators that reflect the organization's a significant economic, environmental, and social impact, or that would substantively influence the assessments and decisions of stakeholders.

2. ***Stakeholder Inclusiveness:*** The reporting organization should identify its stakeholders and explain in the report how it has responded to their reasonable expectations and interests.

3. ***Sustainability Context:*** The report should present the organization's performance in the wider context of sustainability.

4. ***Completeness:*** Coverage of the material topic, indicators, and definition of the report boundary should be sufficient to reflect a significant economic, environmental, and social impact and enable stakeholders to assess the reporting organization's performance in the reporting period.

7. The language used to describe the GRI draws heavily from the content found at the GRI website.

8. For a two-page summary of the G3 Framework, see the G3 Quick Reference Guide.

Principles for ensuring report quality include the following:

1. ***Balance:*** The report should reflect positive and negative aspects of the organization's performance to enable a reasoned assessment of overall performance.
2. ***Comparability:*** Issues and information should be selected, compiled, and reported consistently. Reported information should be presented in a manner that enables stakeholders to analyze changes in the organization's performance over time and that supports analysis relative to other organizations.
3. ***Accuracy:*** The reported information should be sufficiently accurate and detailed for stakeholders to assess the reporting organization's performance.
4. ***Timeliness:*** Reporting should occur on a regular schedule and information should be available in time for stakeholders to make informed decisions.
5. ***Clarity:*** Information should be made available in a manner that is understandable and accessible to stakeholders using the report.
6. ***Reliability:*** Information and processes used in the preparation of a report should be gathered, recorded, compiled, analyzed, and disclosed in a way that could be subject to examination and that establishes the quality and materiality of the information.

Guidelines for Standard Report Disclosure

The guidelines should be used as the basis for all reporting. They are the foundation on which all other reporting guidance is based and outline core content for reporting that is broadly relevant to all organizations regardless of size, sector, or location. The guidelines contain principles and guidance as well as standard disclosures—including indicators—to outline a disclosure framework that organizations can voluntarily, flexibly, and incrementally adopt.

The guidelines for standard report disclosures in the G3 fall into one of four categories: (1) strategy and analysis; (2) organizational profile; (3) report parameters; and (4) governance, commitments, and engagement. These are presented at length in Annex 6.

Core and Additional Indicators

The G3 Guidelines include 79 indicators, which includes **core indicators** and **additional indicators.** Core indicators are those indicators judged to be of interest to most stakeholders and assumed to be material unless deemed otherwise on the basis of the GRI Reporting Principles. Additional indicators are those identified in the GRI Guidelines that represent emerging practice or address topics that may be material to some organizations but not generally for a majority. All indicators in the G3 fall into one of six categories and 33 subcategories, as seen in Table 4.

The G3 Guidelines also include indicator **protocols.** Protocols are the "recipe" behind each indicator in the guidelines and include definitions for key terms in the indicator, compilation methodologies, intended scope of the indicator, and other technical references. GRI uses a "report or explain" approach to reporting social performance indicators. The organization can, at its discretion, report those indicators that it considers relevant to its situation. For those indicators that it chooses not to report, the organization should explain why it has chosen not to report them. In this sense, the GRI combines the attributes of a mass-produced product with the flexibility of individual customization.

Table 4. GRI Indicator Categories and Subcategories

Category	Subcategory
1. Environmental	1.1. Materials 1.2. Energy 1.3. Water 1.4. Biodiversity 1.5. Emissions, effluents, and water 1.6. Products and services 1.7. Compliance 1.8. Transport 1.9. Overall
2. Human rights	2.1. Investment and procurement practices 2.2. Freedom of association and collective bargaining 2.3. Child labor 2.4. Forced and compulsory labor 2.5. Security practices 2.6. Indigenous rights
3. Labor practices and decent work	3.1. Employment 3.2. Labor/management relations 3.3. Occupational health and safety 3.4. Training and education 3.5. Diversity and equal opportunity
4. Society	4.1. Community 4.2. Corruption 4.3. Public policy 4.4. Anticompetitive behavior 4.5. Compliance
5. Product responsibility	5.1. Customer health and safety 5.2. Product and service labeling 5.3. Marketing communications 5.4. Customer privacy 5.5. Compliance
6. Economic	6.1. Economic performance 6.2. Market presence 6.3. Indirect economic impacts

Sector Supplements

Sector supplements allow for further customization of the GRI to individual sectors and firms. Sector supplements complement (not replace) use of the core guidelines by capturing the unique set of sustainability issues faced by different sectors. To date, the GRI has completed or is developing sector supplements for the following sectors: apparel and footwear, electric utilities, financial services, public agencies, automotive, logistics and transportation, telecommunications, mining and metals, nonprofits, and tour operators.

Financial Sector Supplement

Of the G3 sector supplements, the financial institutions supplement is the most relevant to the microfinance sector. Like the G3 core and additional indictors, the financial institutions indicators are grouped into categories and subcategories, as shown in Table 5.

Table 5. Financial Sector Supplement Categories and Subcategories

	Management System	**Internal Performance**	**Suppliers**	**Society**
Management Performance Policies & Activities	• CSR policy • CSR organization • CSR audits • Management of sensitive issues • Stakeholder dialogue	• Internal CSR policy	• Screening of major suppliers	
Operational Performance Results	• Noncompliance	• Staff turnover and job creation • Employee satisfaction • Senior management remuneration • Bonuses fostering sustainable success • Female-male salary ratio • Employee profile	• Supplier satisfaction	• Charitable contributions • Economic value added
	Retail Banking	**Investment Banking**	**Asset Management**	**Insurance**
Management Performance Policies & Activities	• Retail banking policy (socially relevant elements)	• Investment policy (socially relevant elements)	• Asset management policy (socially relevant elements)	• Underwriting policy (socially relevant elements)
Operational Performance Results	• Lending profile • Lending with high social benefit	• Customer profile: Global transaction structure • Transactions with high social benefit	• Assets under management with high social benefit • SRI-oriented shareholder activity	• Customer profile • Customer complaints • Insurances with high social benefit

Sustainability Reporting

The GRI G3 Guidelines offer a useful framework for assessing and managing social performance. Regardless of how the organization chooses to implement the GRI, it involves the creation and reporting of social accounts. Whereas the G3 provides useful guidance on social accounting and reporting, it does not specify any particular way to do them. However, two broad approaches have become popularized.

In one approach, the organization produces a separate **sustainability report** that provides a comprehensive review of its social accounts. This typically consists of a narrative presentation supplemented by figures where appropriate. In cases where the organization does not produce a regular annual report, the stand-alone sustainability report is most appropriate (although this does not prevent an organization from producing both an annual report and a separate sustainability report). The sustainability reports of Ben & Jerry's and Westpac Banking Corporation are good examples of stand-alone sustainability reports.

In cases where the organization produces a regular annual report, the sustainability report is typically (although not necessarily) integrated into the annual report. In this format, the presentation of the social accounts in narrative and figures are inserted at different sections of the annual report where appropriate, either as part of a broader discussion on a particular topic or as a separate topic focusing on different dimensions of social performance. The annual report will then typically include a separate table of contents identifying the pages in the report giving information on specific GRI (or other social performance) indicators. The annual reports of two MFIs, FINDESA in Nicaragua and Banco Solidario in Ecuador, are good examples of a sustainability report integrated into an annual report.[9]

ASSURANCE

Once an organization produces a sustainability report, what assures that the social accounts presented are credible and accurately reflect its social performance? This is the function of **assurance,** a term used commonly in the private sector. Assurance is defined by AccountAbility as follows: "An evaluation method that uses a specified set of principles and standards to assess the quality of a Reporting Organization's subject matter, such as Reports, and the organization's underlying systems, processes, and competencies that underpin its performance. Assurance includes the communication of the results of this evaluation to provide credibility to the subject matter for its users."

AccountAbility[10]

AccountAbility is an initiative launched in 1996 by the Institute for Social and Ethical Accountability. AccountAbility is a multistakeholder initiative that has brought together participants from business, civil society, and the public sector to develop standards for social and ethical accounting and reporting. Its purpose is to promote accountability for sustainable development by creating methods for measuring and reporting the social and ethical performance of organizations, to assure the quality, comparability, and usefulness of these disclosures, and to forge a convergence among the more than 300 standards aimed at assisting businesses in meeting the goal of sustainability. AccountAbility considers convergence toward global standards crucial to drive learning and influence decision making, thereby moving CSR beyond compliance and risk management toward business strategy, innovation, and performance.

9. For a register of organizations creating sustainability reports based on the GRI framework, go to http://www.corporateregister.com/gri/?com=15493-1420413733-b.

10. The language used to describe AccountAbility and the AA1000 framework draws heavily from the content found at the AccountAbility website.

AA1000 Assurance Standard

According to AccountAbility, evidence suggests that stakeholders (including investors and management) rarely use information found in sustainability reports to inform decisions or actions, indicating a lack of credibility in such information. To bridge this credibility gap, AccountAbility developed the AA1000 Assurance Standard, which is a "generally applicable standard for assessing, attesting to, and strengthening the credibility and quality of organizations' sustainability reporting, and their underlying processes, systems, and competencies." The AA1000 Assurance Standard:

- Covers the full range of organizational performance.
- Focuses on the materiality of the subject matter to stakeholders, as well as its accuracy.
- Examines the completeness of an organization's understanding of its own performance and impact, and associated stakeholder views.
- Assesses reporting organizations' responsiveness to stakeholders, and in doing so interprets reporting as part of an ongoing engagement with them.
- Provides a forward-looking approach that indicates how able an organization is to carry out stated policies and goals, as well as to meet future standards and expectations.
- Establishes the basis for public assurance statements that build the credibility of public sustainability reports.
- Supports and integrates approaches to assurance using multiple providers, approaches, and standards, including specific compatibility with the Global Reporting Initiative Sustainability Reporting Guidelines.
- Applies to different types and sizes of organizations and assurance providers from diverse geographical, cultural, and social backgrounds.
- Requires disclosure by assurance providers covering their competencies and relationships with the reporting organization.

In the AA1000 framework, the **assurance provider** is responsible for carrying out the assurance evaluation. The assurance provider, akin to the social auditor in the SAN framework, is "one or more individuals, or an organization, contracted by the reporting organization to provide assurance of their report." AccountAbility has begun the revisions process for the AA1000 Assurance Standard and will publish the second edition in July 2008. Over 150 companies use or refer to the AA1000 Assurance Standard in their reporting to date.

The AA1000 Assurance Standard incorporates three central principles:

1. ***Materiality:*** The assurance provider states whether the reporting organization has included in the report the information about its sustainability performance required by its stakeholders for them to be able to make informed judgments, decisions, and actions.
2. ***Completeness:*** The assurance provider evaluates the extent to which the reporting organization can identify and understand material aspects of its sustainability performance.
3. ***Responsiveness:*** The assurance provider evaluates whether the reporting organization has responded to stakeholder concerns, policies, and relevant standards, and adequately communicated these responses in its report.

In addition to the AA1000 Assurance Standard, AccountAbility has produced a series of other resources for sustainability reporting and assurance. The AA1000 Series includes the AA1000 Framework and the AA1000 Stakeholder Engagement Standard.

The AA1000 Framework provides guidance to users on how to establish a systematic stakeholder engagement process that generates the indicators, targets, and reporting systems needed to ensure greater transparency, effective responsiveness to stakeholders, and improved overall organizational performance. The AA1000 Stakeholder Engagement Standard advances the right of stakeholders to be heard, and the organization's obligation to adequately respond to their concerns. It offers a robust basis for designing, implementing, evaluating, and assuring the quality of stakeholder engagement. AccountAbility has begun the revisions process for the AA1000SES and published the second edition in December 2007.

10. References to the "social mission" in this and other tables refer collectively to the MFI's stated or implied commitment to social performance as summarized in its mission statement, vision statement, institutional values, and strategic objectives.

ANNEX 1: RATIONALE FOR THE SIX INTERNAL PROCESSES IN THE USAID SOCIAL AUDIT TOOL

MISSION, COMMUNICATION, AND MANAGEMENT LEADERSHIP

The mission statement is an explicit expression of the MFI's purpose and values. MFIs with an explicit and clear mission statement will tend to be more effective in fulfilling their social mission. Not only should the MFI's mission be stated explicitly and clearly, it should also be communicated clearly and consistently reinforced down the hierarchical ladder. A mission statement that is not communicated or reinforced will exert little to no influence on organizational culture or performance.

Management is primarily responsible for the clear articulation, communication, and reinforcement of the MFI's social mission. Active, committed, and consistent management leadership is necessary to transform social mission from mere words into institutional action.

Strategic Planning

Strategic planning is a process that includes, among other things, establishing organizational priorities, setting performance goals, establishing action plans, and devising criteria to assess fulfillment of performance goals. The strategic plan specifies the objectives the MFI will pursue during the coming year or years and the activities associated with those objectives. Notwithstanding an MFI's rhetorical commitment to its social mission, the inclusion—or noninclusion—of social considerations into strategic planning is one of the clearest signals of the relative importance the MFI attaches to its social mission.

Customer Service

Customer service is defined as the set of activities related to the assessment and serving of customer needs and the quality of actual service delivery. Regardless of an MFI's social mission, its social impact will be greater, all else equal, the better the quality of its customer service. Of particular interest is the extent to which the MFI attempts to assess customers' needs and wants; how this information is incorporated into the design of its products, services, and organizational policies; and the emphasis the MFI places on customer service.

Monitoring Systems

Monitoring tells the MFI whether it is on the right track with regard to its social mission and social objectives. In this context, monitoring does not mean a one-off activity, but implies an ongoing process. It entails the routine collection of information for the purpose of comparing performance to organizational mission and objectives. It may (and usually does) imply integration into some kind of MIS. It may also include systematic or periodic market research or other types of client assessment including, for example, periodic customer satisfaction surveys or focus group discussions, exit surveys, market studies, or other methods of formal client feedback.

Recruitment and Training

Recruitment and training (including new-hire training and ongoing training) offer the MFI excellent opportunities to communicate and reinforce the social mission to management and staff. Recruitment includes both hiring and promotion. Generally, the hiring and promotion process affords the MFI the opportunity to screen for candidates who possess the personal outlook, values, and skills consistent with the MFI's social mission, and it sends messages to other management and staff about organizational priorities.

The MFI's commitment to its social mission is also reflected in the type of training it offers staff. New-hire training is important not only for developing the desired skill set but also for inculcating the desired values and attitudes. Ongoing training plays an equally important role in reinforcing the desired values and associated behaviors, and in correcting noted deviations.

Incentive Systems

Incentive systems influence attitudes, values, and behavior within the MFI. It is axiomatic that people respond to incentives, such as a performance bonus system. An incentive system that rewards management and staff for attitudes and behaviors consistent with the social mission will prove powerful in promoting it.

In contrast, an incentive system that ignores social performance is much less likely to produce attitudes and behaviors consistent with the social mission and may even produce contrary behaviors and outcomes. For example, an incentive system that disproportionately rewards portfolio growth may encourage loan officers to abandon poorer borrowers, who constitute the MFI's primary target market, to move up-market where they can make bigger loans.

Corporate Social Responsibility (CSR)

Generally, CSR refers to a company's obligation to be accountable to all of its stakeholders in all its operations and activities, with the aim of achieving sustainable development not only in the economic dimension but also in the social and environmental ones. (Sustainable development refers to meeting today's needs without compromising the ability of future generations to meet their needs as well.)

For the most part, social performance assessment in microfinance has focused on assessing actual social performance (impact) and, short of that, on assessing indicators (or proxies) for impact. CSR has played a very small role so far in this discussion, as have popular methods of assessing CSR, such as the GRI.

The decision to incorporate CSR principles into the USAID social audit tool reflects two considerations:

1. Internal and external forces are, over time, expected to push the microfinance sector to align its approach to social performance with triple bottom line (TBL) approaches in the mainstream financial sector, in which CSR (and specifically the GRI) is the dominant TBL framework.
2. CSR captures important dimensions of social performance that are important in understanding an MFI's overall social impact.

ANNEX 2: USAID SOCIAL AUDIT DISCUSSION GUIDE

MISSION, COMMUNICATION, AND MANAGEMENT LEADERSHIP

Objective	Sample Questions	Justification and Suggestions
Determine the level of awareness and support for the social mission.[10]	Please recite or paraphrase the social mission.	Shows how effectively the social mission has been communicated.
	What does the social mission mean to you?	Can compare responses to confirm a common understanding of what the mission statement means.
	Do you agree with the social mission?	Shows level of acceptance of mission, vision, or value statement. The respondent is likely to express agreement. Follow up with probing questions to try to determine the respondent's true feelings and perceptions.
	How is the social mission applied in practice?	If the social mission has operational force, the respondent should be able to cite specific examples of how it is applied in practice.
Determine the extent to which senior management and board members have exerted leadership in the area of social performance.	How is management communicating and reinforcing the social mission?	The social mission will have operational force to the extent management effectively communicates and reinforces it. The respondent should discuss not only what, but also how, when, and to whom.
	How does senior management behave in a manner consistent with the social mission?	The effectiveness of management's communication and reinforcement of the social mission depends to a large degree on the extent to which staff perceives management's behavior to be consistent with it. This can be ascertained, for example, by asking respondents directly whether and how senior management behaves consistently with the social mission. Other evidence can be found, for example, in how senior managers treat staff and clients, what they do or say in informal settings, the manner and extent to which they interact with staff and are open to feedback, the manner in which they communicate important messages to staff, the extent to which policy changes and announcements reflect sympathy or understanding of target clients, etc. It may require persistent probing to get past respondents' understandable hesitance to giving honest opinions on senior managers or to get senior managers to honestly assess their own performance.

Objective	Sample Questions	Justification and Suggestions
Determine the extent to which management's efforts to communicate and reinforce the social mission is effective.	How effective have management's efforts been in communicating and reinforcing the social mission?	There is no guarantee that even an active and committed effort to communicate and reinforce the social mission will be effective. If management's efforts have been effective, the respondent should be able to cite specific examples. It may require persistent probing to get past respondents' understandable hesitance to giving honest opinions on senior managers or to get senior managers to honestly assess their own performance.
Determine whether and the extent to which field managers and field staff have internalized (adopted) the social mission.	What importance does the social mission have in motivating your behavior and that of other persons in your organization?	An important indicator of the effectiveness of the communication and reinforcement activities is the extent to which behavior of MFI management and staff is influenced by the social mission. It will be helpful to discuss the various factors that motivate staff behavior and their relative importance. Examples include financial incentives, portfolio growth, portfolio quality, social or peer pressure, internalization of organizational mission, and so forth.

STRATEGIC PLANNING

Objective	Sample Questions	Justification and Suggestions
Determine when and where strategic planning activities were held, who participated in them, and what topics were discussed.	Describe the strategic planning activities undertaken over the previous year.	To understand the importance of the social mission to the strategic planning process it is first necessary to gain a comprehensive understanding of the strategic planning activities at the MFI. Review with senior management all the strategic planning activities undertaken during the previous year. Probe to determine who attended and what major themes and specific topics were discussed. Probe further to determine whether social issues were discussed, and which ones.
Determine what importance was attached to the social issues considered.	To what degree were social issues emphasized during the strategic planning activities and what importance were they given?	It is not sufficient to know that social issues were considered during strategic planning sessions. It is also important to determine the degree to which they were emphasized. Probe to determine whether and to what extent social issues were considered in each strategic planning activity and the relative weight they were given.
Determine the specific actions management has taken related to the social mission as a result of the strategic planning process.	What actions related to the social mission has management taken as a result of the strategic planning activities?	Serious discussion of social issues during strategic planning should result in specific actions taken by management toward achieving the social mission. Actions need not necessarily be high-profile ones. Probe to identify all possible outcomes of strategic planning related to the social mission. For example, did strategic planning lead to expansion into geographic areas or market segments that are consistent with the social mission? Did it lead to the introduction of new products better suited to the needs of the target clients? Did it lead to the revision of the existing incentive system or the introduction of new training modules consistent with the social mission? Etc.
Determine what role the board of directors plays in the strategic planning process.	What role does the board play in integrating social performance issues into the strategic planning process?	The board is responsible for oversight of management and ensuring that management remains committed to the MFI's social mission. Probe to determine the extent to which the board has influenced consideration of social performance issues in strategic planning and actions taken as a result.

CUSTOMER SERVICE

Objective	Sample Questions	Justification and Suggestions
Determine whether the MFI has a clearly identified target market or markets.	Who are your primary target clients and how do you identify and reach them?	The MFI should have a clearly defined target market. To reach this market, it should also have in place procedures to identify and reach them.
Determine the product mix offered by the MFI.	Describe the products and services offered by your MFI.	The product mix is an important element of customer service, and it is indicative of the extent to which the MFI is striving to meet the needs of its target clients. The product mix includes the number and types of loans, savings, and other financial products, and nonfinancial products.
Determine how the products and services were developed.	Describe the process by which each of the products was developed.	The question is intended to determine the extent to which the products were developed in response to the identified needs and wants of the target clients. Probe to determine, for example, whether the MFI conducted market research (and if so what kind and what it found) and pilot-tested the product prior to its introduction. This includes market research conducted by the MFI itself or by external researchers. Market research includes activities such as focus group discussions, exit interviews, client satisfaction surveys, impact studies, MIS data mining, suggestion boxes, and methods for recording customer complaints.
Determine whether the MFI carries out regular or periodic market research.	Describe all market research activities your MFI has carried out over the past year.	Market research is an essential process to generate market information related to customers' needs, wants, perceptions, experiences, etc. Probe to determine whether the market research activities are routine or periodic (how often they are carried out), who carries them out, and what is learned from market research activities. If the MFI has not carried out market research, probe to determine why not.
Determine whether and how the MFI uses market information.	How have you used the information acquired through market research activities?	The value of market information is expressed in how it is used. Probe to determine all ways in which market information has been used, for example, in areas such as product innovation, changes to terms and conditions, changes to operational policies, etc. Also of interest is how the MFI responds to customer complaints.

Objective	Sample Questions	Justification and Suggestions
Determine whether the MFI offers training in customer service to its management and staff.	Do you receive (offer) training in customer satisfaction?	There are many areas in which management and staff can improve performance related to customer satisfaction. Training and constant reinforcement are necessary to embed these practices and behaviors in MFI operations. Probe to identify training activities, whether they include training (or messages) in customer satisfaction, and what the training (or messages) entails. Probe further to determine how effective this training has been.
Determine whether customer satisfaction criteria figure in the performance incentive system.	How are management and staff rewarded for excellent performance in customer satisfaction?	Rewarding excellence in customer performance is an effective way to embed pro-customer practices and behaviors into MFI operations. This question may also be covered during the discussion on the MFI's performance incentive system.

MONITORING SYSTEM

Objective	Sample Questions	Justification and Suggestions
Review the information collection and reporting systems with the MIS director/department and other relevant members of the senior management team.	Describe the information systems used by the MFI to track financial and social performance.	The MFI may have more than one information system. In particular, it may be collecting information related to the social mission in a separate information system. For this reason, it is important to identify which information systems exist and which contain information that is pertinent to social performance. Identify all information in the MIS that is relevant to social performance. Note that the MFI may use routine financial or portfolio information to measure social performance (depending on how it defines its social mission). Probe to determine how the social performance information captured measures fulfillment of the social mission and make note of any deficiencies. The materiality of the MFI's social accounts is measured by whether they cover all important dimensions of social performance as determined by the MFI's social mission.
Determine the methodology for collecting and reporting information related to social performance.	How is the social performance data captured?	The credibility of social performance data depends to a large extent on the methodology used to collect and report it. Probe to find out whether those tasked with data collection receive appropriate training and the extent to which the data collection process is monitored for quality assurance. Probe also to determine whether systems are in place to ensure the accuracy of data entry and safeguard the data from unauthorized entry or revision.
Determine how the MFI analyzes information on social performance.	What analysis do you perform on the social performance data?	Data on social performance is of little use if is not analyzed. Ascertain the different methods used to analyze the social performance data and who is doing the analysis. If the MFI is doing more sophisticated analysis, probe to determine whether the technical skills of the data analyst match the types of analysis performed. MFIs can collect more social performance information than they are capable of managing or analyzing. Probe to determine whether all social performance information is being analyzed, and if it is not, what the cause of the backlog is.

Objective	Sample Questions	Justification and Suggestions
Determine what social performance information the MFI is currently reporting and how it is reporting this information.	What reports do you produce on social performance, what do they include, and to whom are they disseminated?	Data on social performance that is not reported is likewise of little use. Request copies of all reports that include information on social performance and review the reports for content. It is common for MFIs to collect social performance information that it does not report. Probe to determine whether all social performance information is being reported, and if it is not, what the cause of the backlog is. Field offices may be collecting useful information on social performance that is not reported to HQ. When in the field, ask to review the information system and probe to find out whether and how all relevant information on social performance is being reported to HQ. At the same time, probe to determine whether field managers receive reports or updates on the MFI's social performance based on information collected in the management information system.
Determine whether and how the MFI is using social information.	How are you using information on social performance to monitor compliance with the social mission?	Ultimately, the goal of collecting information on social performance is to improve social performance. Probe to determine the extent to which board members, senior managers, and field managers are using information on social performance to make decisions or set policies in areas such as governance, strategy, policies, products, bonuses, promotions, etc.

RECRUITMENT AND TRAINING

Objective	Sample Questions	Justification and Suggestions
Determine whether and to what extent social considerations are important in the hiring and promotion process.	How is the social mission addressed in hiring and promotion of managers and field staff?	The social mission will have greater operational force if it is explicitly considered in hiring and promotion. If it is explicitly considered, the respondent should be able to cite specific examples. Ask the question separately for hiring and for promotion. If the social mission is not addressed or is given low priority, probe to determine why.
Determine whether and to what extent social considerations are important in staff training.	How is the social mission addressed in staff training?	The social mission will have greater operational force if it is explicitly considered in staff training. If it is explicitly considered, the respondent should be able to cite specific examples. Probe to find out what specific social issues are covered in the training. If social mission is not addressed or is given low priority, probe to determine why. Probe to construct a complete list of in-class and field training for new hires and existing staff, including topic, number of times offered, where, when, who, etc. Next, determine what role social considerations play in each type of training activity.
	What priority is the social mission given in staff training?	Even if social issues are addressed in staff training, they may or may not be given a very high priority. Social issues need not be (and are unlikely to be) given as high a priority as other issues, but they should be given a reasonably high priority relative to other issues covered. Probe to determine the relative weight given to social issues in the training.
Determine the effectiveness of the social messages communicated in staff training.	How effective is the training related to social mission?	Effective training on social issues should result in observable impact on staff attitudes, values, speech, behavior, etc. Probe to find out how the social training affected the respondent's thinking or behavior and that of his or her peers. Do they, for example, talk among themselves about social issues? Did they, or did any of their peers, change their behavior as a result? Have they become more observant of how certain policies affect social performance? Are they more supportive of the social mission? Etc.

INCENTIVE SYSTEM

Objective	Sample Questions	Justification and Suggestions
Ascertain details about the management and staff incentive systems.	Please describe the incentive system and how it applies to you.	It is necessary to understand the details of the incentive system to understand how it influences management and staff behavior. If different incentive systems exist, review each one separately. Of interest is the extent to which respondents agree on specifics of the incentive systems.
Determine how the social mission figured into the development of the incentive system.	Can you relate what you know about how this incentive system was developed?	Probe to determine who was involved and to what degree and what factors were important in the creation of the incentive system. Ask specifically about the role of the social mission relative to other factors.
Determine what specific objectives management hopes to achieve with the incentive system and how is the incentive system is designed to achieve these objectives.	Which specific behaviors or outcomes is the incentive trying to achieve?	All incentive systems are trying to achieve a set of specific behaviors or outcomes. Probe by listing specific attributes of the incentive system and asking which behaviors or outcomes they are designed to achieve. Determine which of the desired behaviors or outcomes are related to the social mission. If the objectives of incentive system do not relate to the social mission, probe to determine why.
Determine how effectively management has implemented the incentive system.	How effectively has management implemented the incentive system?	Incentive systems are implemented with varying levels of effectiveness. Moreover, certain aspects of the system may be implemented well and others not. Indicators of effective implementation include, for example, whether respondents can demonstrate good understanding of the incentive system; whether the incentive system is well documented and disseminated to all levels of the MFI; the extent to which implementation is consistent with written policy; whether bonuses are paid and paid on time; and so forth.
Determine how effective the incentive system has been in achieving its intended objectives.	How well has the incentive system achieved its intended objectives?	The real test of effectiveness is whether the incentive system has produced the desired behaviors or outcomes. Review each of the objectives identified earlier and ask whether they have been achieved. Compare the MFI's performance based on MIS data to the stated objectives for the incentive system. Ask the respondent to comment on any observed discrepancies. Pay particular attention to incentives related to the social mission.

Objective	Sample Questions	Justification and Suggestions
Determine to what extent the incentive system has contributed to observed performance relative to the social mission.	To what extent are these outcomes attributable to the incentive system?	Even if the desired behaviors or outcomes occur, they may or may not have been the result of the incentive system. Probe to determine the extent to which the respondent believes the incentive system to be responsible for the observed behaviors or outcomes and whether he or she can provide specific examples or other evidence indicating the extent to which the incentive system is responsible. Probe to determine how different components of the incentive system influence behavior or outcomes. Probe further to determine what other factors outside the incentive system influence behavior or outcomes and what the relative strength of these factors is.

CORPORATE SOCIAL RESPONSIBILITY

Objective	Sample Questions	Justification and Suggestions
Determine whether the MFI has a formal, written CSR policy.	Do you have a formal, written corporate social responsibility policy?	A formal, written CSR policy significantly increases the likelihood that the MFI actively implements CSR policies. If yes, probe to determine what the policy includes and how the policy is implemented. If no, probe to determine why not.
Determine what cash or in-kind contributions the MFI has made to the local communities in which it works.	Over the last year, what cash or in-kind contributions did you make to the local communities in which you work?	Cash and in-kind contributions are a measure of the MFI's commitment to forging relationships with the communities where it works. Determine the precise amount of cash contributions. Probing will likely be required to determine an estimate of the cash equivalent of in-kind contributions.
Determine whether the MFI has a formal, written code of employee conduct.	Do you have a formal, written code of conduct governing management and staff relationships with clients and with each other?	A formal, written code of conduct is an important element of an employee conduct policy. The MFI may not have a single code of conduct but instead have a number of separate policies governing management, staff, and client relationships. Determine in particular what the MFI's policies are regarding sexual harassment. Probe to determine whether and how the code of conduct is implemented.

Objective	Sample Questions	Justification and Suggestions
Determine whether the MFI has a policy that grant clients access to management.	Do you have a formal policy that grants clients access to management to express concerns, complaints, and so forth?	Client feedback is an important way in which management can keep tabs on what is happening in the field. Client feedback is, for example, important in rooting out malfeasance or inappropriate behavior by field management or staff. If yes, probe to determine what this policy is, how it is implemented, what feedback has been received, and what actions management has taken in response to it.
Determine whether the MFI has a formal process for staff to air concerns or grievances to management.	Do you have a formal process for staff to air concerns or grievances?	Staff feedback is an important way in which management can keep tabs on what is happening in the MFI. Staff feedback is, for example, important for uncovering instances of malfeasance or violations of codes of conduct by management or staff and for keeping a finger on the pulse of staff satisfaction and sources of dissatisfaction.
Determine the rate of staff turnover.	What has been the rate of staff turnover over the last year?	Turnover is an indicator of staff satisfaction, which in turn reflects factors such as working conditions and management-employee relationships. Determine whether the rate of staff turnover is perceived as low, normal, or high. If high, probe to determine what factors explain it and what management is doing to address it.
Determine whether the MFI offers employees social benefits exceeding those mandated by law.	What social benefits do you offer employees that are not mandated by law?	Formal laws mandate the minimum expected social benefits. A measure of social responsibility is whether the MFI goes beyond the minimum mandated benefits. It is also a measure of the MFI's commitment to employees. Probe to determine why the MFI elected to offer these benefits or why it chooses not to offer additional benefits.
Determine what legal or regulatory standards apply to the MFI and what it is doing to address them.	Are you subject to any formal legal or regulatory standards?	Adherence to legal and regulatory standards is a minimum expectation of social responsible behavior. Legal and regulatory standards include, for example, environmental standards, product standards, usury laws, disability laws, and so forth. Probe to determine the MFI's compliance performance; note any deviations, fines, judgments, etc., and ascertain what is being done to address them.

ANNEX 3: QAT DISCUSSION GUIDE

DIMENSION ONE: INTENT AND DESIGN

1.1 Setting Social Performance Objectives

1. Do you have a written mission statement that defines broad social goals in terms of
   a) Who are your target clients?
   b) How will their needs be met?
   c) Intended impact?
2. In the formulation of your mission did you engage with key stakeholders (e.g., clients, staff, government, donors, investors, etc.), and are their views reflected?
3. Have you clearly defined the characteristics of your target clients (e.g., location, gender, poverty level, type of economic activity)?
4. Do you have measurable objectives for outreach to target clients?
5. Do you have measurable objectives for service provision (e.g., quality, accessibility, client satisfaction, etc.)?
6. Do you have measurable objectives for desired outcomes in terms of changes as a result of the services?
7. Do you seek to be a socially-responsible organization in relation to
   a) Gender-aware policies?
   b) Client protection?
   c) Staff relations?
   d) Communities in which you work?
   e) Environmental impact?

1.2 Strategy for Achieving Social Performance Objectives

1. Do you have a strategy to ensure that target clients are reached?
2. Have you sought to understand the wants and needs of your target clients?
3. Have sufficient resources (financial, staffing, and expertise) been allocated to monitoring and reporting achievement of social objectives?
4. Do you have policies, procedures, and activities in place to achieve your objectives in relation to social and environmental responsibility?

DIMENSION TWO: INFORMATION SYSTEM

2.1 Systems for Monitoring and Understanding Performance

1. Are you clear about what information your stakeholders need about social performance?
2. Do you regularly track whether you are reaching your target clients? Yes No Partially
3. Do you regularly seek to understand
   a) Why some clients leave or become inactive?
   b) Why some people do not use your services?

4. Do you regularly seek to understand
   a) The ways in which clients use your services
   b) Whether or not their needs are met?
5. Have you integrated indicators related to your social objectives into your MIS? Yes No Partially
6. Do you regularly seek to understand
   a) Whether your clients benefit from your services?
   b) What are the unintended results?
7. Do you have a regular process for collecting information related to the achievement of your social performance objectives?

2.2 Information System Quality and Appropriateness

1. Is social performance information collected in a consistent way (i.e., it follows a standard set of procedures each time)?
2. Is the information used for managing social performance processed in a regular and consistent way?
3. Does staff (collecting the information used for managing social performance) have adequate training, sufficient time, and incentives to be able to prioritize this work?
4. Are your indicators of social performance reliable?
   a) Outreach
   b) Services
   c) Change
   d) Social responsibility—clients
   e) Social responsibility—staff
   f) Social responsibility—community/environment
5. Do you have an effective system for ensuring quality and reliability of information collected?
6. Is the collection of social performance information included in the remit of your internal auditors?

2.3 Information Analysis and Communication

1. Do you track the progress of individual clients/a sample of clients over time in relation to social performance?
2. Do you compare performance of clients with different characteristics, such as those with different business types, poverty level, or social group (segmentation)?
3. Do you compare performance of clients based on their interaction with your organization, such as different product types or branches (segmentation)?
4. Is information about your social performance communicated in a timely and effective way so as to be incorporated into performance management at appropriate levels of the organization?

DIMENSION THREE: MANAGEMENT SYSTEMS

3.1 Information Use

1. Has client-level information been used for market segmentation in product and service design?
2. Has client-level information been used for market segmentation in understanding client needs and capacities?

3. Has client-level information been used as a warning system to signal issues that need attention?
4. Do you track social performance against targets? Yes No Partially
5. Do you use MIS information to monitor social performance? Yes No Partially
6. Is all the information you have about your social performance used by the organization?

3.2 Decision Making

1. Has information about your social performance been used to inform decision making, such as improving services?
2. Have preventative actions been taken based on information about your social performance?
3. Have corrective actions been taken based on information about your social performance?
4. Do you balance social and financial performance objectives when making
   a) Operational decisions?
   b) Strategic decisions?

3.3 Organizational Culture

1. Do the members of the board represent a balance between financial and social perspectives and expertise?
2. In the past year, have board discussions included a review of achievement of social objectives?
3. Have the organization's mission and social objectives been clearly communicated to all levels of management and field staff?
4. Is the organization's staff guided by its mission and social objectives in their work?
5. Is there strong leadership and social focus demonstrated by senior leadership and the board?

3.4 Alignment of Organizational Systems

1. Do field staff incentives encourage a balance between financial and social performance objectives?
2. Do management staff incentives encourage a balance between financial and social objectives?
3. Are staff recruitment, induction, and training aligned to the social mission?
   a) Do they effectively communicate the mission and strategy of the organization, and ensure that this is part of organizational culture?
4. Does the organization have an effective change-management process to facilitate the institutionalization of managing social performance and to address points of resistance?

ANNEX 4: SOCIAL AUDIT PANEL FRAMEWORK

SCOPE AND COMPLETENESS OF THE SOCIAL ACCOUNTS

Comprehensiveness: Reporting on performance against stated objectives

- Are the objectives, and the values which underpin them, clearly stated?
- Do the social accounts report adequately on performance against each objective, and against all activities?
- Are the reasons for any omissions clearly explained?

Multiperspective: Views of the stakeholders

- Is the stakeholder map/analysis complete? Have any important stakeholders been omitted?
- How were the key stakeholder groups selected?
- Which key stakeholders have been consulted about performance and impact; about relevance of objectives; about living up to the values stated? And which have not been consulted?
- Are the reasons for not having consulted some key stakeholders clearly explained?
- Does the stakeholder map/analysis need to be revised/reviewed?

Environmental

- Do the social accounts include information on environmental impact/performance?

Compliance

- What statutory and voluntary standards are complied with, and are these reported in the social accounts?

Comparisons

- Are internal, year-on-year targets set?
- Are relevant external comparisons (benchmarks) used?

Social Audit Trail

- What items were examined/traced to source and checked?
- Were the social bookkeeping records fully available and accessible?
- Are the records (qualitative and quantitative) stored systematically?
- Are ongoing social bookkeeping systems in place?

PROCESS

Regular

- Are social accounts prepared (intended to be prepared) on a regular basis?
- Is the understanding and practice of social accounting embedded in the organization?

Disclosure and Dialogue

- How have issues raised in an earlier social audit been followed up?
- Are the social accounts organized in a clear and comprehensive format?
- What has been done/is planned about disseminating the findings of the social accounts to stakeholders and to others?
- What dialogue has taken place/is planned with stakeholders to discuss issues arising from the social accounts and the social audit process?

LEARNING

Methodology and Resources

- What lessons of methodology have been learned from this social audit cycle?
- What problems have been encountered in carrying through the process (e.g., resources)?

ANNEX 5: GENERIC SOCIAL AUDIT STATEMENT

The social audit panel has examined the draft social accounts submitted to us and discussed them in detail with (name of persons) of (name of organization) at the social audit panel meeting held on (date). We have examined the revised social accounts which were prepared following the social audit panel meeting and which have taken into account various points identified in the notes of the social audit panel meeting. We have also examined a sample of the data and the sources of information on which the social accounts have been based.

We believe that the process outlined above has given us sufficient information on which to base our opinion.

We are satisfied that, given the scope of the social accounting explained in the revised draft and given the limitations of time available to us, the social accounts are free from material misstatement and present a fair and balanced view of the performance of (name of organization) as measured against its stated social objectives and the views of the stakeholders who were consulted.

In the notes of the social audit panel meeting, we identified a number of important issues to be taken into consideration during the next social audit cycle. In particular we would refer to the following:

i)

ii) etc.

The members of the Social Audit panel were:

a)

b) etc.

Signed: ______________________________ Date: ______________________________

Chair of the Social Audit Panel

ANNEX 6: GRI GUIDELINES FOR STANDARD DISCLOSURE

STRATEGY AND ANALYSIS

1.1 Statement from the most senior decision-maker of the organization about the relevance of sustainability to the organization
1.2 Description of key impacts, risks, and opportunities

ORGANIZATIONAL PROFILE

2.1 Name of the organization
2.2 Primary brands, products, and/or services
2.3 Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures
2.4 Location of organization's headquarters
2.5 Number of countries in which the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report
2.6 Nature of ownership and legal forms
2.7 Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries)
2.8 Scale of the reporting organization
2.9 Significant changes during the reporting period regarding size, structure, or ownership
2.10 Awards received in the reporting period

REPORT PARAMETERS

3.1 Reporting period for information provided
3.2 Date of most recent previous report (if any)
3.3 Reporting cycle (annual, biennial, etc.)
3.4 Contact point for questions regarding the report or its contents
3.5 Process for defining report content
3.6 Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers)
3.7 State any specific limitations on the scope or boundary of the report
3.8 Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations

3.9 Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the indicators and other information in the report

3.10 Explanation of the effect of any restatements of information provided in earlier reports, and the reasons for such restatement (e.g., mergers/acquisitions, change of base years/periods, nature of business, measurement methods)

3.11 Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report

3.12 Table identifying the location of the Standard Disclosures in the report. Identify the page numbers or web links where the disclosures can be found

3.13 Policy and current practice with regard to seeking external assurance for the report. If not included in the assurance report accompanying the sustainability report, explain the scope and basis of any external assurance provided. Also explain the relationship between the reporting organization and the assurance provider(s)

GOVERNANCE, COMMITMENTS, AND ENGAGEMENT

4.1 Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight

4.2 Indicate whether the chairman of the highest governance body is also an executive officer (and, if so, his or her function within the organization's management and the reasons for this arrangement)

4.3 For organizations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or nonexecutive members

4.4 Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body

4.5 Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organization's performance (including social and environmental performance)

4.6 Processes in place for the highest governance body to ensure conflicts of interest are avoided

4.7 Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organization's strategy on economic, environmental, and social topics

4.8 Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation

4.9 Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles

4.10 Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance

4.11 Explanation of whether and how the precautionary approach or principle is addressed by the organization

4.12 Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses

4.13 Memberships in associations (such as industry associations) and/or national/international advocacy organizations

4.14 List of stakeholder groups engaged by the organization
4.15 Basis for identification and selection of stakeholders with whom to engage
4.16 Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group
4.17 Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting

7. SOCIAL RATING[1]

BACKGROUND TO SOCIAL RATING

External performance rating in the microfinance sector has until recently focused on organizational and financial performance related to risk assessment. While financial performance is indisputably important, it is only part of the story of microfinance. Most microfinance institutions (MFIs) and those who support them (e.g., donors, investors, policymakers) have a **social mission.** Social missions can take a variety of forms and include, for example, extending financial services to underserved areas or to persons previously excluded from the formal banking sector, supporting micro- and small enterprises, promoting corporate social responsibility, protecting the environment, contributing to gender equity, reducing poverty or vulnerability among the poor, bringing marginal groups into mainstream society, or facilitating job creation.

MFIs, however, rarely provide credible evidence regarding fulfilment of their social mission. Social rating fills some of this gap and in doing so contributes to greater social transparency within the microfinance sector. When placed alongside a performance rating, the social rating enables the comparison of an MFI's financial and social performance.[2] As such, it both assists investors and donors in making effective use of scarce resources to achieve financial and social goals, and assists MFIs in reporting on and improving their social performance, just as the performance rating has had a positive impact on the sustainability performance of MFIs.

The social rating represents a breakthrough in social performance assessment in microfinance. Traditionally, social performance assessment has been limited due to a common conception defining social performance in terms of social impact, the measurement of which requires significant resources and complex analysis. Assessing social performance, therefore, was left to the research specialists, while microfinance practitioners concentrated on more practical tasks.

A turning point came once practitioners and other stakeholders began to conceptualize social performance not only as social impact but also as the process of achieving that impact. In addition, while each MFI has its own mission and business model, there are certain generic values that apply to the "manner of doing business" in general, reflecting concepts of social responsibility and certain development values that are widely associated with microfinance. This principle is reflected in the definition of social performance adopted by the Social Performance Task Force:[3]

1. This chapter of the Social Performance Map borrows heavily from the content and language of the document "Social Rating and Social Performance Reporting in Microfinance: Towards a Common Framework," by Frances Sinha and Social Performance Progress Brief vol. 1 no. 4 available at www.seepnetwork.org.

2. The performance rating is akin to a financial rating or credit rating, although with an important difference: Whereas the financial or credit rating focuses on financial performance and risk, the performance rating combines an assessment of the MFI's financial performance and risk with an assessment of institutional performance particular to microfinance (e.g., "How good is this MFI at providing microfinance services?" or "If we lend money to this MFI, will it be effectively used?") The terms *financial rating* and *credit rating* are, nonetheless, frequently used interchangeably with performance rating.

3. For more information on the Social Performance Task Force, see www.microfinancegateway.org/resource_centers/social performance/article/28257.

> Social Performance is *the effective translation of an institution's mission into practice* in line with accepted social values; these include sustainably serving increasing numbers of poor and excluded people, improving the quality and appropriateness of financial services, improving the economic and social conditions of clients, and ensuring social responsibility to clients, employees, and the community they serve.

This definition has expanded the meaning of social performance in a way that facilitates measurement beyond actual social outcomes and impact (which are relatively time-consuming and costly to collect and report). In particular, it opens the door to the use of process (or system) assessment as a means to assess social performance. Microfinance rating agencies have taken advantage of this opening by designing a common framework and a set of social rating tools that rely heavily on process assessment (in addition to social outcomes where appropriate) to rate social performance.[4]

WHAT IS A SOCIAL RATING?

The social rating is described in The SEEP Network's Social Performance Glossary as "an independent assessment of an organization's social performance using a standardized rating scale." The social rating assesses both social risk (the risk of not achieving social mission) and social performance (the likelihood of contributing social value). Drawing on current understanding of social performance, social performance management and social responsibility, the social rating evaluates practices, measures a set of indicators, and scores them against benchmark levels, best practices, or internationally accepted standards. The social rating includes elements of auditing in that it assesses the quality and credibility of social accounts, and it identifies areas for improvement and capacity building.

While achievement of social impact is the ultimate goal of social performance, proving that a given intervention has caused a certain social outcome is a complex econometric exercise not possible within the quicker process envisaged for social rating. Instead, what a social rating can achieve is an analysis of the steps toward achieving impact: the processes undertaken by an MFI toward its desired goals, and the results to the extent of analyzing outreach and quality of services provided.

WHAT DOES A SOCIAL RATING COVER?

A social rating does not judge the worthiness of an MFI's social mission, but seeks to convey how effective the MFI has been in translating that mission into practice in line with general social goals.[5] The social rating ideally complements a performance rating. Both ratings involve detailed discussions with MFI management and staff and a review and analysis of social accounts created by the MFI or created by the rating agency during the social rating (see below). The combination of financial and social analyses enables socially responsible investors to place funds in organizations that best serve the triple bottom line while demonstrating sound financial management.

The final rating report presents the rating agency's findings related to the dimensions of social performance assessed and its analysis of the MFI's social accounts (information on social performance). Based on the findings of the social rating, the rating agency then assigns the MFI an overall rating score or scores that reflect its informed opinion on the MFI's social risk and/or social performance.

4. Principles and issues related to corporate social responsibility are described at length in the Common Social Performance Assessment Framework chapter of the Social Performance Map.

5. The social rating is intended as an objective evaluation of an MFI's social performance and not as a normative evaluation of the worthiness of the MFI's social mission. Normative judgments about the MFI's social mission are left up to investors, donors, and other users of the social rating.

WHO ARE THE PRIMARY MARKETS FOR THE SOCIAL RATING?

The primary market for the social rating is social investors who will presumably use the social rating to make investment decisions. Other stakeholders—including the MFI itself, donors, and policymakers—will also find the social rating useful as an assessment, decision-making, and capacity development tool.

WHAT ARE THE BENEFITS OF THE SOCIAL RATING?

As in the case of performance ratings, the social rating serves several functions. Both ultimately aim to facilitate the flow of capital into the microfinance industry. Social rating is ideally placed to facilitate social investment. By participating in the rating process, MFIs develop an understanding of key issues that affect their social performance. If an MFI has already conducted internal studies on the efficacy of its services, the independent social rating will validate those studies (or highlight weaknesses) and assess how the findings of such studies are useful for the MFI. In the long term, being subject to formal evaluations should also decrease the risk that MFIs deviate from their social missions and values.

The expectation, in fact, is that social ratings will lead to development and improvement in social performance management practices and thereby contribute to deeper outreach, improved quality of services, increased client protection, and greater social responsibility in general. In like manner, performance ratings have led MFIs to adjust their financial practices to better achieve financial sustainability. The data generated through social ratings will also contribute to better social reporting and transparency in the industry informing wider stakeholders, including policymakers, as well as to greater social accountability among MFIs and in general.

DEVELOPMENT OF THE SOCIAL RATING

Each of the four specialized microfinance rating agencies—M-CRIL, Microfinanza Rating, Planet Rating, and MicroRate—are currently developing and piloting social rating products. With substantive testing of social rating over the past three to five years, and drawing on different tools or approaches (Imp-Act social performance management, CERISE Social Indicators Initiative, USAID–AMAP Social Performance Assessment),[6] all the rating agencies follow a similar conceptual framework for social rating (a major achievement coordinated through the Social Performance Task Force).

There are broadly two different products that are likely to be available: an "enhanced" social rating and a "standard" social rating. Both kinds of social rating include meetings with program management and a review of internal information to assess operational capacity to achieve social goals. The difference between the two rating approaches is that the enhanced rating gathers client-level information so as to assess outreach and quality of services and collects this information as part of the rating exercise if it is not already available in the MFI's social accounts.

The current phase of piloting involves comparing the value added by the enhanced rating relative to its additional cost over the standard rating. M-CRIL and Microfinanza Rating are testing both approaches and plan to offer both an enhanced and standard rating. Planet Rating and MicroRate, in contrast, currently plan to offer only the standard rating. Final product decisions will depend on (1) evidence that client-level information adds sufficient value for making a robust assessment of social performance given the additional cost and time involved (for field-level data collection) and (2) the demand (and willingness to pay) for the one approach over the other.

6. For more information on these initiatives, see Social Performance Progress Brief vol. 1 no. 4, available at www.seepnetwork.org/content/library/detail/5733.

The costs of social rating vary by rating agency and depend on the size of the MFI, its geographical coverage (dispersion of clients), the quality of the existing social accounts, and whether the social rating is done together with a performance rating (which reduces the cost). Pilot testing of both approaches suggests that standard social rating (without field survey) may cost between 30% and 60% of a performance rating, while an enhanced social rating (with survey) may cost between 90% and 150% of a performance rating.

The next four sections provide more detail on each of the four rating agencies and their approaches to social rating.

M-CRIL

Micro-Credit Ratings International Limited (M-CRIL) was the first of the microfinance rating agencies to develop a social rating product. It launched its social ratings product in 2005, conducting seven social ratings during 2005–06. In addition, 11 social ratings for 2007 are nearing completion. M-CRIL's flagship social rating product is the enhanced social rating, which includes analysis of country development context, MFI model, products and services, mission, systems, and portfolio data, plus a small statistical field sample to analyze outreach and appropriate services. If an MFI does have robust client-level information, M-CRIL will assign a social rating based on verification and analysis of that data.

The enhanced social rating is undertaken at around the same level of cost as a full credit rating and is intended to provide complete, evidence-based information about social performance to discerning investors with strong social motivation, donors, and interested MFIs.

The M-CRIL social rating report provides information about the context in which the MFI operates, details the steps the MFI uses to translate its social mission into practice, and discusses the ways in which the MFI complies with social responsibility mandates. If the client chooses the enhanced social rating, the report will also cover depth of outreach and client feedback on products and services. This field data can serve as baseline information for future follow-up, which could be included as part of a later social rating exercise, including an assessment of change at the client level on key development indicators. The six dimensions covered in an M-CRIL social rating are listed below. (See Table 1 for a more in-depth presentation of the six dimensions covered in the M-CRIL social rating.)

1. Context (country development indicators and MFI profile)
2. Mission and systems' alignment to mission*
3. Social responsibility* [SR]
4. Social goal outreach* [SGO]
5. Social goal services* [SGS]
6. Social goal change (if data is available) [SGC]

Evaluation of the six dimensions consists of an analysis of the MFI's social accounts and in-depth discussions with management, staff, directors, and clients (particularly as part of the enhanced rating). The analysis focuses on the quality, validity, and implications of the social accounts and on the quality of the MFI's internal systems and the degree to which they promote the fulfillment of the MFI's social mission and objectives.

M-CRIL also offers a standard (less costly) social rating product if relevant and appropriate. According to M-CRIL, the advantage of the enhanced rating is that it provides a valid basis for assessment of certain dimensions of social performance, which can be used as a baseline for later follow-up to assess change over time. Both the standard and enhanced rating includes an assessment of available social accounts at the MFI. In the case of the enhanced rating, the social accounts complement the information collected in field interviews of clients.

The full rating report provides a graded assessment based on four dimensions (as starred in the list). The grades mirror those for credit rating ranging from **α**++ (excellent adherence to social mission and values) to **Y** (weak adherence to social mission and values/no social mission or values). The scores and corresponding explanations are presented in Table 2.

Further information on the M-CRIL social rating can be found at www.m-cril.com, www.m-cril.com/social-rating-microfinance-institutions.html, or by e-mailing Frances Sinha at francessinha@edarural.com.

Table 1. Dimensions in the M-CRIL Social Rating

Dimensions		Issues Investigated
1.	Context	*Standard Rating:* Includes descriptions of the operating environment based on secondary data, MFI and client profile, and MFI market offerings. *Enhanced Rating:* NA
2.	Mission and Systems' Alignment to Mission	*Standard Rating:* Assessment of social mission definition and whether management systems (including targeting, incentives, and reporting) are strategically aligned to MFI's stated social objectives. *Enhanced Rating:* NA
3.	Social Responsibility [SR]	*Standard Rating:* Captures the performance standards and indicators commonly associated with corporate social responsibility. Includes four dimensions applicable at the organizational level in terms of policies and mechanisms for compliance: responsibility to clients [SR-CL], responsibility to community [SR-Cm], responsibility to staff [SR-St], and responsibility to environment [SR-En]. Also assesses MFI performance with regard to gender [GA], member governance [MG] for member-owned institutions, and nonfinancial services [NFS] for MFIs offering nonfinancial services. *Enhanced Rating:* NA
4.	Social Goal Outreach [SGO]	*Standard Rating:* Assesses the depth and breadth of outreach and the distribution of clients in underdeveloped areas using existing social accounts and proxy indicators. *Enhanced Rating:* Assesses depth of outreach (client poverty status) and other indicators of social and economic well-being based on surveys and in-depth interviews with a sample of clients. (Indicators of outreach are the same as those listed in the summary of the Microfinanza social rating.)
5.	Social Goal Services [SGS]	*Standard Rating:* Assesses the range and quality of services offered by the MFI. Looks in particular at client satisfaction, client retention rates, and reasons for client dropout where information is available. Also assesses client protection issues. *Enhanced Rating:* Generates client feedback on the appropriateness and quality of services, transparency, speed of loan disbursement, client satisfaction, monetary and transaction costs, and reasons for dropout.
6.	Social Goal Change [SGC]	*Standard Rating:* Assesses any evidence in the MFI's social accounts on outcomes or impact (includes indicators relevant to the MFI's social objectives as well as those contributing to the Millennium Development Goals MDGs). *Enhanced Rating:* NA

Table 2. M-CRIL Social Rating Scale

Grade	Credit Rating Description	Social Rating Description	Grade
α++	Excellent systems, highest safety » most highly recommended	Excellent adherence to social mission and values	$^{\Sigma}\alpha$++
α+ α α–	Very good systems, high safety » (very) highly recommended	Strong adherence to social mission and values	$^{\Sigma}\alpha$+ $^{\Sigma}\alpha$ $^{\Sigma}\alpha$–
β+ β	Satisfactory systems and safety » recommended, needs monitoring and improvement to handle large volumes	Satisfactory adherence to social mission and values	$^{\Sigma}\beta$+ $^{\Sigma}\beta$
β– γ+	Weak systems, significant risk » acceptable after improvement	Weak adherence to social mission or values; no social mission or values	$^{\Sigma}\beta$– $^{\Sigma}\gamma$+ $^{\Sigma}\gamma$
γ	Weak systems, very high risk » not ready for investment		

Microfinanza Rating

Microfinanza Rating offers both an enhanced and a standard social rating. It has so far conducted 10 social ratings: two standard social ratings in Europe/Central Asia; one enhanced social rating in Africa; five enhanced social ratings in Latin America; and two enhanced social ratings in Romania. Several other social ratings are already planned for 2008 (commissioned by social investors, MFIs, or donors).

Both the standard and enhanced social ratings address four areas of analysis. (See Table 3 for a more in-depth presentation of the four dimensions covered in the Microfinanza social rating.)

1. Social mission, strategy, and systems (SPM System)
2. Social responsibility
3. SG1: Outreach
4. SG2: Quality of services[7]

Based on quantitative and qualitative elements of analysis, the social rating report includes the following elements:

- The description of the socioeconomic context of the MFI's operations
- For each of the four areas of assessment: a detailed analysis of the MFI's performance, a summarized assessment of strengths and weaknesses, and a synthetic judgment
- The final opinion of the MFI's overall social performance; once the piloting phase is closed, social rating scores will also start to be assigned

7. In terms of SG3 (Creating Change), if updated and reliable information is available from the MFI or external sources (impact studies, etc.), the social rating describes the relevant outcomes. The social rating, moreover, analyzes the systems and strategy relevant to track and achieve the impact/change goals included in the mission. Where relevant, it also evaluates aspects of change with respect to gender empowerment and employment issues.

The standard and enhanced social ratings each assesses social performance in terms of social mission strategy, systems, and procedures aimed at its achievement. Each also assesses the characteristics of the target reached, the quality of the services provided, and social responsibility toward the staff, the clients, the community, and the environment (achievement of the triple bottom line). Both approaches provide quantitative and qualitative analysis of the strengths and weaknesses of the MFI identified while taking into account the unique context in which the MFI operates.

The two social ratings differ mostly in terms of sources of information used. The standard rating is largely based on information that the MFI can provide itself, such as data captured in the management information system (MIS) and information provided in staff interviews (e.g., proxies to estimate client poverty such as loan size, gender, lending methodology, sectors financed). The enhanced rating integrates these sources of information with firsthand client data (e.g., the percentage of households living below national and international poverty lines, the percentage of clients without access to financial services, the percentage of clients without access to basic services, household members' educational level and occupation) gathered through field surveys of a representative sample of clients, individual interviews, and focus groups. Measuring clients' socioeconomic profile and getting their direct feedback results in a significant enrichment of the analysis of outreach and of service quality.[8]

On the basis of its analysis of the four dimensions of social performance, Microfinanza assigns the MFI a social rating score. The rating scores and corresponding explanations are still under testing and have yet to be finalized.

More information on the Microfinanza social rating can be found at www.microfinanzarating.com and www.microfinanzarating.com/doc/brochure_mfr-social_eng.pdf, or by contacting Micol Guarneri at micol.guarneri@microfinanzarating.com.

8. The Progress Out of Poverty Index (PPI) is applied to measure the poverty levels of clients. The chapter in the Social Performance Map on Poverty Assessment Tools includes additional information on the PPI.For a document describing the PPI, see www.grameenfoundation.org/what_we_do/microfinance_support/social_performance/the_ppi_tool. For examples of PPI scorecards, see www.microfinance.com/#Poverty_Scoring. To ask questions about the PPI, contact Nigel Biggar.

Table 3. Dimensions of the Microfinanza Social Rating

Dimensions		Issues Investigated
1.	Social Mission, Systems, and Strategy	*Standard Rating:* Social mission of the MFI and governance and the management capacity to set objectives, design strategies, and establish systems/procedures to achieve it. The adequacy and appropriateness of the strategy are analyzed at the governance level, as is the risk of mission drift. The social performance management system of the MFI is analyzed. *Enhanced Rating:* Same as above
2.	Social Responsibility	*Standard Rating:* Analysis focuses on policies and procedures related to the MFI's overall social impact on stakeholders (corporate social responsibility), especially clients, staff, the local community, and the environment. Elements of customer protection are included. *Enhanced Rating:* As above, but possibility to check with clients about the actual application of policies mentioned by MFI management.
3.	Outreach	*Standard Rating:* On the basis of the data available in the MIS and the information gathered from the MFI management and personnel, the analysis focuses on poverty definition and outreach and on information related to clients' poverty status. Where complete and reliable information on client poverty status is not available from the MFI, the analysis focuses on proxies found in the MFI's MIS. *Enhanced Rating:* Attempts to create a credible and more in-depth picture of the MFI's poverty outreach. Analysis assesses socioeconomic and poverty profile of clients and their household and calculates the percentage of poor clients or the percentage of clients with varying characteristics of poverty. Indicators include demographics, education, social status and vulnerability, access to basic services, previous and current access to financial services, housing quality, health security, economic poverty status (income/consumption), assets property, food security, and employment support.
4.	Quality of Services	*Standard Rating:* Factors analyzed include the variety of the products offered, their appropriateness to clients' needs, and their level of transparency. Also analyzed are the MFI's efforts to improve service quality and the information related to customer satisfaction. Information is only gathered at MFI level. *Enhanced Rating:* Generates client feedback on the appropriateness and quality of services, transparency, speed of loan disbursement, client satisfaction, monetary and transaction costs, and reasons for dropout. Information gathered directly from clients.

Planet Rating

Planet Rating has developed a social rating tool that provides an opinion on the capacity of the MFI to achieve its social goals. Planet Rating has carried out pilot tests with eight MFIs representing different regions, legal statuses, and stages of development. During 2006, it pilot-tested an earlier draft methodology in six MFIs in Mali. After finalizing its rating methodology, Planet Rating conducted four additional ratings in Ethiopia during July 2007.[9] Others social ratings are planned for the fourth quarter 2007 and first quarter 2008 in Africa and Latin America.

9. Three of these reports—Buusaa Gonofaa, AVFS, SFPI—are available upon request at rating@planetrating.com.

The Planet Rating social rating is based on an audit of social performance management systems and relies on social accounts available at the MFI level and secondary data about the country's social and economic environment. Social performance outcome measurements, when available at the MFI level, are checked for reliability and integrated in the rating report.

The social rating covers four dimensions and 12 subdimensions. (See Table 4 for a more in-depth presentation of the dimensions covered in the Planet Rating social rating.)

1. Institutionalization of the social mission
    a) Social mission and strategy
    b) Social performance monitoring
    c) Staff mobilization
2. Outreach
    a) Client targeting
    b) Outreach to the poor and the excluded
    c) Breadth of outreach
3. Service offering
    a) Service design and client satisfaction
    b) Cost of the services
4. Social responsibility
    a) Client protection
    b) Human resources policy
    c) Social responsibility to the community
    d) Social responsibility to the environment

The four areas of social performance are scored from 1 (lowest) to 5 (highest). For each, Planet Rating evaluates the intentions (clarity and consistency), implementation (efficiency), and results (comparison with benchmarks). (See Table 5 for a description of the scoring system.) It then applies a weighting system to obtain a global rating from the scores assigned to each area.

Planet Rating's social rating is conducted with a transparent methodology and in an interactive mode and can be preceded by training to ensure an optimal appropriation of the conclusions of the assessment. Because it believes that sustainability of an institution is key to its social performance, Planet Rating only conducts social ratings for MFIs that have already undergone a performance rating with Planet Rating or another reputable microfinance rating agency. The social rating can be conducted at the same time as GIRAFE rating missions or within six months of the GIRAFE rating.

The social rating is conducted by a single social analyst specializing in social rating. The specialized social rating analyst spends two to four days on site. Social performance rating fees are approximately half of GIRAFE rating fees. Combining GIRAFE and social performance processes provides efficiency gains that are reflected in the prices.

Table 4. Summary of Planet Rating Social Rating

Dimensions		Issues Investigated
Institutionalization of the Social Mission		
1.	Social Mission and Strategy	The intent to achieve some social impact should be clear and translated into a vision and mission statement approved by shareholders and key stakeholders who may have an influence on decision making. The social mission should be taken into account in all key decisions, such as partnerships, branch openings, and product development. The social mission should be integrated into the planning process with achievable goals and good identification of the challenges and constraints.
2.	Social Performance Monitoring	In order to guarantee an efficient implementation with constant improvement of systems and results, social performance indicators should be defined in line with social objectives, integrated in the MIS, and used in standard reports. Additional tools such as surveys, impact studies, and workshops implemented and conducted according to best practices. Social performance indicators are verified by the internal audit team and external auditors.
3.	Staff Mobilization	Active staff participation is key to the achievement of social goals. Recruitment and induction processes have to ensure that staff are committed to social goals and have the necessary skills. Incentive and evaluation systems have to foster behaviors likely to improve the institution's social performance. Staff input should be included in the definition of social strategies and staff should be informed about the social impact of their work.
Outreach		
1.	Client Targeting	Target clientele should be chosen after a careful analysis of the socioeconomic situation of the country/region. Tools should be in place to evaluate the socioeconomic situation of the clients (either on an ongoing basis or occasionally depending on the type of targeting used). Tools to monitor desertion rates and reasons should also be in place. All tools should be easily understandable and usable by loan officers and their actual use should be controlled. Clear targets in terms of clientele composition should be defined with regular tracking and a good track record of goals being reached.
2.	Outreach to the Poor and the Excluded	When available, the proportion of poor and excluded people in the clientele is compared to internal targets and country benchmarks. In all cases, information is provided to the reader on the social status of people in the regions being served, based on available secondary data.
3.	Breadth of Outreach	The capacity of the MFI to reach out to a significant number of poor or excluded people is evaluated (based on current performance and development stage of the sector).

Dimensions		Issues Investigated
Service Offering		
1.	Service Design and Client Satisfaction	Services should be designed to address clients' financial needs thanks to surveys, general economic sector analysis, and client activity analysis. Loan officers should be skilled enough to ensure that each client receives an adapted financial service. Exit surveys, clients satisfaction studies, and retention rates should be used to understand the improvements needed. The MFI should try to provide all financial services a client can need (not only credit) directly or through partnerships.
2.	Cost of the Services	Interest rates should be set to ensure the sustainability of the institution and long-term availability of the service, but institutions should actively be looking for ways to reduce the cost for their clients (notably through efficiency gains). Effective interest rates are compared to international and national benchmarks for MFIs that provide similar services (in terms of methodology, term, and amount). Transaction costs are also taken into account in the evaluation.
Social Responsibility		
1.	Client Protection	Service conditions should be transparent with full disclosure of loan conditions. Systems should be in place to guarantee an equal treatment of all clients with formal complaint system allowing clients to report staff misbehavior. Risks related to financial services should be monitored: procedures in place to prevent overindebtedness, provision of credit life insurance to the clients, security of financial operations.
2.	Human Resources Policy	Procedures should guarantee a fair treatment of staff: (fair hiring practices, transparent remuneration and incentive systems, evaluations and career paths, provision of trainings, fair and respected contract conditions. Implement systems to reduce risks related to work conditions (health and security conditions). Employee representatives should participate in decisions that have a direct impact on their work conditions.
3.	Social Responsibility to the Community	Evaluates efforts made by the institution to promote human rights and notably work against corruption, support the development of access to basic health education and housing services for clients and workers, and contribute to the public debate by expressing their views on matters that affect their clients.
4.	Social Responsibility to the Environment	Evaluates efforts made toward reducing direct or indirect negative effects of the activity on the environment. We also take into account efforts made to have a positive impact on the environment.

Table 5. Planet Rating Social Rating Scale

Rating	Definition
5	*Advanced:* Long-lasting commitment to social goals; efficient management of social performance and social responsibility risks; institution very likely to achieve a positive social impact
4	*Convincing:* Clear commitment to social goals; reasonable management of social performance and social responsibility risks; institution likely to achieve a positive social impact
3	*In progress:* Clear intent to reach social goals; social performance management systems being implemented
2	*Incipient:* Clear intent to reach social goals; low capacity to manage social performance
1	*Intangible:* Intention to reach social goals is nontangible; low level of management of social performance

More information on the Planet Rating social rating can be found at www.planetrating.com or www.planetrating.com/EN/rating_performance.php, or by contacting Emmanuelle Javoy at ejavoy@planetrating.com.

MicroRate

MicroRate offers investors and interested parties a way of evaluating an MFI's social performance through an independent assessment of its social performance and social risk. The objective is to allow social investors an easy way to compare different types of MFIs from different regions. MicroRate has performed three social ratings in Latin America during 2007 and has plans to roll out the methodology throughout Africa in 2008.

The MicroRate social rating is based on the same principles underlying MicroRate's performance rating. In like manner, the MicroRate Social Rating combines an assessment of the MFI's social performance with an assessment of social risk. In the context of the social rating, social performance is defined as "the effective translation of an institution's social mission into practice," whereas social risk is defined as "the risk that the MFI deviates from its social mission and fails to produce forward looking outcomes."

The MicroRate social rating measures social performance and social risk by assessing, respectively, four critical institutional outcomes and six key internal processes, as shown in Table 6.

MicroRate uses this analysis to assign a social performance score and a social risk score to the MFI. The social rating score ranges from "excellent" to "poor," while the social risk score ranges from "low" to "high" (see Table 7).

This is the current status of MicroRate's social rating. MicroRate is currently, however, planning revisions to its social rating methodology. To this point, it has produced a separate social rating report in which it assigns separate rating scores for social performance and social risk. It is planning to introduce an integrated performance report that includes information on institutional and social performance in a single report. The social component in the overall report is expected to add no more than two pages to the overall performance report. MicroRate will offer both the integrated and the stand-alone social rating report.

In addition, MicroRate is contemplating assigning an overall social rating score in addition to the social performance score and the social risk score. The overall score would take both social performance and social rating into account. The scoring system will likely use a simple four-star approach, which MicroRate believes will make the social rating more accessible and easier to understand.

Table 6. Summary of MicroRate Social Rating

Dimensions		Issues Investigated
Social Performance		
1.	Outreach	Outreach is determined by the types and numbers of clients reached with microfinancial services. All else equal, the more people reached with financial and (where appropriate) nonfinancial services, the better the social performance.
2.	Depth and Variety of Services	Variety of services refers to the extent the MFI satisfies the target market's diverse financial and (where relevant) nonfinancial needs through a diversity of appropriately designed products and services. Depth refers to how far down-market the services go.
3.	Cost and Sustainability	Cost looks at how much clients pay for services and reflects how efficiently the MFI uses its resources to offer services. Sustainability measures the MFI's long-term financial viability. Institutional sustainability is crucial to ensure that clients continue to benefit from financial services over the long term.
4.	Social Responsibility	Overall social impact includes the MFI's impact on all of its various stakeholders, not just on clients. Accordingly, social responsibility looks at the MFI's relationship with its diverse stakeholders, including staff, clients, local communities, and the environment.
Social Risk		
1.	Mission, Communication, and Management Leadership	The mission statement is an explicit expression of the MFI's purpose and values. MFIs with an explicit and clear mission statement will tend to be more effective in fulfilling their social mission. Not only should the MFI's mission be stated explicitly and clearly, it should be communicated clearly and consistently reinforced down the hierarchical ladder. A mission statement that is not communicated or reinforced will exert little to no influence on organizational culture or performance. Management is primarily responsible for the clear articulation, communication, and reinforcement of the MFI's social mission. Active, committed, and consistent management leadership is necessary to transform social mission from mere words into institutional action.
2.	Strategic Planning	Strategic planning is a process that includes, among other things, establishing organizational priorities, setting performance goals, establishing action plans, and devising criteria to assess fulfillment of performance goals. The strategic plan specifies the objectives the MFI will pursue during the coming year or years and the activities associated with those objectives. Notwithstanding an MFI's rhetorical commitment to its social mission, the inclusion, or noninclusion, of social considerations into strategic planning is one of the clearest signals of the relative importance the MFI attaches to its social mission.

Dimensions		Issues Investigated
3.	Customer Service	Customer service is defined as the set of activities related to the assessment and serving of customer needs and the quality of actual service delivery. Regardless of an MFI's social mission, its social impact will be greater, all else equal, the better the quality of its customer service. Of particular interest is the extent to which the MFI attempts to assess customers' needs and wants; how this information is incorporated into the design of its products, services, and organizational policies; and the emphasis the MFI places on customer service quality.
4.	Monitoring	Monitoring tells the MFI whether it is on the right track with regard to its social mission and social objectives. In this context, monitoring does not mean a one-off activity, but implies an ongoing process. It entails the routine collection of information for the purpose of comparing performance to organizational mission and objectives. It may (and usually does) imply integration into some kind of MIS. It may also include systematic or periodic market research or other types of client assessment including, for example, periodic customer satisfaction surveys or focus group discussions, exit surveys, market studies, or other methods of formal client feedback.
5.	Recruitment and Training	Recruitment and training (including new-hire training and ongoing training) offer the MFI excellent opportunities to communicate and reinforce the social mission to management and staff. Recruitment includes both hiring and promotion. Generally, the hiring and promotion process affords the MFI the opportunity to screen for candidates who possess the personal outlook, values, and skills consistent with the MFI's social mission, and it sends messages to other management and staff about organizational priorities. The MFI's commitment to its social mission is also reflected in the type of training it offers staff. New-hire training is important not only for developing the desired skill set but also for inculcating the desired values and attitudes. Ongoing training plays an equally important role in reinforcing the desired values and associated behaviors, and in correcting noted deviations.
6.	Incentive System	Incentive systems influence attitudes, values, and behavior within the MFI. It is axiomatic that people respond to incentives, such as a performance bonus system. An incentive system that rewards management and staff for attitudes and behaviors consistent with social mission will prove powerful in promoting it. In contrast, an incentive system that ignores social performance is much less likely to produce attitudes and behaviors consistent with social mission. It may even produce behaviors and outcomes contrary to social mission. For example, an incentive system that disproportionately rewards portfolio growth may encourage loan officers to abandon poorer borrowers, who constitute the MFI's primary target market, to move up-market where they can make bigger loans.

Table 7. MicroRate Social Rating Scale

Social Rating	Social rating measures the organization's efficiency in carrying out its social projects, its consistency in accomplishing its mission, its internal capabilities, and its social outcomes.
Excellent	*Very good* social outcomes with outstanding service outreach and depth. *Excellent* future outlook for its social projects. MFIs whose operations are *exceptionally well aligned* with their social mission.
Good	*Good* social outcomes with good service outreach and depth. MFIs whose operations are *well aligned* with their social mission.
Adequate	*Acceptable* social outcomes with moderately good service outreach and depth. MFIs whose operations are *adequately aligned* with their social mission.
Poor	*Weak* social outcomes with limited service outreach and depth. MFIs whose operations are *poorly aligned* with their social mission.
Social Risk	**Social risk measures the likelihood of a MFI deviating from its social mission and failing to produce a forward-looking social impact.**
Low	*Low* probability of the organization deviating from its social mission or failing to produce a forward-looking social impact.
Medium	*Medium* probability of the organization deviating from its social mission or failing to produce a forward-looking social impact.
High	*High* probability of the organization deviating from its social mission or failing to produce a forward-looking social impact.

More details on the MicroRate social rating are available from Sebastian von Stauffenberg at sebastian@microrate.com.

OTHER ISSUES IN SOCIAL RATING

There remain three important yet unresolved issues in social rating: scoring and weighting, the method of collecting data, and the business model. Each of these is likely to be influenced by the potential users of a social rating: investors, donors, and MFIs themselves.

Scoring and Weighting

On the question of scoring, rating implies an assessment of performance and a measure of indicators, which are scored against benchmark standards. Benchmark standards that can compare many of the indicators across different regions are yet to be developed. For some indicators, it is relatively easy to figure out the cut-offs for "optimal," "average," and "weak" for operations in extremely poor areas, member governance, or even gender ratios (although there are cultural variations). In the current early phase of social rating, rating agencies will present the "base data," with or without scores, as they gradually build up their database.

Similarly, on the question of weights between and within the dimensions, one approach currently in favor is to present rating results in such a way that users can apply their own weighting to the rating findings. For example, more results-oriented social investors might give more weight to outreach, appropriateness of services, and change, than to managerial systems leading to these results.

Method of Data Collection

The second issue is to what extent ratings should rely on data available from an MFI. Ideally, ratings should be based on an MFI's own social accounts, but available data in the MIS is usually geared toward financial analysis and reporting (and that, of course, is what rating agencies, as financial analysts, are trained to use).

There is nevertheless a choice to be made in social rating between the standard and enhanced approach. Although primarily intended to complement a performance rating, both the standard and enhanced ratings could also be offered as a stand-alone product.

While the enhanced rating generates more in-depth information, it costs significantly more than a standard rating, which is designed to be implemented at a low incremental cost and which presumably makes it more commercially viable.

The enhanced rating also appears more appropriate (although not exclusively) for MFIs with explicit poverty alleviation (or similar) objectives. Whether either type of rating proves to be commercially viable is an open question; we still lack solid information on the extent of the market demand for the social rating among investors, donors, and MFIs. It is expected that the cost of producing the social rating will be driven down over time as a result of further field testing and development. How low the costs can go is also an open question, as is how much the market is willing to pay.

Business Model

The business model refers to the method of payment for the social rating. There are at least two business models available. The first charges users for performing a social rating. In this case, an investor, donor, or MFI pays for a social rating of a particular MFI. The second charges users for access to existing social ratings. In this case, the user does not pay to have the rating done but pays to gain access to already completed ratings via, for example, a subscription service. The second business model is the one used by Opportunity Finance Network (OFN) for CARS, which is the Community Development Financial Institution (CDFI) counterpart to the social rating. Rating agencies have yet to settle on a business model or models.

CARS[10]

The CDFI Assessment and Rating System (CARS) is a comprehensive, third-party analysis of CDFIs intended to aid investors and donors in their investment decision making.

CDFIs are (typically) NGOs established to provide credit, financial services, and other services to underserved markets or populations. A CDFI may take one of several different forms: community development bank, community development credit union, community development loan fund (including microloan funds), or community development venture capital company. There are over 1,000 CDFIs currently operating within the United States.[11]

The CARS **impact performance rating** is based on an assessment of the CDFI's effective use of its financial resources to achieve its stated mission and the CDFI's own evidence of how its activities contribute to its mission and benefit disadvantaged people and communities. A site visit, including management

10. This section on CARS borrows heavily from the language found in the CARS brochure published by the Opportunity Finance Network. For general information on CARS, go the Opportunity Finance Network. For an in-depth discussion of CARS, download the document "CARS on the Road—Edition 2."

11. For more on CDFIs, see the CDFI Coalition, the Community Development Finance Association, Community Development Bankers' Association, Community Development Venture Capital Alliance, or the Opportunity Finance Network.

interviews and a review of documents and files, is part of the ratings process. CARS was developed in 2003 by the National Community Capital Association, a national network of community CDFIs comprising community development loan funds, credit unions, venture capital funds, and microenterprise lenders.

CARS Rating System

The CARS impact performance rating is based on four key criteria:

1. Alignment of strategy and operations: how well the CDFI's mission, strategies, products and services, output data, and impact data are tied together.
2. Effective use of financing resources: how well the CDFI uses its financing resources in support of its mission and target population.
3. Tracking of outputs that show effectiveness: how well the CDFI tracks its own relevant outputs (e.g., loans disbursed, participants trained, etc.), whether that data indicates that the CDFI is accomplishing its goals, and how the CDFI uses that data to improve its effectiveness.
4. Tracking of outcomes or impact that show effectiveness: how well the CDFI tracks the actual outcomes of its work for disadvantaged people and communities (e.g., jobs actually created, housing units occupied by low-income families, improved community conditions), whether that data indicates that the CDFI is benefiting disadvantaged people and communities, and how the CDFI uses that data to improve its effectiveness.

The analysts score each of the above four criteria on a scale of 1 to 3, with 1 being best. Using those scores and the full analysis as a guide, the ratings committee assigns an impact performance rating based on the descriptions in Table 8. In addition to an impact performance rating, CARS subscribers also receive a **financial strength and performance rating** on a scale of 1 to 5 and a 10- to 15-page analysis of all areas examined, including financial statements and relevant ratios.

Table 8. CARS Rating Scale

Rating	Description
AAA	A CDFI in this group has clear alignment of mission, strategies, activities, and data that guide its programs and planning. The CDFI presents data that clearly indicates that it is using its resources effectively to benefit disadvantaged people and communities and achieve positive impact related to its mission. It has processes and systems that track output and outcome data on an ongoing basis, and it can provide data showing positive changes in the communities or populations being served. This CDFI uses its data on an ongoing basis to adjust strategies and activities in line with its desired impact.
AA	A CDFI in this group has clear alignment of mission, strategies, activities and data that guide its programs and planning. It accurately tracks appropriate output data that indicates that it is using its resources effectively to benefit its target populations or communities in line with its mission. The CDFI uses its data on an ongoing basis to adjust strategies and activities in accordance with its desired impact. It may track a limited number of impact indicators as well, but impact data tracking may not be rigorous or consistent.
A	A CDFI in this group has reasonable strategies and activities given its mission. It tracks basic output data that indicates fairly effective use of its resources to benefit its target populations or communities in line with its mission.
B	A CDFI in this group may lack alignment of its mission, strategies, activities, and data. Either the CDFI lacks data to form an opinion of its outputs and impact, or the data shows that the outputs and impact are unsatisfactory. This CDFI may also have a history of not using its financial resources fully to serve its target populations or communities.

CARS Business Model

A full subscription to CARS, available for $15,000, provides subscribers with 12 analyses. Subscribers can pick any analyses already completed and will receive all of the subsequent completed analyses until they have received a total of 12. A 3-pack subscription provides subscribers with the flexibility to choose any three CARS analyses over a 24-month period for $5,000. Single CARS analyses can be purchased for $2,500 each.

Market Penetration of CARS

CARS appears to have quickly gained legitimacy and acceptance within the CDFI investment community. In November 2006, for example, Merrill Lynch announced that it will use CARS as its primary underwriting tool for CDFI investment. At the same time, the Merrill Lynch Community Development Company (MLCDC) announced that it would us CARS for a planned $93 million CDFI investment. According to Dan Letendre, an MLCDC director and CARS Advisory Board member, "We believe CARS will reduce the due diligence burden on CDFIs, especially for those who have already been rated, as well as speed up MLCDC's approval process and facilitate the faster deployment of capital."[12]

As of July 2007, 28 CARS impact performance ratings had been completed with another 34 in the pipeline (see Table 9).

12. www.accountability-central.com/community-investment/ci-article/article/merrill-lynch-uses-cdfi-assessment-and-ratings-system-on-93-million-community-investment/?cHash=65cab94337&tx_ttnews%5BbackPid%5D=1332

Table 9. CARS Impact Performance Ratings Completed and in the Pipeline

CARS Impact Performance Ratings Completed	CARS Impact Performance Ratings in the Pipeline
ACCION New York	ACCION Texas
Boston Community Capital	ACCION USA
Chicago Community Loan Fund	Arcata Economic Development Corporation
Clearinghouse CDFI	BiGAUSTIN
Coastal Enterprises, Inc.	Century Housing
Community First Fund	Colorado Enterprise Fund
Federation of Appalachian Housing Enterprises	Community Development Capital
Florida Community Loan Fund	Community Reinvestment Fund
Housing Assistance Council	Cooperative Fund of New England
Housing Development Fund, Inc.	Enterprise Community Loan Fund
The Housing Fund (formerly Nashville Housing Fund)	Enterprise Corporation of the Delta
Housing Partnership Network	Enterprise Development Group
Illinois Facilities Fund	First State Community Loan Fund
Initiative Foundation	Greater Berks Development Fund
Kentucky Highlands Investment Corporation	Greater New Haven Community Loan Fund
Lenders for Community Development	Hartford Community Loan Fund
Low-Income Investment Fund	Homewise
Mercy Loan Fund	LISC
Montana CDC	Michigan Interfaith Trust Fund
NCB Capital Impact (formerly NCB Development Corporation)	Mile High Housing Fund, Inc.
New Hampshire Community Loan Fund	Mountain Microenterprise Fund
Nonprofit Finance Fund	Neighborhood Economic Development Corporation
Northern Economic Initiatives Corporation	NESDCAP/NESDEC
Northland Foundation	New Mexico Community Loan Fund
People Fund (formely Austin CDC)	Nonprofit Assistance Fund
Primary Care Development Corporation	Northcountry Cooperative Development Fund
The Reinvestment Fund	Northern California Community Loan Fund
Rural Community Assistance Corporation	Partners for the Common Good
	Richmond Economic Development Corporation
	Self-Help
	ShoreBank Enterprise Cascadia
	Spokane Neighborhood Economic Development Alliance
	Vermont Community Loan Fund
	Village Capital Corporation
	Western Massachusetts Enterprise Fund

Currently, 25 investors subscribe to CARS, including some of the biggest names in the investment community (see Table 10).

Table 10. Current Subscribers to CARS

Annie E. Casey Foundation	HSBC Bank
Bank of America	Impact Community Capital
California Organized Investment Network	JP Morgan Chase Bank
Calvert Foundation	KeyBank, N.A.
Citigroup	MacArthur Foundation
Commerce Bank	Merrill Lynch CDC
Domini Social Investments LLC	NeighborWorks America
Fannie Mae Corporation	Northwest Areas Foundation
Ford Foundation	Trillium Asset Management
General Board of Pensions of United Methodist Church	US Trust
Guaranty Bank	Wachovia
Heron Foundation	Washington Mutual
	Wells Fargo

The experience of the CARS rating by no means establishes a blueprint for the social rating, but it does establish the credibility of the general approach, indicates that there exists a potential market for the social rating, and offers useful suggestions with regard to appropriate business models.

8. COMMON SOCIAL PERFORMANCE ASSESSMENT FRAMEWORK[1]

TOWARD A COMMON SOCIAL PERFORMANCE ASSESSMENT FRAMEWORK

Chapter 7 of the Social Performance Map discusses the rationale, history, and methodology for social rating. For social rating (and social performance assessment in general) to be a useful assessment and decision-making tool across multiple rating agencies, users, MFIs, and contexts, it requires broad agreement on definitions, methodologies, standards, etc. It requires, in other words, a **common framework.** Developing such a framework, however, faces the following challenges:

1. It requires agreement on the definition of social performance.
2. It requires broad agreement on values, dimensions, and indicators (standards) of social performance as a precondition for social performance benchmarking.
3. It must balance variation in MFIs and MFI contexts against the need for common values and standards.
4. It should determine what part of the existing performance rating process is relevant for and useful to social rating. For example, are certain financial performance indicators useful proxies for social performance? Or, what analysis typically performed in a financial rating (e.g., that related to management quality, human resources, product mix, etc.) is directly or indirectly related to social performance and how can it be interpreted from a social performance lens?
5. It must be cost effective. That is, it must be implemented at a relatively low incremental cost (in terms of time, resources, and money), while generating useful information for which users are willing to pay.
6. It should facilitate both internal self-assessment and external reporting.

Working together under the auspices of the Social Performance Task Force (SP Task Force),[2] a group of microfinance stakeholders (including representatives from the four major specialized microfinance rating agencies—MicroRate, M-CRIL, PlanetRating, and Microfinanza) has proposed a common social rating framework satisfying the above criteria. The remainder of this document describes this common framework and the social performance process underlying it.

1. This chapter of the Social Performance Map draws heavily on the concepts and language found in the following two documents by France Sinha of M-CRIL, "Social Rating and Social Performance Reporting in Microfinance: Toward A Common Framework" and "M-CRIL Is Offering a Social Rating Product: A New Service to Help Meet the Double Bottom Line in Microfinance." It also draws on the summary work done by Andrea del Granado of Pro Mujer Bolivia.

2. For more information on the Social Performance Task Force, see www.microfinancegateway.org/resource_centers/socialperformance/article/28257.

THE SOCIAL PERFORMANCE PROCESS

Reporting on social performance is not just about measuring results, but it is also about the systems in place, and the actions and corrective measures taken to bring about those results. Social rating and reporting must therefore look at both process and results, a feature that mirrors the working hypothesis of credit rating—that an MFI's financial performance is critically affected by its managerial capabilities and governance.

Figure 1 captures this distinction by portraying social performance as a causal chain with multiple performance dimensions. It starts with the declared intent and design of the organization. At issue is whether the organization has a social mission and whether its corresponding social objectives are clearly defined and articulated.

Next in the social performance process are the organization's internal systems and activities. Internal systems refer to those organizational processes that embed the social mission and related objectives and values into the organization's day-to-day operations. At issue here is whether, and the extent to which, internal systems and activities align policies, behavior, and results with the organization's social mission. For example, how does management communicate and reinforce the social mission and related objectives? Does the organization track progress toward its social mission and objectives? Is the organization hiring and promoting staff with the appropriate value orientation and commitment to social mission and objectives? Is the organization providing management and staff the appropriate incentives to fulfill social mission and objectives? Are the organization's products designed to meet the flexible financial needs of the target market?

Outputs are the measurable and direct results of organization activities. For example, what is the organization's outreach to its target markets? How does this outreach break down by type of client, type of product/service, geographic location, gender, etc.? Is the organization financially sustainable? What is the client retention rate?

Social performance is also about outcomes, which measure whether clients are improving their social and economic conditions. And, finally, social performance is about impact, or establishing rigorous causality between program participation and improvements in clients' well-being.

As seen in Figure 2, different social performance assessment (SPA) tools focus on different steps in the social performance process.[3] (The annex to this section provides a tabular presentation of where different SPA tools fit in the common framework.) For instance, the CERISE Social Performance Indicators (SPI) tool focuses on the institutional process and internal systems by assessing intent, activities, and output. (The dotted line in Figure 2 indicates that the particular step in the social performance process is not the emphasis of the tool.) The Progress out of Poverty Index (PPI), a joint initiative of CGAP, Ford Foundation, and Grameen Foundation USA, assesses social performance at the client level by looking at outputs and outcomes. Social rating and social auditing focus on intent and design, internal systems, and outputs but can also review and verify the quality of an organization's social accounts (information on social performance and outcomes).

3. These and other SPA tools are described at length in the Consumer's Guide chapter of the Social Performance Map.

Figure 1. Social Performance Process

INTENT AND DESIGN
What is the social mission of the institution?
Does it have clear social objectives?

↓

INTERNAL SYSTEMS & ACTIVITIES
What activities will the institution undertake to achieve its social mission?
Are systems designed and in place to achieve those objectives?

↓

OUTPUTS
Does the institution serve poor and very poor people?
Are the products designed to meet their needs?

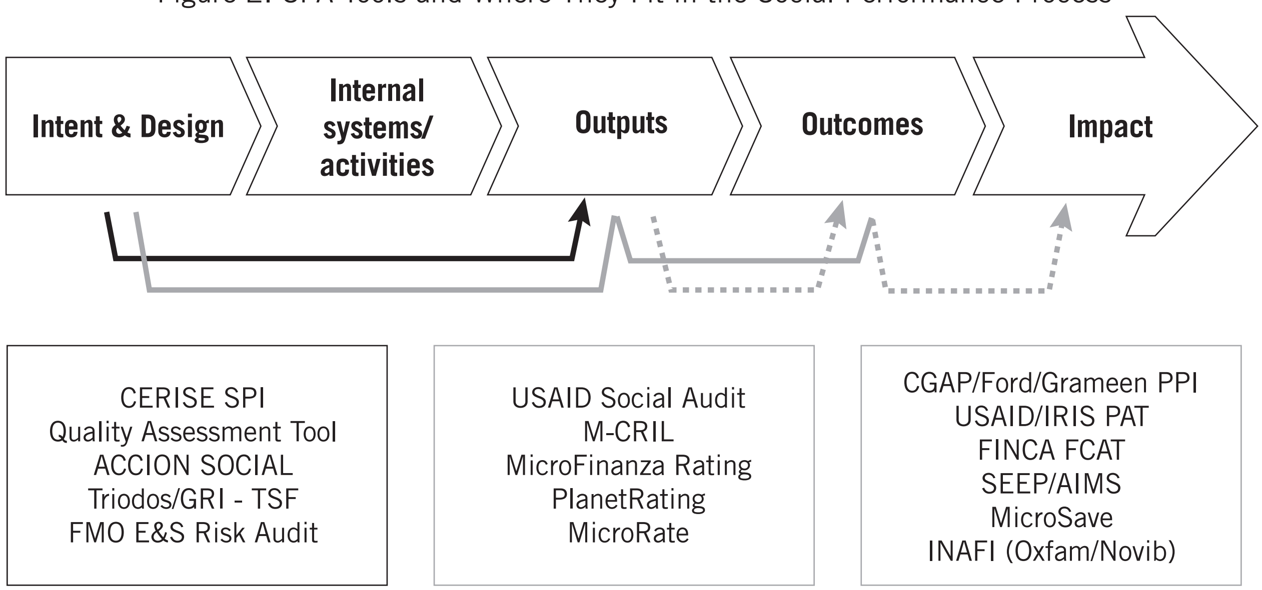
↓

OUTCOMES
Have clients experienced social and economic improvements?

↓

OUTCOMES/IMPACT
Can these improvements be attributed to institutional activities?

Figure 2. SPA Tools and Where They Fit in the Social Performance Process



PROPOSED COMMON SOCIAL RATING FRAMEWORK

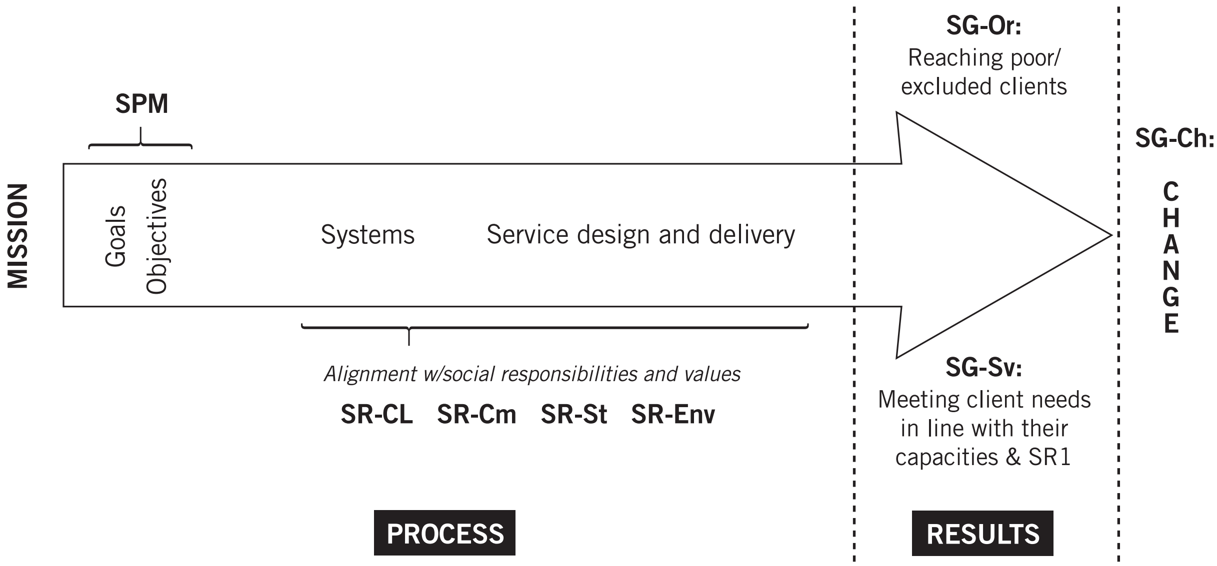
While each MFI has its own mission and model, there are certain generic values that apply to the "manner of doing business," reflecting concepts of social responsibility and certain development values that are widely associated with microfinance. These traditionally have referred to social values related to improving the lives of the poor and excluded, but must now, in light of industry growth and increasing commercialization, be expanded to incorporate shared values related to corporate social responsibility, environmental sustainability, and sustainable economic/business growth.

The common social rating framework proposed by the SP Task Force has three components—context, process, and results—each of which is further broken down into key dimensions, as shown in Table 1 and in Figure 3. A description of each component and dimension follows.

Table 1. Proposed Common Social Rating Framework

Component	Dimensions
Context	Country and regional development indicators (from secondary sources) MFI profile and financial services
Process: Governance, Policies, and Systems	SPM: Social performance management—mission clarity, alignment of systems, decision making SR-CL: Responsibility to clients—client protection SR-Cm: Responsibility to community SR-St: Responsibility to staff SR-Env: Responsibility to environment GA: Gender approach MG: Member governance (if member-owned institution) NFS: Nonfinancial services
Results or Achievement of Social Goals: Client and Community Levels	SG-Or: Social goal—outreach SG-Sv: Social goal—services SG-Ch: Social goal—change

Figure 3. Pictorial Version of the Common Social Rating Framework



Context

Context is important for describing key features of an MFI and the environment in which it operates. The main features and indicators of context include

socioeconomic conditions from secondary sources about the country and region(s) in which the MFI operates, including GDP/GNI per capita, national poverty line, percent of population below the national poverty line, percent of population with access to banking services, human development index (HDI), and marginal communities/population;

the MFI's evolution, institutional form, model, mission, vision, and objectives;

the MFI's portfolio size, total savings (if applicable), number of borrowers and savers, number of persons with nonfinancial services, percent of women, percent from rural/town/city; and

the MFI's financial services, products, and client access broken down by product/service type and other relevant categories (e.g., gender, location, poverty status, length of time in program).

The MFI's social mission may or may not include reference to the poor (many do). It may also reference, for example, job creation, outreach to specific population segments (e.g., women, rural areas, informal microenterprises), outreach to specific industrial sectors (e.g., agriculture, agribusiness, small-scale manufacturing, export-oriented businesses), or promotion of various other objectives (e.g., environmental sustainability, social capital creation, small and medium enterprise (SME) development and growth).

The MFI also may or may not have an explicit social mission, in which case the social mission must be inferred from the official mission statement or from the corresponding vision statement, value statement, or strategic objectives or from discussions with management. Often a social mission can reasonably be inferred from an official mission statement without any obvious social component. For example, a mission to promote SME development implies a social mission to create jobs for and improve the well-being of lower-income persons employed by the SMEs.

Process

SPM—Social performance management refers to clarity of mission and the alignment of an organization's strategies and systems to its social mission. This dimension includes

- Clarity and communication of mission
- Establishment of specific social objectives
- Alignment of organizational systems (human resources, incentives, and management information systems) with objectives
- Monitoring and reporting the achievement of these objectives (through, for example, poverty scoring of clients, market research, tracking dropouts, and impact studies)
- Use of social performance information for strategic decision making

SR—Social responsibility refers to performance standards and indicators commonly associated with corporate social responsibility.[4] The Global Reporting Initiative (GRI) is the most commonly used framework for assessing corporate social responsibility. The GRI includes an extensive list of indicators, including a financial sector supplement, that can be referenced for this dimension.

This dimension has four subdimensions that are applicable at the organizational level in terms of policies and mechanisms for compliance: responsibility to clients, responsibility to community, responsibility to staff, and responsibility to environment.

SR-CL—Responsibility to clients is a fundamental dimension of social performance and is increasingly being recognized as such, especially to the extent that MFIs are catering more to poorer clients who may be illiterate and lack financial skills. It refers primarily to client protection and includes issues of

- Fair and transparent pricing
- Effective communication (including teaching financial literacy to clients and adapting communication methods to include illiterate clients)
- Sensitivity to overindebting clients (effective credit appraisal and monitoring)
- Ethical behavior of staff, including appropriate debt repayment practices
- Provision for loan insurance
- Proactive mechanisms for client complaint and redress

SR-Cm—Responsibility to community is a broad concept. Its application to microfinance may cover

- A policy for the type of activities for which credit is provided, such as those activities promoting positive community value (e.g., start-up enterprises and job creation) and avoiding those with negative community value (e.g., enterprises employing full-time child labor and liquor vending)
- Other support to the community (e.g., investment, donations)

4. Principles and issues related to corporate social responsibility are described at length in the Corporate Social Responsibility chapter of the Social Performance Map.

- Funding in the event of collective disasters (as percent of revenues)
- Positive action to improve local culture (e.g., governance, anticorruption, and other social values)

SR-S—Responsibility to staff includes

- Staff training (i.e., percent of staff trained and number of days of staff training)
- Salary structure (and benefits) in line with comparable sectors
- Security of working conditions
- Fairness and transparency of incentive schemes as perceived by staff
- Feedback mechanisms for staff
- Staff involvement in decision making

SR-Env—Responsibility to environment refers to the MFI's impact on the local environment either as a result of its own actions or those of its clients and suppliers. It includes

- Environmental policies applied to core business lines
- Processes for assessing and screening environmental risks in core business lines
- Processes for monitoring client compliance
- Processes for improving staff competency to address environmental risks and opportunities

GA—Gender approach includes

- Outreach to women (i.e., number and percentage of female clients)
- The number and ratio of women and men on the organization's board, management, and staff
- Whether the MFI tries to strategically address the social and economic constraints that women face in its local area (e.g., low literacy and limited access to markets)

MG—Member governance incorporates strategies for effective member governance in organizations that are member-owned (e.g., cooperatives and credit unions) and includes

- Board elections in compliance with bylaws
- Training and capacity building of representatives to help them perform their governance role effectively
- Regular all-member meetings
- Effective strategies to communicate policy decisions to ordinary members

NFS—Nonfinancial services applies to MFIs that offer nonfinancial services (e.g., enterprise skills development, business development services, and other social services) or that link clients to other service providers in addition to offering financial services. Issues related to nonfinancial services include

- Types of nonfinancial services provided or available to clients

- Number of clients accessing nonfinancial services by type of service and broken down by other relevant client categories
- Evidence regarding the effectiveness of nonfinancial services

Results—Client and Community Levels

The outcomes of microfinance at the client and household level are of prime importance to gain a complete picture of social performance. Such outcome information, however, is not necessarily available to an MFI, as it requires data collection from clients, and until recently the reporting of outcomes has depended on proxyindicators using financial performance indicators that MFIs collect and report in the normal course of operations.

Indicators included under this component will, with few exceptions, be collected by the MFI itself as part of its social accounting process. The rater's job is to audit these social accounts and report on their materiality and credibility and on their implications for understanding the MFI's social performance.

SG-Or—Outreach refers to the breadth and depth of outreach. Breadth of outreach refers to the number of persons reached with financial and (where relevant) nonfinancial services. Depth of outreach refers to the poverty status or "marginality" (e.g., rural, remote, lower caste, handicapped, certain ethnic groups, etc.) of persons reached with financial and (where relevant) nonfinancial services. Depth of outreach may be indirect, including expanded market opportunities and employment (those hired from outside the client household) in credit-supported enterprises. These indicators are particularly relevant to MFIs that target SMEs and do not specifically focus on the poor. (Indirect employment is especially relevant here; expanded market opportunities are more difficult to assess.)

This dimension may refer to the targeting approach of the MFI, but is not limited by it. In other words, the indicators apply to all MFIs, whatever their target or approach. This enables comparison within the industry on a fundamental issue of social value—how many clients or how far down the poverty or marginality scale the MFI reaches.

There is general agreement that proxy indicators, while not measuring social performance directly, can capture important dimensions of social performance. There is less agreement, however, on what those indicators are, the extent to which they measure social performance, and their appropriateness. A rule of thumb stipulates that proxy indicators can be an important part of a social accounting system, but that the system should not rely too heavily on them.

Proxy indicators of outreach include the following:

- Average loan as a percentage of GDP/GNI (gross domestic product/gross national income)
- Average new loan size as a percentage of per capita GDP/GNI
- Average savings deposit as a percentage of per capita GDP/GNI
- Average savings account as a percentage of per capita GDP/GNI
- Minimum savings deposit

Direct indicators of outreach include

- Number of borrowers
- Number of savers

- Number of clients with access to nonfinancial services
- Percent of client households below the relevant extreme poverty line ($1 per day for purchasing power parities (PPP), bottom half of those below the national poverty line, national extreme poverty line, $2/day PPP in middle-income countries)
- Percent of client households below the relevant poverty line ($2/day PPP, national extreme poverty line, $4/day PPP in middle-income countries)
- Percent of new client households below relevant extreme poverty or poverty lines.
- Percent of clients belonging to marginal groups or communities (e.g., illiterate, casual laborers, low caste, female-headed households, rural areas, women)

Indirect indicators of outreach include

- Number of hired (nonclient household) employees: men, women, and children in credit-supported enterprises (full time and part time)
- Profile of hired employees: their household poverty level, what percent belong to marginal groups or communities

SG-Sv—Financial Services refers to the extent to which the MFI's market offerings meet clients' financial needs in relation to their capacities (cash flows and opportunities). The demand (need, want, and ability to pay) for financial services varies substantially. A wider variety of market offerings based on the identified needs and wants of target markets presumably leads to greater social impact.

This dimension also includes a check on SR-CL at the field level to confirm whether clients are fully aware of the terms and conditions of the MFI's market offerings and clients' experience with them. Transparency, particularly regarding the cost of services, is critical to allow clients to determine both the perceived and actual value of services purchased and consumed.

Possible indicators include

- Client retention (or desertion)
- The number and types of financial services offered
- Real portfolio yield
- Effective interest rates compared to national baseline interest rate
- Types of collateral accepted
- Frequency and types of market research performed
- Results of client satisfaction surveys
- Flexibility of financial services offered
- Full disclosure of effective interest rates and other monetary costs for services

SG-Ch—Change is not defined in terms of the impact that can be attributed to a microfinance program. Impact assessments are interesting and can be useful to prove what microfinance services achieve. If a microfinance program already has an impact assessment, then the findings should be included in an assessment of the MFI's social accounts. In lieu of information on social impact, it is possible to document or track changes at the client or household level, which may plausibly represent at least some contribution from accessing microfinance services. Such findings may be included under this dimension, provided they appear valid. Indicators include findings of any recent (within the past two years) studies of changes at the client and community level.

Possible change indicators include

- Asset ownership
- Housing conditions
- Access to basic services
- Access to schooling
- Food security
- Household income or expenditures
- Poverty status

Collecting information on client or household outcomes, however, requires MFIs to carry out client surveys, either as part of their lending methodology (e.g., in the loan application form) or in a separate survey. This may or may not prove feasible for a particular MFI. There are also questions related to interpretation of outcome indicators. In the absence of a control group of non-clients, it is impossible to determine the cause of observed changes in outcomes—observed changes might have been caused, for example, by general economic trends affecting other groups in similar ways. Neither do outcome indicators take into account local context. An MFI working in an economically robust environment, for example, is more likely to find positive outcomes than an MFI working in an economically depressed environment. This problem makes cross-country (and at times intercountry) comparisons difficult.

A couple of initiatives are developing indicators and tools to enable MFIs (with their own staff) to collect information about their clients themselves in a relatively troublefree and roughly accurate manner, though the caveats related to outcome indicators described above still apply. Indicators relevant to the Millennium Development Goals (MDGs) are currently being tested under the Ford Foundation–CGAP Social Indicators Project.

As part of this initiative, Grameen Foundation USA is piloting a "Progress Out of Poverty Index" (PPI) with its MFI partners in different countries. The index is a poverty scorecard consisting of 10 indicators that are simple and easy to measure and that take a loan officer just four to five minutes to complete as part of the standard loan appraisal. The indicators are statistically correlated with one or more poverty and extreme poverty lines as derived from national survey data sets. CGAP has expanded the scope of this project by commissioning the creation of a series of poverty scorecards for other countries.

In addition, the IRIS Center, with funding from USAID (in response to a legislative mandate from the U.S. Congress), is developing poverty assessment tools (PAT) for a number of developing countries in which USAID is supporting microenterprise programs. The PAT is similar to the PPI, although with some significant differences.[5]

5. The PPI and the IRIS Poverty Assessment Tool are described at length in the Poverty Assessment Tools chapter of the Social Performance Map.

ANNEX: MATRIX SHOWING DIFFERENT SOCIAL PERFORMANCE ASSESSMENT TOOLS WITHIN COMMON FRAMEWORK

	PROCESS DIMENSIONS										RESULTS DIMENSIONS		
SP TOOLS	**SPM—mission clarity**	**SPM—alignment of systems**	**SPM—decision making**	**SR-CL**	**GA**	**MG**	**NFS**	**SR-Cm**	**SR-St**	**SR-Env**	**SG-Or**	**SG-Sv**	**SG-Ch**
CERISE SPI	x	x	x	x	x	x	x	x	x		x	x	
MFC QAT	x	x	x	x	x		x	x	x	x			
USAID Social Audit	x	x	x	x			x	x	x	x	x	x	
ACCION SOCIAL[a]	x			x			x	x	x	x	x	x	
Planet Rating	x	x	x	x				x	x		x	x	
Triodos/GRI-TSF	x	x	x	x				x	x	x			
FMO E&S Risk Audit				x				x		x			
MicroRate	x	x	x	x			x	x	x	x	x	x	
M-CRIL Rating	x	x		x				x	x	x	x	x	
MicroFinanza Rating	x	x		x				x	x	x	x	x	
MicroRate (SPA)	x	x	x	x			x		x		x	x	
CGAP/Ford/Grameen PPI											x		x
USAID/IRIS Poverty Assessment Tool											x		
FINCA FCAT	x			x							x	x	x
FFH-Food Security Survey													x
INAFI–Oxfam–Novib SIM Tool													x
SEEP/AIMS Tools													
- Impact Survey											x	x	x
- Client Exit Survey												x	x
- Use of Loans, Profits, Savings Over Time												x	x
- Client Satisfaction												x	x
- Client Empowerment													x
MicroSave Tools													
- Market Research/PRA											x		
- Client Satisfaction FGD													x
- Product Design and Delivery													x

a. Shading indicates that the tool needs to be administered by an external consultant. No shading indicates that the tool can be self-administered.

9. CONSUMER'S GUIDE TO SOCIAL PERFORMANCE ASSESSMENT TOOLS IN MICROFINANCE

INTRODUCTION

The last several years have witnessed an increase in the number and variety of tools for assessing social performance both inside and outside the microfinance sector. The upside of this trend is that industry stakeholders now have a choice among a set of effective and practical social performance assessment (SPA) tools, with arguably a suitable SPA tool for just about every MFI—regardless of size, organizational type, business model, commercial orientation, target market, or mission. The downside of the trend is that there is perhaps too much choice. Understanding the purpose, attributes, key features and issues, and the suitability of the myriad of SPA tools—let alone deciding from among them—can easily be daunting for someone uninitiated into the principles and practices of social performance assessment.

This chapter of the Social Performance Map seeks to bring a measure of clarity to the confusion by providing a consumer's guide to existing SPA tools. It includes brief summaries of the tools, presented in two formats. The first format places the tool along the SP process along with a two- to three-paragraph description of the tool. In most cases, the tool descriptions have been provided by someone associated with the tool or its development. For those wishing to find more information about a specific tool or tools, it also provides contact information for follow-up sources and, where available, links to online resources. The second format presents the different tools in table format and compares them according to a set of specific characteristics.

The guide offers a reasonably comprehensive sampling of existing SPA tools, enough to give readers a panoramic view of the SPA tool landscape. It should be noted, however, that this is only a current snapshot of this landscape. Many of the tools are still in the development stage and will likely undergo some change over the coming months and years. Some tools will fail to gain traction and will cease to be relevant (some may be largely irrelevant already). Some tools may gain in prominence, perhaps displacing other tools in the process. Still other new tools are likely to be developed. The landscape is in flux; we are still too early in the social performance movement to reasonably expect to have produced any firmly established SPA tools yet. Further discussion, development, and experimentation are still required.

THE SOCIAL PERFORMANCE PROCESS

Reporting on social performance is not just about measuring results; it is also about the systems in place, and the actions and corrective measures taken to bring about those results. Social performance assessment must therefore look at both process and results. Figure 1 captures this distinction by portraying the social performance process as a causal chain with multiple dimensions. It starts with the declared intent and design of the organization. At issue is whether the organization has a social mission and whether its corresponding social objectives are clearly defined and articulated.

Next in the social performance process are the organization's internal systems and activities. Internal systems refer to those processes that transform inputs into outputs and outcomes by embedding the social mission and related objectives and values into the organization's day-to-day operations. At issue here is whether, and the extent to which, internal systems and activities align policies, behavior, and results with the organization's social mission. For example, how does management communicate and reinforce the social mission and related objectives? Does the organization track progress toward its social mission and objectives? Is the organization hiring and promoting staff with the appropriate value orientation and commitment? Is the organization providing management and staff the appropriate incentives to fulfill the mission? Are the organization's products designed to meet the flexible financial needs of the target market?

In the absence of information on social impact, the assumption is that effects can reasonably be inferred from sound internal processes supporting social mission fulfillment. Internal processes offer another advantage in that that they lend themselves to standardization (or "best practice") given that they are common to all MFIs and relatively easy to assess. In contrast, targeted outcomes can differ significantly from MFI to MFI and can pose problems in terms of measurement and interpretation (see below).

Social performance is also about outputs and outcomes. Outputs are the measurable and direct results of organization activities and include indicators typically captured in an MFI's management information system (MIS). They include things such as portfolio size, number of loans made, average loan size, percentage of female or rural clients, financial sustainability, or outreach to the MFI's target market. Outputs can be suggestive of program impact, but often the causal link between the two is weak. (For example, providing loans is a necessary condition for social impact but is far from sufficient.) Outcomes tell us whether clients are improving their social and economic conditions in areas such as housing conditions, access to basic services, asset ownership, food security, or access to healthcare and schooling.

Finally, social performance is about social impact. Impact represents the achievement of social goals. Measurement of impact requires establishing rigorous causality between program participation and observed client outcomes.

Sustainability (or corporate social responsibility) indicators, such as those included in the Global Reporting Initiative (GRI) framework (see below), cover a broad range of issues and fall under both the output and outcome categories, depending on the specific indicator.

MEASURING SOCIAL PERFORMANCE

Ideally, SPA would focus on actual social impact. However, there are considerable resource and technical demands in demonstrating causality—for example, the need for statistically valid control groups. To the extent that microfinance stakeholders insist on demonstrating causality, this is best undertaken as a separate impact assessment exercise utilizing dedicated resources, technical capacity, and funding.

A second-best solution to measuring social impact is to focus the measurement of social performance on outcomes. Here the MFI observes the changes in selected social outcomes to get a general sense of how clients are faring and from this information deduces implications for program effectiveness and the appropriateness of its products, policies, and practices. Social outcomes do not imply causality, but they are the closest thing to it in the causal chain. In all cases, however, a plausible and clear theoretical link needs to be established between the MFI activity and the observed social outcome. (Where information on outcomes and impact is not available, inputs and outputs may be used as proxies, although the link connecting them to outputs or impact is typically tenuous.)

Collecting information on client or household outcomes typically requires the MFI to carry out client surveys, either as part of their lending methodology (e.g., in the loan application form) or separately. This may or may not prove feasible for a particular MFI. First, collecting and reporting client or household incomes can be expensive, often imposes additional data collection burdens on field staff, and can require technical skills for data collection and analysis not present at the MFI. There are also questions related to interpretation of outcome indicators. In the absence of a control group of nonclients, it is impossible to determine the cause of observed changes in outcomes. Observed changes might have been caused, for example, by general economic trends affecting other groups in similar ways. Neither do outcome indicators take into account local context. An MFI working in an economically robust environment, for example, is more likely to find positive outcomes than an MFI working in an economically depressed environment. This problem makes intracountry (and at times inter-country) comparisons of social outcomes difficult.

Figure 1. Social Performance Process

INTENT AND DESIGN
What is the social mission of the institution?
Does it have clear social objectives?

↓

INTERNAL SYSTEMS & ACTIVITIES
What activities will the institution undertake to achieve its social mission?
Are systems designed and in place to achieve those objectives?

↓

OUTPUTS
Does the institution serve poor and very poor people?
Are the products designed to meet their needs?

↓

OUTCOMES
Have clients experienced social and economic improvements?

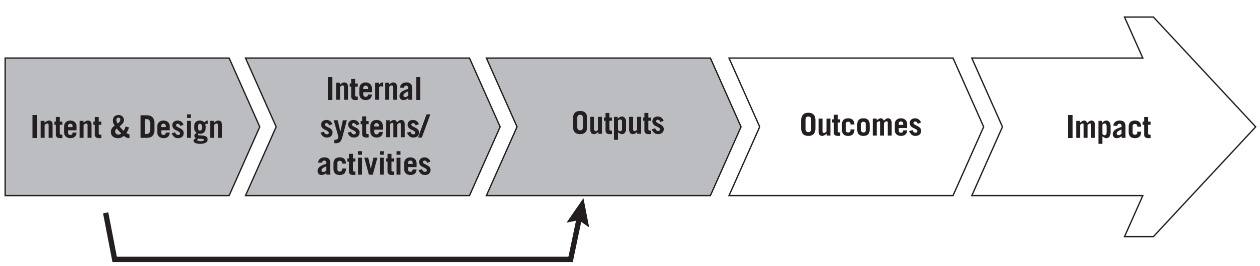
↓

OUTCOMES/IMPACT
Can these improvements be attributed to institutional activities?

SUMMARY OF SOCIAL PERFRORMANCE ASSESSMENT TOOLS

From Intent and Design to Outputs

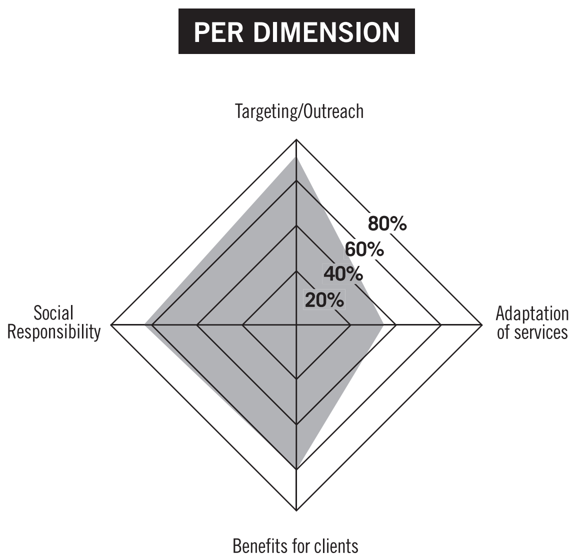
The first set of SPA tools focuses on evaluating intent and design, internal systems/activities, and outputs.

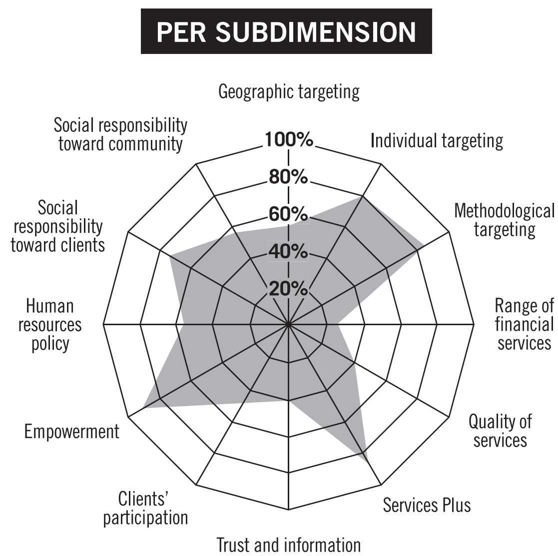


CERISE Social Performance Indicators (CERISE SPI)

The CERISE SPI tool assesses the social performance of institutions by evaluating their intentions and actions. An analysis of internal systems and organizational processes determines whether institutions have the means in place to attain their social objectives. It uses a questionnaire that can be self-administered by the MFI or used with an external reviewer. The questionnaire evaluates four dimensions of social performance: outreach to the poor and excluded populations, adaptation of products and services for target clients, improvement in social and political capital, and corporate social responsibility.

This tool is standardized, but adaptable to the variety of MFIs and their local contexts. It is also easy to use and gives objective and visual results (see diamonds below for example). Each of the indicators is simple, directly attributable to the MFI (based on data that is easily available to an MFI), and can be quickly checked by an external auditor. Its results give a clear image of the MFI's social performance, which can then be compared with other MFIs. It can be downloaded from CERISE's website. Support, exchanges of experiences, and advice from peers is provided with ProsperA, the Alliance for the Promotion of Social Performance.





For more information, go to www.cerise-microfinance.org or contact Cécile Lapenu at cerise@globenet.org.

MFC Quality Audit Tool for Managing Performance (QAT)

The QAT was designed by the MicroFinance Centre (MFC) in Poland in conjunction with the Imp-Act Consortium.[1] It has been designed to correspond with social rating methodology used by M-CRIL and MicroFinanza Rating.[2] The QAT examines management processes and internal systems and assesses the status and effectiveness of each for achieving the MFI's stated social mission and for aligning the MFI's social performance with accepted social values. Based on this assessment, it identifies areas, along with recommended actions, in which the MFI should focus its attention so as to better align internal processes and systems with social performance and make more effective and balanced decisions.

1. The QAT is described in depth in the Social Auditing chapter of the Social Performance Map.

2. See the sections on Social Rating and the Common Framework in the Social Performance Map for in-depth discussions of social rating.

The QAT is designed to be primarily an internal review and therefore focuses on gathering different perspectives within the MFI rather than trying to look for "objective" evidence regarding the alignment of a MFIs processes and systems with its social mission. The QAT focuses on process management and not procedural compliance. MFIs have different goals and capacities and work in different contexts; therefore the focus is to review the coherence and effectiveness of the route an individual MFI charts rather than strictly defining specific procedures or activities it must follow.

For more information, go to www.mfc.org.pl/index.php?section=R&page=Project, or www.mfc.org.pl/images/pliki/223_fma_qat_overview_eng.pdf, or contact Katarzyna Pawlak at kasia@mfc.org.pl.

ACCION SOCIAL Tool (SOCIAL)

The ACCION SOCIAL diagnostic tool is a framework for assessing social performance in order to evaluate the success of the MFI in fulfilling its social mission and contributing to broadly accepted social goals. This specialized framework is based on existing mainstream tools that assess social performance as well as surveys on the information demands and practices of socially responsible investors. SOCIAL (**s**ocial mission, **o**utreach, **c**lient service, **i**nformation transparency and consumer protection, **a**ssociation with the community, **l**abor 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 MFIs).

ACCION's social performance assessment team produces detailed social audit reports and a social scorecard for each MFI. 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; searches secondary source data, such as national data, the Microfinance Information Exchange (the MIX), market studies, etc.; creates a map of geographic coverage; and makes branch visits. ACCION also offers a social performance self-assessment tool that enables MFIs to evaluate themselves using a checklist of key indicators.

For more information, please contact Deborah Drake at ACCION, at ddrake@accion.org.

FMO Environmental and Social Risk Audit (ESRA)

The Environmental and Social Risk Audit is a practical and easy-to-use risk management system designed to help MFIs minimize the negative environmental and social impact of the microenterprises they support. Designed by the Netherlands Development Finance Company (FMO), the ESRA includes support tools, a training course, and Internet support to help MFIs build an environmental and social (E&S) risk management system.

Implementation of the tool occurs during the client's loan appraisal phase. In addition to the traditional factors considered in the loan decision, the ESRA injects social and environmental considerations. There are three possible outcomes of the E&S appraisal: (1) raise client's awareness of (negative) social and environmental impact, (2) train/educate the client regarding social and environmental improvements, or (3) include specific clauses in the loan contract to mitigate specific social and environmental risks.

Support tools offered by the FMO include

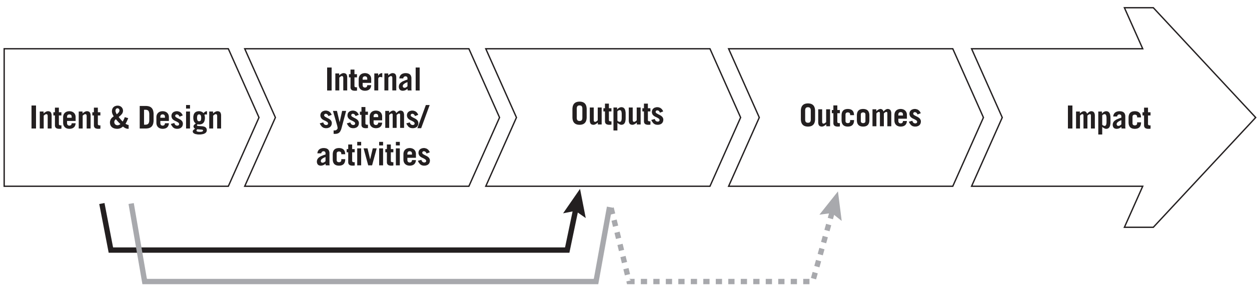
- Exclusion List: An overview of activities that, in the opinion of FMO, should under no circumstances be financed
- Activity Assessment Tool: A matrix summarizing the key environmental and social risks for the various sectors in which MFIs work, including agriculture, trade, services, and manufacturing

- Environmental and Social Evaluation Guidelines: Guidance on how environmental and social risk evaluation and follow-up processes (e.g., E&S management system) can be put in place in alignment with an MFI's evaluation, approval, monitoring, and reporting processes

For more information, see www.fmo.nl/en/publications/environmental_social_risk_management_tools_MFI.php or contact Anton van Elteren at A.van.Elteren@fmo.nl or Robert Bierens at R.Bierens@fmo.nl.

From Intent and Design to Outcomes

This set of SPA tools focuses on evaluating intent and design, internal systems/activities, outputs, and outcomes. The tools do not attempt to measure outcomes directly, but they do include an evaluation of the MFI's social accounts, including those related to client outcomes and CSR outcomes, as part of the tool.



USAID Social Audit Tool (SAT)

The USAID social audit tool uses a "process auditing" approach that evaluates the MFI in reference to its stated social mission.[3] It answers the following question: To what degree do the internal processes promote fulfillment, or lack of fulfillment, of the MFI's stated social mission? Process auditing involves an in-depth assessment of six internal processes critical to the MFI's social performance: (1) mission statement and management leadership, (2) hiring and training, (3) incentive systems, (4) monitoring systems, (5) customer service, and (6) strategic planning.

The SAT also assesses the MFI's performance in relation to its corporate social responsibility, particularly in terms of its relationship with and impact on staff, clients, the local community, and the environment. The SAT further includes a review and evaluation of the MFI's social accounts. To the extent the MFI has produced social accounts (information on social performance), auditors will evaluate the quality and materiality of the accounts and describe their implications for the MFI's overall social performance in the final social audit report.

The USAID social audit can be used as a self-assessment tool linked to an internal audit function or used by external parties to conduct objective assessments, including management processes assessments for a social rating.

For more information, contact Gary Woller at gary@wollerassociate.com.

M-CRIL Social Rating

M-CRIL (MicroCredit Ratings International Limited) is a microfinance rating institution based in India that has conducted over 450 ratings for 280 MFIs in 25 countries of Asia (South Asia, Southeast Asia,

3. The USAID Social Audit Tool is described in depth in the Social Auditing chapter of the Social Performance Map.

Central Asia) and Africa. M-CRIL pioneered the social performance rating tool. The purpose of the social rating is to assess "the likelihood of an MFI achieving its social mission in line with accepted social values."[4] The analysis focuses on four dimensions of social performance:

1. 1. Social mission and systems [SMS]: clarity of mission, governance and market strategy, alignment of human resource system, reporting, and MIS
2. 2. Policies and systems for social responsibility [SR]: especially client protection issues, also responsibility to staff, community, and environment
3. 3. Social goal outreach [SGO]: whether the MFI is reaching target clients
4. 4. Social goal services [SGS]: client awareness and feedback.

The evaluation methodology involves an analysis of the MFI's social accounts, discussions with management, staff, the board of directors, and research with clients. If the MFI has data or research relevant to assessing outcomes or impact, this is included as part of the rating report.

M-CRIL offers both a "comprehensive" and a "basic" social rating. The comprehensive social rating is more intensive in terms of time and resources since it includes systematic field research with clients on a sample basis using a questionnaire and focus group discussions; it is useful for obtaining evidence for SGO and SGS, when (as is usually the case) the MFI does not include this information as part of its own social accounts. An additional advantage of the field survey is that this data can provide a baseline for later assessment of change. The basic social rating is based on an audit of the MFI's intent and systems for social performance and social responsibility, and uses available portfolio information and social accounts to assess results.

For more information, go to www.m-cril.com/social-rating-microfinance-institutions.html or contact Frances Sinha at francessinha@edarural.com.

MicroFinanza Rating Social Rating[5]

Italy-based MicroFinanza Rating offers ratings and social ratings to MFIs and stakeholders all around the world. It has four regional offices: Quito, Ecuador; Managua, Nicaragua; Bishkek, Kyrgyz Republic; and Nairobi, Kenya. The social rating is an independent and objective assessment of the capacity of the MFI to put its social mission into practice. The MicroFinanza social rating is based on the audit of the social performance management system of an MFI and on a detailed assessment of its social results. The analysis considers four dimensions of social performance: social mission, strategy, and system (or SPM system); outreach; quality of services; and social responsibility.

MicroFinanza Rating has developed two different types of social rating, with the objective of fulfilling the needs of the different stakeholders—the basic social rating and comprehensive social rating. The basic social rating consists of a process based on the analysis of data and information available at institution level. The comprehensive social rating entails an in-depth field analysis and is more demanding in terms of time and resources. It involves the direct collection of client-level data through a variety of techniques (surveys, interviews, and focus groups) conducted in the field. In both cases, the values and the social behavior of an MFI are measured in terms of social mission, strategy, and procedures aimed at its achievement, and in terms of characteristics of the target reached, quality of the services provided, and social responsibility expressed toward the staff, the clients, the community, and the environment (achievement of the triple bottom line).

4. The M-CRIL social rating is described in depth in the Social Rating chapter of the Social Performance Map.
5. The MicroFinanza Rating social rating is described in depth in the Social Auditing chapter of the Social Performance Map.

For more information, go to www.microfinanzarating.com/index.php?pg=cms&ext=p&cms_codsec=5&cms_codcms=36 or contact Micol Guarneri at micol.guarneri@microfinanza.it.

Planet Rating Social Rating

Planet Rating is a microfinance rating agency with five offices worldwide (Paris, Lima, Dakar, Kampala, and Beirut) that has conducted 300 GIRAFE ratings in more than 50 countries. Planet Rating's social rating tool provides an opinion on the capacity of an MFI to achieve its social goals.[6] It is based on an audit of social performance management systems and relies on social accounts available at the MFI level and secondary data about the country's social and economic environments. Social performance outcome measurements, when available at the MFI level, are checked for reliability and integrated in the rating report. The evaluation covers four dimensions: institutionalization of the social mission, outreach, service offering, and social responsibility.

Planet Rating social ratings are conducted with a transparent methodology and in an interactive mode to ensure an optimal appropriation of the conclusions of the audit. Planet Rating's standardized and comprehensive social rating reports are designed to suit the information needs of all MFI stakeholders (directors, management, funders, supervisory bodies).

For more information, go to www.planetrating.com/EN/rating_performance.php or contact Emmanuelle Javoy at ejavoy@planetrating.com.

MicroRate Social Rating

MicroRate, a pioneer in microfinance ratings, has offices serving Latin America, Africa, and Eastern Europe. The MicroRate social rating is based on the same principles underlying MicroRate's performance rating.[7] The social rating combines an assessment of the MFI's social performance with an assessment of social risk. In the context of the social rating, social performance is defined as "the effective translation of an institution's social mission into practice," whereas social risk is defined as "the risk that the MFI deviates from its social mission and fails to produce forward-looking outcomes."

The MicroRate social rating measures social performance and social risk by assessing, respectively, four critical institutional outcomes and six key internal processes The evaluation methodology involves in-depth discussions with management, staff, board members, other stakeholders, and an assessment of the MFI's social accounts. Institutional outcomes assessed include outreach, depth and variety of services, cost and sustainability, and social responsibility. Evaluation of social risk assesses six internal processes: mission, communication, and management leadership; strategic planning; customer service; monitoring; recruitment and training; and incentive systems.

For more information, go to www.microrate.com or contact Sebastian von Stauffenberg at sebastian@microrate.com.

Global Reporting Initiative (GRI)

The GRI is the world's most widely used sustainability (social performance) reporting framework.[8] The framework sets out principles for reporting on social performance and indicators that organizations can use to measure and report their economic, environmental, and social performance. Indicators include

6. The Planet Rating social rating is described in depth in the Social Rating chapter of the Social Performance Map.
7. The MicroRate social rating is described in depth in the Social Rating chapter of the Social Performance Map.
8. The GRI social rating is described in depth in the Social Auditing chapter of the Social Performance Map.

both core and optional indicators in six dimensions of social performance designed to apply generally to all types of organizations: environment, human rights, labor practice and decent work, society, product responsibility, and economic impact.

In addition to core and optional indicators, the GRI is producing a series of sector supplements, including a financial sector supplement, that allow users to reflect and report on the unique social characteristics of their sectors. Sector supplements include a large number of additional indicators for measuring multiple dimensions of social performance. The GRI is a voluntary standard. Users can adapt it and select indicators in a way relevant to their particular situation or needs.

Triodos Bank and the GRI have initiated a project within the microfinance sector 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—the triple bottom line. Currently, there are no standards for reporting on sustainability specifically related to 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.

For more information on the GRI, go to www.globalreporting.org. For more information on TSF, go to www.tblmicrofinance.blogspot.com or contact Geert Jan Schuite at gj.schuite@triodosfacetbv.nl or Teodorina Lessidrenska at Lessidrenska@globalreporting.org.

SEEP/AIMS (Assessing the Impact of Microenterprise Services) Tools

The SEEP/AIMS tools are a set of five "practitioner-friendly" client assessment tools developed for microfinance practitioners. They include the impact survey; client exit survey;, use of loans, profits, and savings over time tool; client satisfaction tool; and client empowerment tool. Accompanying the tools are step-by-step instructions, starting with initial preparations and ending with data analysis. A manual, *Learning from Clients: Assessment Tools for Microfinance Practitioners*, was developed by The SEEP Network and is available to all users at no cost. Created by and for practitioners, the tools were designed to respond to the particular needs and challenges microfinance practitioners face in determining how their programs and services are affecting their clients.

For more information, go to

English: www.seepnetwork.org/content/library/detail/646

French: www.seepnetwork.org/content/library/detail/5135

Spanish: www.seepnetwork.org/content/library/detail/5136

Client Exit Survey

This short survey, administered to former clients of a microfinance program, seeks information about why a client left the program as well as her perceptions about the program and its impact on her and her business.

Use of Loans, Profits, and Savings Over Time Tool

This is an in-depth, semistructured interview administered to a small cohort of clients. The purpose of this tool is to document and illuminate client decision making about the use of loan funds, profits, and savings and how it changes over time, and to identify the perceived outcomes of these decisions on resource allocation. It also attempts to understand the evolution of the client's business and to explore the relationship between the client's household and her enterprise. The tool is composed of two distinct modules—one on loan use and the other on savings. These two modules can be used together or singularly.

Client Satisfaction Tool

This focus group discussion tool intends to help MFIs learn the extent to which clients are satisfied with the program and what specific changes would better meet their needs.

Client Empowerment Tool

This in-depth, semistructured interview is administered to a small cohort of female clients who have participated in the microfinance program for more than two years. Its purpose is to determine if clients have grown more confident and gained more self-esteem while participating in the program. It further aims to identify how those qualities have translated into specific changes in behavior that demonstrate empowerment. The tool is an in-depth individual or small group interview designed for female clients who have participated in the program for more than two years. During the interview, the client is asked to identify differences in her behavior in the past and the present.

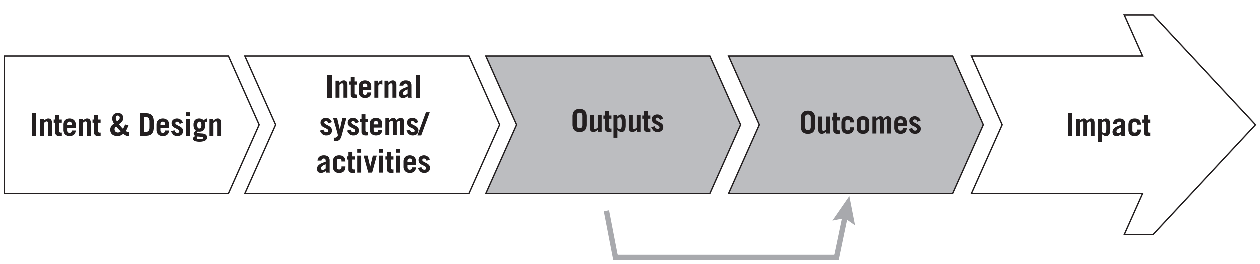
MicroSave Market Research for Microfinance Toolkit

The MicroSave toolkit includes more than 20 different market research tools, including a focus group discussion tool and several Participatory Rapid Appraisal (PRA) tools, designed to be used in combination for conducting market research and client assessment. Tools designed to assess outreach include the Simple or Detailed Wealth Ranking tool and the Financial Services Matrix. Tools designed to assess the demand for services include Financial Landscape Analysis, Pairwise Ranking, Image/Position Analysis, Life Cycle Analysis, Relative Preference Ranking, and Financial Sector Trend Analysis. Tools designed to assess change include a modified Time Series of Asset Acquisition and Ownership tool, the Detailed Wealth Ranking, and the Financial Services Matrix.

For more information on the MicroSave market research tools and a copy of the toolkit, go to www.MicroSave.org.

Outputs and Outcomes

This set of SPA tools focuses on evaluating outputs and outcomes.



Progress Out of Poverty Index (PPI)

CGAP and the Ford Foundation funded Grameen Foundation USA (GFUSA) and other researchers to develop a set of poverty scorecards for countries with significant microfinance activity, using techniques similar to those employed in credit scoring.[9] The scorecards are based on statistical analysis of national household expenditure surveys, using a small set of simple, easily observable, and objective indicators, and estimate the "poverty likelihood" of a person or group of persons, defined as the probability that they fall under an identified poverty line. Scorecards for each country come in versions with 5, 10, and (in some countries) 15 indicators. Depending on the country, the scorecards measure the poverty likelihood relative to an absolute poverty or extreme poverty line (PPP$1/day, PPP$2/day, PPP$4/day), a national poverty line, and a national extreme poverty line (defined as the bottom 50% of those below the national poverty line or the national extreme poverty line).

The tool is named the Progress Out of Poverty Index (PPI) because it can be used over time to determine improvements in client economic levels and their ultimate graduation out of poverty. To date, researchers have developed poverty scorecards for 21 countries: Bangladesh, Bolivia, Bosnia-Herzegovina, El Salvador, Haiti, Ghana, Guatemala, India, Kenya, Malawi, Mexico, Morocco, Nepal, Nicaragua, Nigeria, Pakistan, Palestinian Territories, Philippines, Romania, South Africa, and Vietnam.

For more information, go to http://www.microfinance.com/#Poverty_Scoring or contact Mark Schreiner at mark@microfinance.com.

USAID Poverty Assessment Tool (PAT)

The USAID Poverty Assessment Tool is a set of country-specific surveys—developed under contract with the IRIS Center at the University of Maryland—to predict the prevalence of extreme poverty within a group of people (the percentage of respondents that are "very poor" or "not very poor").[10] A household is considered to be very poor if it falls among the bottom 50% of those below a country's national poverty line, or if its per capita consumption falls below the international extreme poverty line of $1 per day (adjusted for purchasing power parity, PPPs). The surveys include between 16 and 33 poverty questions derived from national household surveys. The tools make poverty calculations based on an aggregate group of people but are less accurate (and not explicitly designed) for measuring poverty on an individual basis.

The data gathered through the PAT surveys is entered into a template, and the Epi Info statistical software is used to automatically estimate the share of households living below the applicable poverty line. Each tool is meant to be administered in ten to twenty minutes.

The PAT is applied once the person becomes a client of the microfinance program and then only on an aggregate basis in order to balance potential errors and increase accuracy. To date, tools have been certified for 20 countries: Albania, Azerbaijan, Bangladesh, Colombia, East Timor, Ghana, Guatemala, Haiti*, India, Indonesia, Jamaica, Kazakhstan, Madagascar, Malawi, Mexico*, Peru, the Philippines, Tajikistan, Uganda, and Vietnam. The three tools marked with an asterisk (*) were developed by USAID in consultation with the Grameen Foundation and are based on PPIs. All other tools were developed by USAID through a contract with the IRIS Center, which also supports the implementation of the tools via regional training, one-on-one assistance via a help desk, and a suite of online resources.

For more information, go to www.povertytools.org or contact Anthony Leegwater at aleegwater@iris.econ.umd.edu or Brian Beard at bbeard@iris.econ.umd.edu.

FINCA Client Assessment Tool (FCAT)

FINCA's Client Assessment Tool (FCAT) is a comprehensive open-source tool that has been implemented in 25 countries across five regions. The FCAT employs a set of 13 individual screens to record income

9. The PPI is described in depth in the Poverty Assessment Tools chapter of the Social Performance Map.
10. The PAT is described in depth in the Poverty Assessment Tools chapter of the Social Performance Map.

sources and dependents (two screens), monthly household expenditures (nine screens), and daily per capita expenditures and poverty levels (two screens) that collectively document expenditures on the six social metrics of household food security, health care, housing, education, empowerment, and social capital.

The FCAT methodology provides every client an equal probability of being surveyed and utilizes a two-stage cluster sampling approach to ensure practicality. The FCAT is recorded using personal digital assistant devices (PDAs) to increase accuracy in reporting. The FCAT assessment is an integral component in FINCA's social performance management structure.

For more information, go to www.villagebanking.org or www.seepnetwork.org/content/article/detail/3121 or contact Katie Torrington at KTorrington@villagebanking.org.

Food Security Survey (FSS)

The food security survey is a nine-question survey developed by Freedom from Hunger that measures household access to food through available resources to purchase or barter for food. The FSS was originally designed by the U.S. Department of Agriculture (USDA) for use in the United States and was adapted for the developing world context and field tested by researchers at Ohio State University and the USDA in various countries around the world.

The survey serves as a scale, meaning that all nine questions measure food security, and each subsequent question measures a higher degree of food insecurity. For example, Question 1 measures whether a household has worried about not having enough food because it didn't have money to buy more food, whereas Question 9 measures whether an adult in the family had to go an entire day without eating because there was not enough money to buy more food. To determine whether a household is food secure or insecure, a household that scores 0–2 on the scale is considered food secure, and a household that scores 3–9 is considered food insecure. Additionally, the food insecure households divide into two categories: those that score 3–5 are considered moderately food insecure, while those that score 6–9 are considered severely food insecure.

For more information, go to www.ffhtechnical.org or contact Bobbi Gray at bgray@freefromhunger.org.

Housing Index

The housing index uses the structure of the house, and sometimes the housing compound, to differentiate between economic levels of households and identify those who are poor. Because housing is generally the most important asset of households, and because people generally invest a lot in their houses, the building itself represents an extremely visible reflection of household wealth. The size of the house and compound, the material used for building the house, the number of rooms, and the presence of running water and bathroom facilities all taken together provide very strong impressionistic evidence of household economic levels. The housing index (best standardized by CASHPOR) and variations used by MFIs use these features to determine who is poor and who is better off.

To implement the housing index, field staff systematically walk through villages or sections of villages looking at each house, eliminating those that are obviously expensive and well built. The others are scored according to size; construction materials for walls, floor, and roof; and sometimes other variables, such as water supply, toilets, access to electricity, etc. Scores for each indicator are then added to create a composite score. Cutoff scores are established to include households considered poor and exclude those that are well off.

The characteristics MFIs include in their housing indices vary from minimal to extensive. The CASHPOR index, for example, includes the size of the house, its structural condition, the quality of walls, and the quality of the roof. TSPI in the Philippines has a fairly simple housing index based on house size, structure, and roof. SHARE in India scores houses based on size, structure, roof, wall, electric supply, water supply, house ownership, toilet, cooking fuel, radio/tape recorder ownership, vehicle ownership, electric fan ownership, and possession of government ration card.

For more information, go to www.microfinancegateway.org/content/article/detail/ or www.microfinancegateway.org/content/article/detail/1578/.

Participatory Wealth Ranking (PWR)

Participatory Wealth Ranking relies on criteria that communities themselves define to conduct assessments of who they deem to be poor and who is relatively better off within their communities. PWR has been developed and used by, among others, the Small Enterprise Foundation (SEF) in South Africa as a targeting tool.

PWR involves four steps:

1. A community meeting is called and members draw a map of the community listing all the households and corresponding names. On completion, the names of households are recorded onto cards.
2. Community members participate in a group discussion of poverty's defining features as they understand them and relative to their local circumstances. Community members are then divided into reference groups of three to five persons who then rank the households into different piles or groups of differing levels of well-being that they define, after which they assign each household a score.
3. The scores of all reference groups are added and then averaged. Households are then ranked in terms of poverty status.
4. The MFI staff selects a cutoff point to determine MFI membership eligibility.

For more information, go to www.microfinancegateway.org/content/article/detail/ or www.microfinancegateway.org/content/article/detail/1578/.

Means Test

The means test uses a very simplified household survey to determine poverty levels of households. A small number of relatively easily verifiable indicators yield a composite score to rank households. Often the indicators are used as a check list to screen out potentially better off households.

Indicators used are generally asset-based (land ownership, livestock ownership, ownership of radio, television, etc.), but can sometimes even be social. The Grameen Bank, for example, uses a means test consisting of land ownership and the value of productive assets. SEWA, on the other hand, uses a much more detailed means test consisting of housing characteristics, household membership profile, the size of farm operated and income from it, information on livestock, income from other sources, and value of household assets.

The success of the means test depends on using relatively few indicators that are strongly correlated to national or local poverty levels.

For more information, go to www.microfinancegateway.org/content/article/detail/1578/.

CGAP Poverty Assessment Tool (CPAT)

The CGAP poverty assessment tool provides transparency on the depth of MFI outreach, using rigorous data on the levels of poverty of clients (relative to people within the same community) through the construction of a multidimensional poverty index that allows for comparisons between MFIs and across countries. The tool involves a survey of 200 randomly selected clients and 300 nonclients, takes about four months to complete, and costs around $10,000. Field tests were successfully completed on seven MFIs in seven countries.

For more information, go to www.microfinancegateway.org/section/resourcecenters/clienttargeting/povertyassessment.

Internal Learning System (ILS)

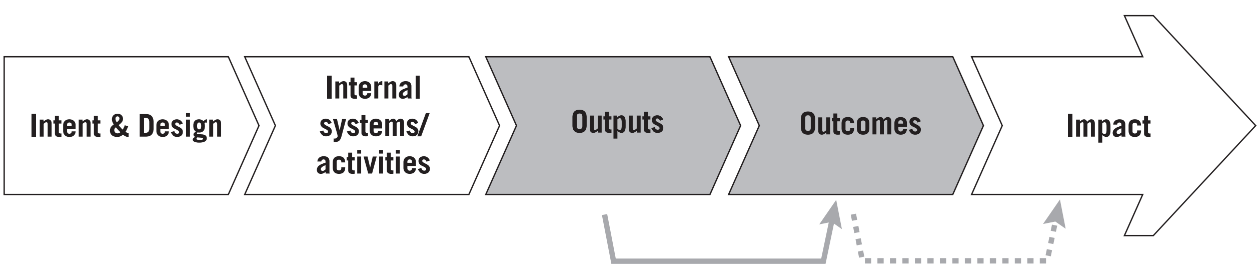
The Internal Learning System is a participatory impact assessment and planning system for community development programs primarily designed to meet the learning needs of program participants, village groups, and operational field staff. The ILS is intended as an empowering tool for poor, illiterate participants and village groups to track and analyze changes in their lives and to use the knowledge to alter their livelihood and coping strategies as they participate in the economy and interact with actors and institutions in the wider community.

Field organizers use the system to track the patterns of lagging and excelling performance across participants and to analyze the reasons for the variation in impact performance. They investigate internal reasons for impact results, such as the program services and processes, as well as external reasons such as environmental, economic, or demographic factors that might explain performance patterns. Program managers benefit from the internal learning by staff and participants to improve program processes, while also using it to meet additional impact assessment objectives including "external proving" to funders that the program is having its intended impact.

For more information, see www.enterprise-impact.org.uk/pdf/Noponen.pdf or www.microfinancegateway.org/section/resourcecenters/impactassessment/developing/methodologicalissues/organisational/internal/.

Outputs, Outcomes, and Impact

This last category of SPA tools focuses on evaluating social performance as measured by outputs, outcomes, and impacts.



SEEP/AIMS Impact Survey

The purpose of the impact survey is to test multiple hypotheses that correspond to various types of impact at the individual, household, enterprise, and community levels. It is administered to a representative sample of up to three randomly selected groups: short-term clients (about one year's time in the program), longer-term clients (two years or more in the program), and new clients (who have joined the program but have not yet received any services). Short-term and longer-term clients constitute the treatment groups, whereas new clients constitute the control group. The survey is administered uniformly to all respondents; their answers are expressed largely in terms of numbers corresponding to precoded responses.

INAFI–Oxfam Novib–Ordina Social Impact Measurement Tool

The INAFI (International Network of Alternative Finance Institutions) network of microfinance practitioners launched the Social Impact Measurement (SIM) project to study the possibility of measuring the social impact of microfinance interventions. The SIM project is a tripartite cooperation between three actors: INAFI, Oxfam Novib, and Ordina. The project uses participatory methods to bring together experiences of ten MFIs to explore bottom-up processes of household survey techniques and proven financial tracking practices. The project has developed an Internet-based tool, including a simple common set of social indicators that are acceptable across its membership in Africa, Latin America, and Asia. The SIM tool covers five dimensions aligned to the Millennium Development Goals (MDGs): wealth, social welfare, female empowerment, social capital, and the environment.

The social indicators aim first and foremost to track changes in the above five dimensions, not only from an MFI/client perspective, but also from a national/regional and global level in the network. The challenge in creating SIM was to balance the level of rigor with simplicity and cost of data collection and to link observed changes to microfinance activities. The SIM tool tries to get at attribution through its close link to the business processes of practicing MFIs, the use of a universally applicable questionnaire, and the use of national data as a benchmark for the changes observed.

For more information, go to www.inafiinternational.org/cms/index.php?option=com_remository&Itemid=36&func=select&id=4 or contact Joséphat Mboya at sim@inafiinternational.org, Peter Huisman at Peter.Huisman@oxfamnovib.nl, or Ronald Veerbeek of at ronald.veerbeek@ordina.nl.

ANNEX: SOCIAL PERFORMANCE CONSUMER'S GUIDE

	CERISE Social Performance Indicators	MFC Quality Audit Tool	FMO Environmental & Social Risk Audit	USAID Social Audit Tool	M-CRIL Social Rating
What is it?	Quantitative and standardized tool based on a questionnaire and a companion guide to assess intentions, actions, and corrective measures on social performance implemented by an MFI.	Social audit focusing on gathering different perspectives within the MFI regarding alignment of processes and systems with social mission. Evaluates process management, not procedural compliance. It looks at the MFI's stated objectives and the effectiveness of its systems for achieving them. Designed to be primarily internal review but can be external review also.	A practical and easy-to-use environmental and social risk–management toolkit for MFIs. There are three parts: an office guide, field guide, and training guide. By applying approach, MFI minimizes negative environmental and social impact of microbusiness and thus maximizes the net social benefit.	Process audit approach that evaluates social performance in reference to MFI's stated social mission. Answers question, "To what degree do the internal processes promote fulfillment, or lack of fulfillment, of the MFI's stated social mission?" Evaluates six dimensions of social performance: mission statement and management leadership hiring and training incentive systems monitoring systems customer service strategic planning.	Assesses MFI social performance in terms of clarity of mission and values, alignment of internal systems, with analysis of portfolio data and client-level information. Applies a rating scale that permits comparisons across MFIs and contexts, but is adjusted to different models of microfinance (poverty focused to SME, and member-owned institutions). May be typically integrated with standard institutional (credit) rating but also offered as stand-alone product. Reflects four dimensions of social performance: Process: mission and systems alignment social responsibility Results: outreach—by development level of area; and socioeconomic profiling of client households appropriate services—client awareness and feedback; exit.

	CERISE Social Performance Indicators	MFC Quality Audit Tool	FMO Environmental & Social Risk Audit	USAID Social Audit Tool	M-CRIL Social Rating
When is it used?	Can be used when an MFI wants to strengthen its social performance and stimulate internal dialogue on this issue. Can also implement it also when MFI needs to increase transparency and improve credibility vis-à-vis clients and donors.	Can be used as an entry point for MFIs that would like to improve their social performance management, as it provides quick and simple way to evaluate current strengths of overall company, strategy, information systems, and management in relation to its social mission. Can be used for strategic analysis before start of strategic and business planning. Can be used periodically to review current social performance management system to improve further areas for improvement toward organizational excellence.	In due diligence phase of MFI loan cycle. Actual Field Guide provides MFI loan officer with practical guidance to address environmental and social themes in each contact with clients.	Implemented as needed by MFI either on routine or ad hoc basis.	Periodically, depending on possible changes within the MFI, though no more than once a year; possibly every 2 years.

	CERISE Social Performance Indicators	MFC Quality Audit Tool	FMO Environmental & Social Risk Audit	USAID Social Audit Tool	M-CRIL Social Rating
How is it implemented?	If intended to animate internal reflection, may be implemented by an internal assessor and discussed between stakeholders (including clients) If priority is to enhance transparency and credibility, may be useful to work with an external reviewer.	Can be implemented by internal auditor as a self-assessment tool or by a team of external and internal evaluators, depending on whether the MFI wants a self-assessment or more objective assessment of its social performance. Four-step process: 1. Gap analysis with management 2. In-depth follow-up interviews with different stakeholders 3. Analysis and draft report preparation 4. Audit panel of key stakeholders Implemented through a series of individual interviews and focus groups with different stakeholders, including board, top and middle management, staff, clients, and stakeholder audit panel.	Incorporated in MFI loan cycle. E&S evaluation and follow-up processes (E&S Management System) can be put in place in alignment with MFI's regular credit evaluation, approval, monitoring, and reporting processes. Loan officers need training on the subject.	Implemented by internal staff, such as internal audit or specially designated research staff, or by external social auditors. Consists principally of in-depth interviews with MFI stakeholders, including management, staff, board members, and clients.	Implemented by external rating team from rating agency. Consists of review of policy documents and records, portfolio data, and client-level information, and interviews with MFI stakeholders, including management, staff, board members, and clients.
Sample size?	As tool focuses on the institutional processes, no need for sample. Can be implemented at top management level, but is also interesting to implement at branch level to arouse discussions.	Not applicable.	Not applicable.	Not applicable. Involves collection and reporting of social accounts. Depends on tools used to generate social accounts.	Minimum sample size of 135 clients for comprehensive social rating: Cluster sampling method for 95% confidence, +/-10% precision. FGDs with clients in 3–5 clusters.

	CERISE Social Performance Indicators	MFC Quality Audit Tool	FMO Environmental & Social Risk Audit	USAID Social Audit Tool	M-CRIL Social Rating
What type of information does it provide?	Extent to which MFI dedicates appropriate means to fulfill its social mission. Provides qualifications per strategic dimensions and subdimensions that must be interpreted according to MFI's own priorities and mission.	Information on status and effectiveness of management systems to achieve social performance. Information on strengths and weaknesses. Information on necessary actions to improve performance.	Provides information on environmental and social performance of the clients. Reporting by MFI on how well negative environmental and social consequences of the clients' businesses are mitigated/prevented.	Provides information on quality of MFI's internal processes and social accounts.	Basic rating provides information on social alignment of organizational policies and internal systems, with analysis of context and social perspective on portfolio data (e.g., trends over time, exit). Comprehensive rating provides field-level information on who the clients are and their feedback on MFI services. It will also validate client-level information collected by the MFI.
What are the costs?	Low cost, depending on the degree of participation that it is meant to achieve. (board meetings, internal working group, etc.)	Low cost: 6 days for auditor (2 days preparation + 4 days audit implementation). One-half day each for board, staff, and client representative interviewed by auditor (around 15–20 people).	Tools themselves are made available by FMO for free. Costs are incurred with the time spent on developing and implementing the system in the MFI.	Moderate cost.	Moderate for basic rating; likely to be around half the cost of a credit rating. Higher for comprehensive rating; likely to be about the same as the cost of a credit rating. Costs reduced if social rating undertaken along with a credit rating.
Time required?	Takes less than half a day to complete questionnaire with top management and potentially at branch level. Depends on the process of reflection with on results and degree of stakeholder participation.	6 days in total; can be spread over longer period of time.	Development and implementation time to be assessed. Limited additional time in each loan officer–client contact.	Takes approximately 5 days to implement with additional 5 or so days to plan and write final report.	Basic rating takes approximately 2–3 days to prepare, 3–4 days to implement, and 5 days to write final report. Comprehensive rating likely to take additional 5 days (field research) to implement and an additional 7 days to prepare final report.
What are the skills required?	Advanced facilitation skills, plus will of institution and stakeholders to participate.	Analysis, synthesizing, interviewing, and probing skills, critical thinking.	Basic introduction in field guide.	Advanced interviewing and analysis skills.	Performed by external rating agency but process seeks to build understanding of social performance and can involve field staff in the field work.

	CERISE Social Performance Indicators	MFC Quality Audit Tool	FMO Environmental & Social Risk Audit	USAID Social Audit Tool	M-CRIL Social Rating
Who is involved?	Can be just top management or wider (branch level, external stakeholders, clients, etc.) group if institution wants to arouse discussion.	Representatives of all organizational levels: clients, staff, management, board.	E&S: Loan officers E&S Coordinator: Manager	Staff assigned to implement and manage social audit. Management and board integrate results of social audit into operations and governance functions.	External rating team implements and requires time of management, staff, and board members to provide initial information and participate in interviews and final debriefing.
Who will use it?	Top management, board members, external stakeholders (donors, social investors, etc.).	Board members, top and middle managers, MFI supporters, donors, and investors .	Loan officers	Internal use and external use for stakeholders interested in the MFI's social performance.	Both external stakeholders, particularly discerning social investors and donors; also useful for internal management and governance.
System infrastructure required?	Accessibility to some basic operational and financial data.	None.	Yes, to include results of E&S audits in client data.	Database software (including MIS) capable of collecting, storing, and analyzing social accounts.	None.
Can data be standardized across the industry?	Yes, this is one purpose. Should be interpreted per peer groups.	Approach is standardized but results are MFI-specific.	Yes; approach is tested on three continents (fourth underway).	General approach can be standardized (e.g., internal processes evaluated and discussion guides) but implementation is unique to MFI and context.	Yes. Issues around best practice are evolving, though implementation will be MFI-specific.

	CERISE Social Performance Indicators	MFC Quality Audit Tool	FMO Environmental & Social Risk Audit	USAID Social Audit Tool	M-CRIL Social Rating
What are its key features?	Standardized. Adaptable to variety of MFIs and their local contexts. Easy to use and allows MFI to conduct internal self-assessment. Each indicator is simple and directly attributable to MFI. Based on data that is easily available to MFI and that can be easily checked by external auditor. Provides visual results and clear image of MFI's social performance, which can be compared with other MFIs.	Practical and easy to use. Can be used as self-assessment. Can be integrated into ongoing operations (audit or strategic planning processes). Provides immediately actionable information: 1. Highlights significant issues and helps identify areas for improvement. 2. Generates increased knowledge of SPM and assists in buy-in process across MFI. 3. Raises issues and prompts thinking and discussion that lead to action. 4. Gives framework to engage with whole organization, particularly where there is strong management support but broader buy-in remains a key challenge. 5. Helps identify strengths and weaknesses that affirm and recognize progress made on SP and SPM.	Practical and easy to use. Addresses potential negative environmental and social impacts of microfinance so that net positive impact can be maximized.	Provides in-depth information on soundness of MFI design and internal processes. Identifies design and operational strengths, weaknesses, risks, and opportunities as well as quality of social accounts. Produces specific recommendations and action steps. Includes active participation by stakeholders, including management and board.	Integration with standard institutional (credit) rating drives down time and cost. Based on well-known and accepted approaches in institutional (credit) rating. Focus on internal systems and evaluation of existing social accounts increases cost-effectiveness. Use of standardized rating scale makes results comparable across MFIs and contexts and makes benchmarking possible. Results can be used for external reporting and for informing internal management and governance. Comprehensive rating generates—or validates—specific information at client level essential for understanding depth of outreach of microfinance services and client awareness and perspective on the quality of services. A cost-effective way of predicting social impact and providing a baseline for future assessment of impact (cheaper and more focused than an external impact assessment).
What are its issues?	Related to standardization, which limits depth of analysis in details of social performance. MFIs are sometimes surprised to be questioned on dimensions that are not within their priorities.	Does not attempt to measure outputs, outcomes, or impact but ensures these are put in place and function effectively to provide reliable, actionable information that is used in everyday management of MFI.	Not tested much in practice yet. Positive impact of using this approach could prove to be difficult to quantify.	Does not attempt to measure outcomes or impact but bases analysis on existing social accounts.	Does not measure social impact (but see above).

	MicroFinanza Rating Social Rating	Planet Rating Social Rating	MicroRate Social Rating	Global Reporting Initiative	SEEP/AIMS Exit Survey
What is it?	Provides an opinion on the capacity of an MFI to put its social mission into practice. Assesses MFI social performance through evaluation of its SPM system (processes) and its results. The comprehensive social rating also includes surveys and interviews with MFI clients. Rates social performance using standardized rating scale that permits comparisons across MFIs and contexts. Typically offered as stand-alone product, but can also be integrated with standard institutional (credit) rating. Evaluates four dimensions of social performance: social mission, strategy, and system (or SPM system) outreach quality of services social responsibility.	Provides an opinion on the capacity of an MFI to achieve its social goals. Based on an audit of SPM system and relies on social accounts available at the MFI level and secondary data about the country's social and economic environment. Social performance outcome measurements, when available at the MFI level, are checked for reliability and integrated in the rating report. Rates social performance using standardized rating scale that permits comparisons across MFIs and contexts. Typically integrated with standard institutional (credit) rating but may also be offered as stand-alone product. The evaluation covers four dimensions: institutionalization of the social mission outreach service offering social responsibility.	Assesses MFI social performance through evaluation of internal systems (processes) and social accounts. Rates social performance using standardized rating scale that permits comparisons across MFIs and contexts. Typically integrated with standard institutional (performance/credit) rating but may also be offered as stand-alone product. Evaluates social performance and social risk. Four dimensions of social performance are outreach depth and variety of services cost and sustainability social responsibility Further evaluates six internal processes to determine social risk (or risk that MFI deviates from social mission and fails to produce social outcomes): mission, communication, and management leadership strategic planning customer service monitoring recruitment and training incentive system.	The GRI is the world's most widely used social performance reporting framework. Indicators include both core and optional indicators in six dimensions of social performance designed to apply generally to all types of organizations: environment, human rights, labor practice and decent work, society, product responsibility, and economic impact. Also includes sector supplements to capture unique characteristics of different industries.	Short survey administered to former clients of a microfinance program. Seeks information about why client left program and her perceptions of program and its impact on her and her business.

	MicroFinanza Rating Social Rating	Planet Rating Social Rating	MicroRate Social Rating	Global Reporting Initiative	SEEP/AIMS Exit Survey
When is it used?	Periodically, depending on needs of MFI, though no more than once a year.	Periodically, depending on needs of MFI, though no more than once a year.	Periodically, depending on needs of MFI, though no more than once a year.	Part of an ongoing social performance management system.	Implemented when a client indicates intention to drop out of the program or shortly thereafter. Can be implemented on a routine or ad hoc basis depending on MFI's information needs.
How is it implemented?	Implemented by external rating team from rating agency. Consists principally of interviews with MFI stakeholders, including management, staff, board members, and clients and review of social accounts.	Implemented by external rating team from rating agency. Consists principally of interviews with MFI stakeholders, including management, staff, board members, and clients and review of social accounts.	Implemented by external rating team from rating agency. Consists principally of interviews with MFI stakeholders, including management, staff, board members, and clients and review of social accounts.	Implemented by MFI staff, possibly including internal auditor or compliance department. Management plays essential role in integrating into day-to-day operations.	Implemented by internal staff, either loan officers or specially designated market research staff. Do not allow field staff to interview own ex-clients.
Sample size?	150–200 recent clients.	Not applicable.	Not applicable.	Not applicable. Involves collection and reporting of social accounts. Depends on tools used to generate social accounts.	Sample size depends on number of clients leaving program. Not necessarily the intention to survey representative number of ex-clients if used primarily for monitoring or market research (as opposed to assessment).
What type of information does it provide?	Provides information on quality of internal systems and social accounts and whether and extent to which internal systems align performance with social mission and objectives. Comprehensive rating provides information on clients' experiences with and perceptions of MFI as well as benefits received from participation.	Provides information on quality of internal systems and social accounts and whether and extent to which internal systems align performance with social mission and objectives.	Provides an opinion on the social performance of MFI and extent to which internal systems align performance with social mission and objectives. Risk that MFI deviates from social mission and fails to produce social outcomes.	Provides information on MFI outputs and outcomes related to its relationship and impact on diverse stakeholders, including, among others, staff, clients, local community, and environment.	Reasons why clients drop out of the program. Also clients' perceptions of and experience with program, satisfaction with program, etc.

	MicroFinanza Rating Social Rating	Planet Rating Social Rating	MicroRate Social Rating	Global Reporting Initiative	SEEP/AIMS Exit Survey
What are the costs?	Moderate to high (in the thousands) for standards rating. High for comprehensive rating.	Moderate to high (in the thousands).	Moderate to high (in the thousands).	Moderate cost. To the extent integrated into day-to-day operations, cost is lower.	Relatively low cost. Cost depends to large degree on difficulty/ease of finding and visiting exclients.
Time required?	Takes approximately 1 day to prepare, 5 days to implement, and 5–7 days to write final report. Comprehensive rating takes 2–5 days of preparation, 8–10 days to implement, and 8–12 prepare final report.	Rating team level of effort: 2 days preparation, 2–4 days on-site, and 3–5 days for report writing. The MFI needs to send documents and information one months prior to the field mission. Final report usually available within 45 days of the field mission.	Takes approximately two days to prepare, one week to conduct, and one week to write final report.	Ongoing and not a discrete activity. If fully adopted, roughly equivalent in time and resources to other operational departments.	Takes 5–10 minutes to administer survey and seconds to minutes to enter data. Data analysis relatively straightforward.
What are the skills required?	No skills required; performed by external rating agency.	No skills required; performed by external rating agency.	No skills required; performed by external rating agency.	Moderate to advanced assessment skills. Advanced management skills to integrate into day-to-day operations.	Basic interview techniques and data analysis skills.
Who is involved?	External rating team implements but requires time of management, staff, and board members to participate in interviews and final debriefing. Comprehensive social rating: active participation of the MFI in the client survey.	External rating team implements but requires time of management, staff, and board members to participate in interviews and final debriefing.	External rating team implements but requires time of management, staff, and board members to participate in interviews and final debriefing.	Staff assigned to implement and manage GRI. Management and board to integrate GRI into operations and governance functions.	Loan officers or designated market research staff.
Who will use it?	External stakeholders, particularly investors and donors but also useful for internal management and governance.	External stakeholders, particularly investors and donors but also useful for internal management and governance.	External stakeholders, particularly investors and donors but also useful for internal management and governance.	Internal use and external use for stakeholders interested in MFI's social performance.	Internal use.
System infrastructure required?	None.	None.	None.	Database software (including MIS) capable of collecting, storing, and analyzing social accounts.	Database software to tabulate and analyze information.

	MicroFinanza Rating Social Rating	Planet Rating Social Rating	MicroRate Social Rating	Global Reporting Initiative	SEEP/AIMS Exit Survey
Can data be standardized across the industry?	Basic approach can be standardized to a degree via best practice and discussion guides, although implementation will be MFI-specific.	Basic approach can be standardized to a degree via best practice and discussion guides, although implementation will be MFI-specific.	Basic approach can be standardized to a degree via best practice and discussion guides, though implementation will be MFI-specific.	Yes, objective of GRI is to identify globally relevant social performance indicators. Nonetheless, MFIs can choose which indicators are most relevant to it, including sector-specific indicators in sector supplement.	Several questions typically found in exit survey can be standardized; others are more applicable to unique context.
What are its key features?	Integration with standard institutional (credit) rating drives down time and cost. Based on well-known and accepted approaches in institutional (credit) rating. Focus on internal systems and evaluation of existing social accounts increases cost-effectiveness. Use of standardized rating scale makes results comparable across MFIs and contexts and makes benchmarking possible. Results can be used for external reporting and for informing internal management and governance. Comprehensive rating generates additional useful information from clients' perspective regarding outreach to poor and marginal populations and the quality of services and service delivery.	Integration with standard institutional (credit) rating drives down time and cost. Based on well-known and accepted approaches in institutional (credit) rating. Focus on internal systems and evaluation of existing social accounts increases cost-effectiveness. Use of standardized rating scale makes results comparable across MFIs and contexts and makes benchmarking possible. Results can be used for external reporting and for informing internal management and governance.	Integration with standard institutional (performance/credit) rating drives down time and cost. Focus on internal systems and evaluation of existing social accounts increases cost-effectiveness. Use of standardized rating scale makes results comparable across MFIs and contexts and makes benchmarking possible. Results can be used for external reporting and for informing internal management and governance.	Most widely used, credible, and legitimate SPA framework. Used by thousands of organizations. Covers multiple dimensions of social performance using standardized indicators that facilitate comparisons. Includes framework for conducting SPA and integrating SPA into day-to-day operations. Used by socially responsible investors outside of microfinance sector.	Low cost and simple. Provides useful information on reasons for client exist and other client perceptions. Flexible adaptation depending on MFI's information needs.
What are its issues?	Cost may still be too high for target markets. Extent of market demand remains unknown. Does not measure social impact.	Cost may still be too high for target markets. Extent of market demand remains unknown. Does not measure social impact.	Cost may still be too high for target markets. Extent of market demand remains unknown. Does not measure social impact.	Currently no sector supplement for microfinance. Does not capture unique attributes of microfinance (although can be adapted to do so).	Quantitative survey provides breadth of information but lacks depth.

	SEEP/AIMS Use of Loans, Profits and Savings Over Time Tool	**SEEP/AIMS Client Satisfaction Tool**	**SEEP/AIMS Client Empowerment Tool**	**MicroSave Market Research Toolkit**
What is it?	Qualitative tool that uses in-depth individual interview focusing on how client has used her loans, business profits and savings over time.	Qualitative tool that uses focus group discussions (FGDs) to explore clients' opinions about MFI and satisfaction with services and experiences.	Qualitative tool targeted to women that uses in-depth interviews to determine whether and how women have been empowered by their participation in the program.	Market research tools using qualitative methods based on participatory rapid assessment tools.
When is it used?	The survey can be administered to a specific set of clients. Random sampling of participants would be important. Can be conducted as part of an impact survey or on a more periodic basis to understand how products are being used.	Implemented depending on information needs of MFI. Can be systematic/routine or ad hoc.	May be implemented as a one-off exercise or as part of regular research program.	Implemented as needed depending on market research needs of MFI.
How is it implemented?	Implemented by internal staff, either loan officers or specially designated market research staff. May also be implemented by external consultants.	Implemented by staff or external consultants.	Implemented by internal staff, either loan officers or specially designated market research staff. May also be implemented by external consultants.	Implemented by either internal or external research team. Internal research team may include trained market research staff.
Sample size?	Some MFIs have conducted as few as 12 and as many as 30 interviews. Average number is 24. Number depends on characteristics of clients MFI wants to assess.	Relies on qualitative methods, particularly FGDs. Does not attempt to get representative sample of clients but to talk in-depth with relatively small number of clients. Generally 3–4 FGDs or 24–40 persons.	Does not attempt to get representative sample of women clients but to talk in-depth with relatively small number of women clients. Generally around 5–10 interviews.	Relies on qualitative methods, particularly FGDs. Does not attempt to get representative sample of clients or nonclients but to talk in-depth with relatively small numbers of clients per question. Generally 3–4 FGDs or 24–40 persons per question.
What type of information does it provide?	Multipurpose tool providing information on loan use and allocation decision changes over time. Also documents changes in individual borrower, enterprise, household, and community associated with program participation.	Client perceptions of quality of services, benefits of participation, and satisfaction with experience.	Clients provide information about themselves, their enterprise, their family/household, and their community at different points in time (past and present). Methodology also has a self-portrait activity.	Qualitative information from clients or nonclients on specific marketing questions.

	SEEP/AIMS Use of Loans, Profits and Savings Over Time Tool	SEEP/AIMS Client Satisfaction Tool	SEEP/AIMS Client Empowerment Tool	MicroSave Market Research Toolkit
What are the costs?	Relatively low cost depending on number of clients interviewed and travel and related costs.	Relatively low cost. If done internally, costs include staff time for research planning, implementation, and analysis plus transportation, food, lodging, and incidental costs of research team. If done externally, \$5,000 to \$10,000 depending on cost of consultants.	Relatively low cost.	Relatively low to moderate costs. If done internally, costs of research include staff time for research planning, implementation, and analysis plus transportation, food, lodging, and incidental costs of research team. If done externally, \$5,000 to \$10,000 depending on cost of consultants and number of research questions.
Time required?	Takes 60–90 minutes per client. Can take 2–3 weeks to complete the process if conducting approximately 24 interviews. Analysis takes up to 2–5 days.	Can take 1–2 hours to implement. Afterward need around 3–4 hours to tabulate and analyze data.	Takes 60–90 minutes on average to administer.	Each tool can take 1–2 hours to implement. Afterward need around 3-4 hours to tabulate and analyze data.
What are the skills required?	Advanced interview and qualitative data analysis skills.	Intermediate to advanced interview and FGD facilitation skills and qualitative data analysis skills.	Advanced interview and qualitative data analysis skills.	Intermediate to advanced interview and FGD facilitation skills and qualitative data analysis skills.
Who is involved?	Loan officer, designated research staff, or external consultant.	Internal research team (consisting of staff or staff plus management), or external research team.	Loan officer, designated research staff, or external consultant.	Internal research team (consisting of staff or staff plus management), or external research team.
Who will use it?	Internal use, but also of interest to program funders and other stakeholders.	Internal use.	Internal use but also of interest to external stakeholders interested in program impact and female empowerment.	Internal use.
System infrastructure required?	Excel helpful, but no system infrastructure required.	Database software to tabulate and analyze information, though not necessary (tabulation and analysis can be done manually).	No system infrastructure required.	Excel to tabulate and analyze information, though not necessary (tabulation and analysis can be done manually).
Can data be standardized across the industry?	Possible to identify common questions across contexts. Can use common template but ultimately the approach is based on in-depth, semistructured interviews adapted to local circumstances.	Needs to be adapted to specific research questions and needs of MFI.	Possible to identify common questions across contexts. Can use common template but ultimately the approach is based on in-depth, semistructured interviews adapted to local circumstances.	Each tool needs to be adapted to specific research questions and needs of MFI.

	SEEP/AIMS Use of Loans, Profits and Savings Over Time Tool	SEEP/AIMS Client Satisfaction Tool	SEEP/AIMS Client Empowerment Tool	MicroSave Market Research Toolkit
What are its key features?	Low cost. Can be implemented by trained program staff. A few interviews can yield good data on how loans and savings are actually used and how use of those products has improved client well-being. Good tool for monitoring use and impacts of new products.	Once internal team is trained in the different tools and techniques, relatively low-cost and rapid method to gather market information. Provides in-depth information on clients' perceptions on key questions.	Low cost. Provides in-depth information on contribution of MFI to female empowerment.	Once internal team is trained in the different tools and techniques, relatively low-cost and rapid method to gather market information. Provides in-depth information on clients' perceptions o key marketing questions and that of other market participants.
What are its issues?	Qualitative approach provides depth of information but lacks breadth.	If team is not properly trained, quality of the data is compromised (biased). Reliance on qualitative methods provides depth but not breadth of information. May need to be complemented by quantitative data to get fuller picture.	Qualitative approach provides depth of information but lacks breadth. Not all MFIs or external stakeholders are interested in empowerment.	If team is not properly trained, quality of the data is compromised (biased). Reliance on qualitative methods provides depth but not breadth of information. May need to be complemented by quantitative data to get fuller picture.

	USAID Poverty Assessment Tool	FINCA Client Assessment Tool	Housing Index	Participatory Wealth Ranking	Means Test
What is it?	Short survey of 16–33 questions to assess poverty at household level. Questions may cover education, health, housing, and assets.	Client survey with 13 individual screens to household well-being in terms of food security, health care, housing, education, empowerment, and social capital.	Short set of questions related to potential clients' or clients' housing conditions.	Qualitative and participatory method to determine the relative poverty status of persons living in a community.	Short set of questions related to potential clients' or clients' social and economic well-being.
When is it used?	Can be used at any time, but after loan approval or acceptance into program is highly encouraged to minimize bias. Can be used as a one-time assessment or as part of ongoing monitoring.	During loan application and during periodic assessment of existing clients. Designed to be ongoing part of routine reporting system.	Typically during new–member screening but may also be administered at other times, such as loan application. Appropriate for targeting, assessment, or monitoring.	During new–member screening but may also be administered at other times. Takes place over several days; important to use community member who may or may not apply for loan.	Typically during new–member screening but may also be administered at other times, such as loan application. Appropriate for targeting, assessment, or monitoring.
How is it implemented?	Implemented by field staff or external team. Data entered into customized data entry template for each tool. After simple data-cleaning steps, software automatically calculates the prevalence of extreme poverty.	Loan officers administer a short survey as part of the loan application and enter responses onto loan intake form. Client Relationship officers (CROs) based in each branch gather additional data from a sample of clients for poverty assessment and impact monitoring. FCAT software automatically calculates a composite social index—or "score," based on six social metrics—and poverty level that corresponds to this score. CROs currently use an Excel-based system to analyze and manage data. In the future, CROs will use customized, online data warehouse along with financial and transactional data from the MIS.	Administered by loan officers. May involve observations of housing conditions by loan officer or questioning of potential clients or clients. Each answer has assigned point value. Point values summed to determine housing quality. On completion, location of house is indicated on a map for follow-up visit by field staff to complete household means test. (This second step is not done by all the institutions using the housing index.)	Administered by loan officers or other researchers. Community members organized into focus groups who rank community members in terms of poverty status based on local criteria.	Administered by loan officers. Each answer has assigned point value. Point values summed to determine housing quality.

	USAID Poverty Assessment Tool	FINCA Client Assessment Tool	Housing Index	Participatory Wealth Ranking	Means Test
Sample size?	Can be applied to all clients or a sample of current, new, or incoming clients. Sample size depends on level of confidence desired.	All loan applicants. Sample of all clients for poverty assessment and impact monitoring,	All potential clients.	Size of each community/ village area mapped and ranked by the three reference groups. Should not exceed 100–150 households.	All potential clients.
What type of information does it provide?	Automatic calculation of prevalence of extreme poverty. Multiple poverty indicators related to education, housing, and assets can be analyzed to learn more about clients. Database can be exported for further analysis using other software.	Social and economic profile of clients including clients who are very poor, poor, non-poor.	Social and economic profile of clients based on housing conditions. Used to estimate poverty status of household.	Relative wealth (poverty) status of community members according to local criteria.	Social and economic profile of clients based on housing conditions. Used to estimate poverty status of household.
What are the costs?	Low to moderate cost. Varies depending upon sampling frame, logistical costs, and the use of internal or external team.	Not available.	Not available.	Not available.	Not available.
Time required?	About 10–20 minutes per client.	About 3–4 minutes per client.	No more than a few minutes per house. Total time to administer depends on the size and physical dispersion of the community.	Average of 2–4 days depending on the time taken for mapping, recruiting reference groups, and ranking.	About 3–5 minutes per client.
What are the skills required?	Basic interview techniques, sampling, and data entry.	Intermediate interview techniques and working knowledge of PDAs, Excel, and data analysis. Online data warehouse will likely make data entry easier and provide more comprehensive tools for analysis.	Basic interview techniques, computation, data entry, and data management.	Requires that field staff be trained on how to conduct a PWR exercise.	Basic interview techniques, computation, data entry, and data management.

	USAID Poverty Assessment Tool	FINCA Client Assessment Tool	Housing Index	Participatory Wealth Ranking	Means Test
Who is involved?	Field staff or external team, including 2–5 interviewers, field supervisor, data entry operators, and HQ coordinator(s).	CROs collect information and enter it into Excel (or soon the online data warehouse). Field staff and management analyze the data.	Loan officers administer tool and score the results. Supervisors review data.	Field staff or other management of the MFI and selected community members.	Field staff administers tool. Office staff enters information into computer. Technicians manage and analyze data.
Who will use it?	Internal management; meeting USAID reporting requirements; other stakeholders interested in client profile.	Internal management.	Internal use primarily but also of interest to external stakeholders interested in poverty profile and impact of MFI.	Internal use primarily but also of interest to external stakeholders interested in poverty profile and impact of MFI.	Internal use primarily but also of interest to external stakeholders interested in poverty profile and impact of MFI.
System infrastructure required?	EPI Info software (freeware) and a computer with Windows 98 or later. No other software is required.	Excel and, in the future, a customized online data warehouse. Also requires trained loan officers and CROs.	Requires automated MIS or other database system (e.g., Excel, Access, SPSS, etc.)	No system infrastructure needed. Poverty levels can be recorded in the organization's current MIS system or in separate database.	Requires automated MIS or other database system (e.g., Excel, Access, SPSS, etc.)
Can data be standardized across the industry?	Each tool is country-specific and would not be accurate elsewhere. However, all tools measure absolute poverty, so results can be compared across countries and regions.	Yes, uses clearly defined and relatively easy-to-collect indicators. Not clear that many MFIs are willing or capable of investing the time and resources into developing a similar system.	Approach can be standardized but indicators are country-specific depending on poverty characteristics of country. Relatively low cost makes it widely replicable.	Approach can be standardized but results will vary depending on local conditions.	Approach can be standardized but indicators are country-specific depending on poverty characteristics of country. Relatively low cost makes it widely replicable.
What are its key features?	Uses multiple statistical methods to select indicators and calibrate poverty predictions. Relatively low cost and practical to implement. Automated steps for data processing and poverty calculation to reduce errors. Future tools will include both extreme poverty and poverty lines.	Captures diverse set of social and economic indicators of client well-being. Allows MFI to generate good information on client profiles and their change over time. Technology (PDAs and soon online warehouse) simplifies administration and data collection. Can be used as both measurement and management tool.	Indicators are often highly correlated to poverty so allows reasonable estimate of potential client or client poverty status. Simple indicators combined with short survey and standard scoring system make data collection, management, and analysis relatively simple. Useful as both targeting and monitoring tool.	Does not require any technology for implementation. Research has shown that tool can be highly correlated with national poverty lines. Additional benefits include deeper outreach and PR and marketing through community involvement.	Indicators are often highly correlated to poverty so allows reasonable estimate of potential client or client poverty status. Simple indicators combined with short survey and standard scoring system make data collection, management, and analysis relatively simple. Useful as both targeting and monitoring tool.

	USAID Poverty Assessment Tool	FINCA Client Assessment Tool	Housing Index	Participatory Wealth Ranking	Means Test
What are its issues?	Tool creation requires appropriate national household survey data set, and advanced statistical skills. Need sufficient training and supervision to minimize bias during implementation. Household roster on most PATs takes a bit more time than shorter tools, but provides additional info about household for additional analysis.	Relatively expensive and time-consuming. Uses relatively simple method to estimate household expenditures and poverty status. Estimates contain unknown, but possibly large, measurement error.	Indicators may or may not be closely linked to poverty; poverty profile may contain unknown but potentially large measurement error.	Requires skill in group facilitation that is not necessarily common among field staff. Results not objectively verifiable and may or may not be replicable. Dependent on community members' knowledge of one another and accuracy of assessments which may be biased or wrong. No built-in system of verification.	Indicators may or may not be closely linked to poverty; poverty profile may contain unknown but potentially large measurement error.

	Progress Out of Poverty Index	CGAP Poverty Assessment Tool	Internal Learning System	SEEP/AIMS Impact Assessment	INAFI–Oxfam Novib–Ordina Social Impact Measurement Tool
What is it?	Short survey of 5 or 10 categorical questions related to household poverty status.	Measures relative poverty level of MFI clients.	Participatory impact assessment and planning system for community development programs. Designed to meet learning needs of program participants, village groups, and operational field staff.	Impact survey is to test multiple hypotheses corresponding to various types of impact at the individual, household, enterprise, and community levels.	A method to measure and report on social impact of the work of MFIs and their programs in terms of changes in the lives of clients and their families.
When is it used?	May be used at any number of times, such as during new–member screening or loan application. May also be administered periodically, annually, or at client exit. Appropriate for targeting, assessment, or monitoring.	Implemented depending on information needs of MFI.	Ongoing system that builds panel data over time through use of pictorial diaries suited for and developed by illiterate and poor clients. MFI would use this data on ongoing basis (e.g., every 3, 6, or 12 months) to understand impact of program on the clients through eyes of the clients.	One-off tool implemented at particular point in time depending on MFI's needs.	In principle it is used with every start and end of a loan cycle of the clients of the MFI (although adjustments on this procedure can be made) and at least every 12 months.

	Progress Out of Poverty Index	CGAP Poverty Assessment Tool	Internal Learning System	SEEP/AIMS Impact Assessment	INAFI–Oxfam Novib–Ordina Social Impact Measurement Tool
How is it implemented?	Administered by loan officers. Each answer has assigned point value. Total points can be summed in field by loan officer and poverty probability immediately estimated. Can enter overall score or overall score plus individual indicator score into MIS.	Implemented by external consultants.	MFI works with its clients to develop pictorial diaries and workbooks. Clients help analyze and summarize data. Development can also be done by external consultant. All data is aggregated at the organization level by staff. MFI needs to put significant thought into what it needs to track over time and how it will analyze data.	Designed to be implemented by MFI staff. Can also be implemented by external consultants. Administered to three different groups. Treatment group consists of mature clients (2 or more years in program) and short-term clients (1 year in program). Control group consists of new clients who have yet to receive loans or who have recently received loans.	Loan officers of MFIs using the Internet-based SIM tool login at a special website with their username and password. Data capturing can be done online. Through the online tool the MFI can also download the questionnaire (for filling in the paper version and entering data online at a later stage) and if necessary the offline tool (for filling in and uploading batches of data at a later stage).
Sample size?	Can be done with census or sample of clients.	Sample size depends on size of MFI but is usually several hundred clients.	Can use sample or census. Sample size depends on size of MFI and level of accuracy desired.	Sample size in range of 100–400 clients depending on MFI resources, number of analytical groups, and level of desired precision.	No decision has been made yet on sample size. This will be looked into in Q1–2 2008. For now we do not recommend sampling to get reliable data.
What type of information does it provide?	Poverty likelihood (probability of being very poor or poor) for individual clients, groups of clients, or clients as a whole. Multiple indicators related to client economic well-being, each statistically linked to poverty in the country.	Overall relative poverty status of clients. Indicators of relative poverty that varies by country.	Qualitative information (via pictorial diaries) on client experience with program, changes social and economic conditions, and perceived impact.	Quantitative information related to MFI impact and intermediate outcomes contributing to impact.	Statistics on changes in the lives of clients with respect to 10 socioeconomic indicators at branch, MFI, country, continent, and international level.

	Progress Out of Poverty Index	CGAP Poverty Assessment Tool	Internal Learning System	SEEP/AIMS Impact Assessment	INAFI–Oxfam Novib–Ordina Social Impact Measurement Tool
What are the costs?	Not available.	Relatively high cost. Approximately $10–15,000.	Significant up-front costs of developing pictorial diaries and context-appropriate pictures as well as up-front training of clients on how to use the tool. Implementation done by clients so relatively low cost. Costs of data analysis can be moderate to high depending on extent and complexity of data.	Relatively high cost. If done internally, costs include staff time for design, planning, and implementation plus transportation, lodging, and incidental costs of research team. Likely to cost in the thousands of dollars. If done externally, $20,000-plus depending on cost of consultants.	Although not yet decided, it is expected that for members of INAFI International a minimal fee will be charged for the use of the tool. For non-INAFI members also a small fee will be charged. This will be used for managing the tool, providing information, and training of users. No costs for further development of the tool at the MFI level. Everything runs fully through the Internet. Processes can be designed in such a way that one Internet access point per MFI is sufficient. Recommendable is at least one Internet access point per branch. No additional costs for reporting.
Time required?	About 3–5 minutes per client.	2 months.	Significant time required for up-front development and training. Also requires extensive field testing to work out bugs. Less time required for implementation as done by clients. Data analysis can be time-intensive.	Each survey takes 45–90 minutes per client. Can take 2–4 weeks to complete all surveys plus 2–3 weeks for preparation and analysis.	A survey will take around 10–20 minutes per questionnaire, depending on the level of experience of the loan officer.

	Progress Out of Poverty Index	CGAP Poverty Assessment Tool	Internal Learning System	SEEP/AIMS Impact Assessment	INAFI–Oxfam Novib–Ordina Social Impact Measurement Tool
What are the skills required?	Basic interview techniques, computation, data entry, and data management.	Intermediate interview techniques. Advanced statistics and data analysis.	Advanced skills required to develop context-appropriate pictorial diaries. Intermediate to advanced data-analysis skills. Requires organizational learning culture to be effective.	Advanced interview and assessment techniques and study design skills. Advanced data management and data analysis/statistics.	Interview skills to use the questionnaire. If the loan officer uses also a computer, minimum computer skills are also needed.
Who is involved?	Field staff administers survey, key punch operator to enter information into database, and lower-level technical staff to analyze data.	External research team to implement. Management consulted during analysis.	External consultant or internal staff to develop pictorial diaries. Clients to implement. Staff to analyze data.	Internal research team to implement or external research team.	Every MFI assigns an application manager who provides access to the system to internal users. The loan officer (or equivalent) asks the questions to the clients during normal procedures. In some cases the MFI can choose to let the data collection be done by the loan officer and let another person do the data entry in the system. In this case an extra role is necessary.
Who will use it?	Internal use primarily but also of interest to external stakeholders interested in poverty profile and impact of MFI.	Internal use primarily but also of interest to external stakeholders interested in poverty profile and impact of MFI.	MFI and clients. May also be of interest to external stakeholders interested in social and economic conditions of clients.	External use by stakeholders interested in impact of MFI plus internal use for program management or design.	MFIs can use it for internal and external reporting. Also, aggregated reporting is available for INAFI International at country, regional, and global levels. INAFI can make data and reports available to researchers or other interested bodies.

	Progress Out of Poverty Index	CGAP Poverty Assessment Tool	Internal Learning System	SEEP/AIMS Impact Assessment	INAFI–Oxfam Novib–Ordina Social Impact Measurement Tool
System infra-structure required?	Requires automated MIS or other database system (e.g., Excel, Access, SPSS, etc.).	Requires statistical software capable of advanced statistical analysis.	Work and analysis can be done manually. Analysis can also be done using computerized database management and analysis software, such as Excel.	Statistical analysis software (e.g., Epi Info, SPSS, Stata).	At least in the head office, Internet access (preferably with DSL connection) and computer with regular capacity and a Web browser and a PDF reader. It is recommended that all branches have at least one computer with an Internet connection. Because everything runs through the Internet no additional software or hardware is needed.
Can data be standardized across the industry?	Approach can be standardized but indicators are country-specific depending on poverty characteristics of country.	General approach can be standardized but indicators are country-specific depending on relative poverty characteristics of country.	General approach can be generalized but implementation depends on characteristics of country and clientele.	Questions need to be adapted to local context but can draw on extensive impact assessment resources to design using more or less standardized questions. (Impact assessments tend to ask similar questions.)	Yes. This is the strong side of this approach. The questionnaire is universally standardized, making it possible to create standardized reporting be used across the industry.

	Progress Out of Poverty Index	CGAP Poverty Assessment Tool	Internal Learning System	SEEP/AIMS Impact Assessment	INAFI–Oxfam Novib–Ordina Social Impact Measurement Tool
What are its key features?	Indicators statistically linked to poverty. Provides accurate and credible estimate of poverty outreach and poverty trends among clients. Allows immediate estimate of client poverty likelihood. Relatively easy and inexpensive to administer and flexible in terms of when it can be administered. Poverty scorecards calibrated to multiple extreme poverty and poverty lines.	Produces statistically credible measure of relative poverty with several indicators linked to relative poverty levels.	Measures program effectiveness from perspective of clients themselves. Flexible to local needs and constraints. Does not require statistical knowledge.	Less costly and more practical than academic-quality impact assessment. Can be implemented by MFI staff with adequate training. Can yield information useful to understand program impact but also useful for program management.	Standardization, simple to use, user friendly, low costs for implementation, fits into daily processes of MFIs, multilingual (standard English, French, Spanish, and every other language can be added very easily so users can work in their own local language), universally identical questionnaires, every type of MFI can use it (also Grameen-oriented), easy to maintain, universally applicable, MFIs can compare themselves on outcome and effectiveness on programs, fully automated nearly real-time reporting without human interference.

	Progress Out of Poverty Index	CGAP Poverty Assessment Tool	Internal Learning System	SEEP/AIMS Impact Assessment	INAFI–Oxfam Novib–Ordina Social Impact Measurement Tool
What are its issues?	Requires appropriate national-level household survey data set to derive poverty indicators. Process to derive poverty indicators complicated and expensive and requires high technical aptitude in data analysis.	High cost and time intensive. Measures relative poverty only and thus not linked to international or national poverty lines. One-off exercise that does not build capacity of MFI to measure poverty in future.	Content to be measured limited by ability of client to illustrate a development indicator. Significant up-front development costs. Can be complicated in terms of implementation and analysis.	Despite practitioner focus, still quite expensive and requires technical skills not possessed by all MFIs. Difficult to coordinate with management's decision-making cycle. Produces long, detailed reports often without clear implications for MFI management. MFIs may lack know-how or experience to integrate findings. Staff implementation increases risk of poor implementation and incidence of measurement error. Validity of new clients as control group questionable. Prone to selection bias due to sampling design.	The organization needs at least one computer with an Internet connection. For now there is a measurement with the beginning and end of every loan for every client. Possibilities of sampling are under investigation now.

10. POVERTY ASSESSMENT TOOLS[1]

INTRODUCTION

The microfinance industry began as grassroots initiatives by local and international NGOs to alleviate poverty via the extension of credit to micro- and small enterprises owned and operated by the poor. In the midst of rapid growth and increasing commercialization, the industry in general (although not in all cases) retains this original purpose. It is natural, therefore, that within the industry there is demand for credible, yet practical, poverty assessment tools.

Although poverty assessment tools (e.g., poverty scorecards) have been available for some time now, they have generally not been user friendly, so they have failed to gain traction among development practitioners. Standard methods for measuring poverty (e.g., household income, per capita household expenditures, etc.) have proven impractical given the scarce resources, time limitations, and technical constraints of microfinance institutions (MFIs). Some MFIs have instead relied on **outcome indicators**—asset ownership, housing conditions, access to services, children's education, or food security—to estimate poverty, but their relationship with poverty is unknown. Plus, as Manfred Zeller (2004) has pointed out,[2] they are also plagued by problems related to data collection, management, analysis, and interpretation.

In light of the problems associated with outcome indicators, and in lieu of direct information on poverty, industry stakeholders have tended to rely on simple poverty **proxies,** the most common being the average loan size adjusted for gross national income (ALS/GNI). (The average loan size is adjusted by GNI to account for different income levels across countries. For example, a $100 loan is relatively large in a poor country such as Bangladesh but relatively small in a middle-income country such as Argentina.) But as demonstrated by Schreiner (2001)[3] and Zeller (2005),[4] ALS/GNI may or may not be a good proxy of poverty. In addition, ALS/GNI does not take into account the fact that clients, including poor ones, increase their loan size over time. ALS/GNI, in effect, penalizes MFIs for retaining poor clients and making larger loans to them over time.

A common adjustment made to account for loan growth is to take the ALS/GNI for new clients as a proxy for poverty status on program entry. Even then, however, ALS/GNI is a questionable proxy for poverty, for reasons already mentioned. ALS/GNI, therefore, is useful only as a broad indicator of depth of outreach. For MFIs looking for a tool to target their services to the poor or extremely poor, ALS/GNI is of little use. (ALS/GNI for new loan clients, on the other hand, may still retain some use as a proxy for poverty outreach.)

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1. Anthony Leegwater of the IRIS Center and Mark Schreiner of Microfinance Risk Management provided much of the content found in this chapter of the Social Performance Map.

2. Manfred Zeller's "Review of Poverty Assessment Tools" can be found at www.povertytools.org/Project_Documents/Review%20of%20Poverty%20Assessment%20Tools.pdf.

3. Mark Schreiner, (2001), "Seven Aspects of Loan Size," *Journal of Microfinance,* 3, 2, 27–48 (marriottschool.byu.edu/esr review/view_archive_issue.cfm?issue=fall01).

4. Manfred Zeller's "Results from Accuracy Test in Bangladesh" can be found at www.povertytools.org/Project_Documents/Bangladesh%20Accuracy%20Report%20Final.pdf.

In lieu of ALS/GNI, a number of MFIs and MFI support organizations have developed their own poverty assessment tools using either simple poverty proxies (e.g., the housing index, food security survey), rapid assessment methods (e.g., wealth ranking) or more complicated, multidimensional assessment tools (e.g., FINCA client assessment tool).[5] While many of these tools are relatively simple to administer, none of them is linked to, or derived from, an actual poverty or extreme poverty line, and their accuracy is unknown.

Two poverty assessment tools, however, *are* directly derived from international and/or national poverty lines, have known levels of accuracy, and are relatively simple to administer: the IRIS Poverty Assessment Tool (PAT) and the Progress Out of Poverty Index (PPI) developed by Mark Schreiner for Grameen Foundation, CGAP, and the Ford Foundation. Based on their accuracy and ease of use, the PAT and PPI probably have the greatest potential among the various poverty assessment tools for widespread diffusion. Each is discussed in greater detail below.

IRIS Poverty Assessment Tool

A 2003 amendment to the U.S. Microenterprise for Self-Reliance Act reaffirmed past legislation requiring USAID to spend half of its microenterprise funding on the very poor. The amendment redefined the "very poor" as those living below the international poverty line of $1/day (purchasing power parities) or in the poorest half below the national poverty line. The amendment went on to require USAID to develop, field test, and certify poverty assessment tools for use by microenterprise practitioners.[6]

To satisfy this congressional requirement, USAID contracted the IRIS Center at the University of Maryland (IRIS) to develop simple, low-cost quantitative tools for measuring the prevalence of extreme poverty among clients of microfinance and microenterprise programs. These tools, known as the Poverty Assessment Tools (PATs), are short household questionnaires with 16 to 33 questions on topics ranging from consumer durables ownership to educational attainment. The individual questions have been chosen to balance practicality of implementation and the accuracy of aggregate poverty predictions.

The questionnaire is administered by interviewers in the field, preferably by enumerators not known by those being interviewed. The questionnaire responses are entered into a custom-designed computer template that mirrors the survey instrument. Then, after some basic quality control steps, a few mouse clicks will produce an estimate of the percentage of very poor.

To date, IRIS has developed tools for 17 countries (Albania, Azerbaijan, Bangladesh, Colombia, East Timor, Ghana, Guatemala, India, Indonesia, Jamaica, Kazakhstan, Madagascar, Malawi, Peru, Tajikistan, Uganda, and Vietnam),[7] led tools trainings in Peru, Cambodia, Uganda, and Washington, DC, and developed a variety of online resources to assist in the use of the tools. All these can be found at the USAID Poverty Tools website. And as part of its ongoing work for USAID, IRIS is developing additional poverty assessment tools, planning additional regional trainings for 2008, and creating additional training resources for implementers, including an e-learning portal.

5. These and other poverty assessment tools are described in the Consumer's Guide chapter of the Social Performance Map.

6. For more on the Microenterprise for Self-Reliance Act, see www.microlinks.org/ev02.php?ID=7744_201&ID2=DO_TOPIC. For more information on definitions of poverty lines, see Note D on page 184.

7. The IRIS Center also adapted PPIs from the Grameen Foundation as USAID PATs for Haiti, Mexico, and the Philippines.

Progress Out of Poverty Index

Concurrent to the development of the PAT, the Grameen Foundation (GF) undertook a similar initiative to create a simple poverty assessment tool with funding from CGAP and the Ford Foundation. GF named this tool the Progress Out of Poverty Index (PPI).[8]

The PPI is a scorecard consisting of 10 indicators, each with two or more possible responses. Each response in turn is assigned a point value with lower points corresponding to greater poverty likelihood. The scorecard is simple enough that, if desired, the loan officer or another enumerator could administer the scorecard and tally up the overall score in the field by hand. The score is then converted (in the field, back at the office, or with software) to a **poverty likelihood**. The poverty likelihood of an individual is the probability that the person is below a given poverty line. When applied to a group of persons (e.g., a sample of MFI clients), the group's **poverty rate** is defined as the average of the poverty likelihoods of the individuals.

CGAP and the Ford Foundation have since funded the development of several poverty scorecards using the PPI methodology both as part of the original GF initiative and as a complement to it. Scorecards affiliated with GF have been produced for Bangladesh, Bolivia, Haiti, India, Mexico, Morocco, and Pakistan. Additional scorecards have been produced to date for El Salvador, Ghana, Guatemala, Kenya, Malawi, Nicaragua, Nepal, Nigeria, Palestinian Territories, Romania, South Africa, and Vietnam.

PAT vs. PPI

The PAT and PPI share similarities but also have a number of differences, although functionally they are very similar. The similarities and differences are shown in Table 1. One point of comparison not addressed in Table 1 is tool accuracy. There is not sufficient information at the moment to determine conclusively that one tool is more accurate than the other. Both tools are derived through credible means, and both depend critically on data quality. Overall, the relative accuracy of the two tools is probably reasonably high and reasonably similar in many instances. Both the 16 PATs developed by IRIS and the three PPIs submitted by GF have surpassed the minimum USAID accuracy requirements to satisfy its reporting requirements under the U.S. Microenterprise for Self-Reliance Act.[9]

The PAT and PPI have a few notable drawbacks: They are limited to the relatively small subset of countries for which relatively recent national-level household expenditure data is available; they can be expensive to develop and validate; and they make no distinction between urban and rural households, which will likely have different poverty characteristics. While making this distinction would increase the accuracy of the tools, it would also increase their complexity and cost. Even without accounting for the urban-rural distinction, however, both tools score high on the accuracy criterion.

8. For more on the PPI, see www.grameenfoundation.org/what_we_do/microfinance_support/social_performance/the_ppi_tool and www.microfinance.com/#Poverty_Scoring. The second link includes copies of PPI scorecards along with background and explanatory documents.

9. This does not necessarily imply that they are equally accurate.

Table 1. PAT vs. PPI

Item	PAT	PPI
Purpose	Provide low-cost and accurate estimate of poverty incidence	Provide low-cost and accurate estimate of poverty incidence Measure change in poverty incidence through time Targeting
Method	Estimate percentage of population falling below absolute extreme poverty line using a short set of proxy indicators for household expenditures	Estimate percentage of population falling below absolute poverty line using a short set of proxy indicators for household expenditures Poverty status is probabilistic
Source of Information[a]	Existing data from recent national household survey Primary data collection by IRIS on nationally representative sample	Existing data from recent national household survey
Derivation Method[b]	Selects the most accurate model for each country from a pool of eight potential regression methods	Unique process based in part on Logit regression
Types of Indicators[c]	Simple and practical Most indicators show variation over time	Simple, objective, practical, and objectively verifiable Indicators show variation over time
Poverty Lines[d]	Extreme poverty: • $1 DPCE • Bottom 50% below national poverty line	Extreme poverty: • $1 DPCE • $2 DPCE (CEE countries) • Bottom 50% below national poverty line • National extreme poverty line • Other extreme poverty lines Poverty: • $2 DPCE • $4 DPCE (CEE countries) • National poverty line • Other poverty lines
Data Collection	Collected in field by staff or other enumerators not known by the interviewee	Collected in field by loan officers
Poverty Calculation	Automated—done at office by customized freeware computer program	Can be calculated by loan officers or survey enumerators in the field or in the office by hand or with electronic device (e.g., PDA or computer)
Level of Poverty Analysis[e]	Aggregated	Individual client Aggregated
Poverty Targeting[f]	Not used for poverty targeting	Used for poverty targeting

Item	PAT	PPI
Transparency[g]	Enumerator does not see poverty score	Enumerator sees poverty score Scoring weights are public knowledge
Poverty Monitoring[h]	Some indicators used for poverty tool do not vary or vary little over time	Indicators used for poverty tool are objective and vary over time with changes in poverty status

a. Both tools are constructed using existing Living Standards Measurement Survey (LSMS) or an LSMS-like national household survey with expenditure data. During the development and testing phase, IRIS also conducted original LSMS-style surveys in Bangladesh, Kazakhstan, Peru, and Uganda.

b. The PAT development team tests a variety of statistical models and chooses the most accurate of these for the final tool, whereas the PPI uses a single statistical procedure (Logit regression). The regression methods for the PAT include four types—OLS, Quantile, Linear Probability, and Probit. Each type is performed on both the full sample (one-step model) and sequentially on the full sample, followed by a reestimation on a reduced sample of households predicted to be at the lower end of the expenditure distribution (two-step model).

c. PPI indicators are fewer in number but do not include questions on household size, age of household head, location (city, region, or urban/rural), or adult schooling, all of which are frequently strongly associated with poverty status. The PPI elected to focus on objectively verifiable indicators that might vary over time as poverty changes. The aforementioned indicators tend not to vary much over time and for this reason were not included in the PPI. (Possible exceptions occur in areas with high HIV/AIDS rates in which households may face poverty pressures from taking care of AIDS orphans.)

d. The language of the Microenterprise for Self-Reliance Act limited the PAT to the "very poor," and IRIS has followed this mandate. The PAT can also be used with multiple poverty lines as well, and future PATs will include additional poverty lines. For instance, the PAT developed for Malawi includes the national poverty line in addition to the extreme poverty line. The PPI is used with multiple poverty lines. (In addition to the poverty lines mentioned in Table 1 above, designers of the PPI are open to using the tool with any credible poverty line.)

The World Bank defines the extreme poverty line in low-income countries as roughly equivalent to $1 in daily per capita household expenditures (DPCE) adjusted for purchasing power parities (PPPs) and the poverty line in low-income countries as roughly $2 DPCE. In certain medium-income countries with higher average incomes, however, the $2 and $1 DPCE poverty and extreme poverty lines are not relevant. This is particularly true in Central and Eastern Europe (CEE) countries. In these cases, the World Bank uses a $4 DPCE poverty line and a $2 DPCE extreme poverty line. In addition to official national poverty lines, many countries have also established official poverty and extreme poverty lines, often defined as the level of expenditures necessary to purchase, respectively, a basket of goods or a minimum basket of food.

e. The PAT is used to calculate the overall percentage of clients below the relevant extreme poverty line. It could also easily be used, however, to predict whether a particular person is extremely poor. The PPI is used to calculate the overall percentage of clients below the relevant poverty or extreme poverty line. It is also used to estimate the likelihood that a particular person is either poor or extremely poor.

f. Because the PAT is analyzed only at the aggregate level, it cannot be used in its present form for poverty targeting (admitting or denying admittance of clients into the program based on their poverty status). With very slight modification, it could also be used for poverty targeting.

g. The survey results for the PAT are recorded by the enumerator but no poverty score is calculated. This is done at the office by computer and then for all clients surveyed, not individual clients. Neither the loan officer nor client knows how each survey response affects the client's predicted poverty status. Moreover, because the PAT is not used for poverty targeting, there is less incentive for loan officers or clients to try to manipulate it, although the possibility for manipulation cannot be conclusively eliminated.

For the PPI, the loan officer or enumerator can quickly calculate the poverty score and corresponding poverty likelihood in the field. This transparency and ease of calculation has the benefits of allowing the loan officer to see and understand the tool and of allowing quick results. It has the drawback of increasing the incentive and opportunity for manipulation by loan officers and clients, particularly when it is used for poverty targeting. In either case, good training and careful oversight are important to secure the integrity of the tool and the credibility of its results.

h. The PAT includes more indicators than the PPI; some of these indicators—such as family size, adult literacy, geographic location—do not vary or vary little over time. (The overall poverty values, however, *are* expected to show reasonable variation over time.) The limited set of PPI indicators are selected explicitly with the expectation that a large share of them can, in principle, vary over time with changes in household well-being.

11. COMMON SOCIAL PERFORMANCE INDICATORS FOR MICROFINANCE

SOCIAL PERFORMANCE TASK FORCE

In March 2005, a group of microfinance stakeholders came together in Paris to form the Social Performance Task Force (SP Task Force).[1] The purpose of the SP Task Force is to build industrywide support for social performance through a process of stakeholder engagement, agreement on terminology and definitions, coordination of social performance initiatives, information dissemination, creation of a common social performance framework, and development of social performance reporting and performance standards.[2] (Information on the work and outputs of the SP Task Force can be found at the Social Performance Resource Center.)

An early output of the initial Paris meeting was a common action plan that takes advantage of the synergies between the different groups, and members of the SP Task Force, who are carrying out social performance initiatives—primarily the Imp-Act Consortium, the CERISE group, CGAP-Ford Social Performance Indicators Project, the Social Performance Working Group (SPWG) of The SEEP Network, the Council of Microfinance Equity Funds, and M-CRIL.

Another important output of the initial SP Task Force meeting was an agreement on a common definition for social performance, as follows:

> The effective translation of an institution's social mission into practice in line with accepted social values that relate to serving larger numbers of poor and excluded people; improving the quality and appropriateness of financial services; creating benefits for clients; and improving social responsibility of an MFI [microfinance institution].

This definition was vetted through a process of stakeholder engagement over a period of months in 2005. It incorporates the entire process by which social impact is created (see Figure 1), including analysis of the declared institutional mission, the effectiveness of internal systems and services in fulfilling this mission, and related outputs (e.g., outreach) and outcomes (e.g., improvement in clients' lives).

Working collaboratively under the leadership M-CRIL, the SP Task Force has also produced a common framework for social performance reporting and social rating. This framework has three components—context, process, and results—each of which is further broken down into key dimensions, as shown in Table 1 and in Figure 2.[3]

Figure 1. Social Performance Process

1. The SPTF has since held additional global meetings in Washington, DC; Rome; Halifax; and Paris. The global meetings of the SPTF have been generously supported by CGAP, the Argidius Foundation, and the Ford Foundation.

2. In addition to the SPTF, the participants at the Paris meeting also created a CGAP Donor Working Group on Social Performance.

3. For an in-depth discussion of the Common Framework, see the chapter on Common Framework for Social Rating and Social Performance Reporting in the Social Performance Map.

INTENT AND DESIGN

What is the social mission of the institution?
Does it have clear social objectives?

↓

INTERNAL SYSTEMS & ACTIVITIES

What activities will the institution undertake to achieve its social mission?
Are systems designed and in place to achieve those objectives?

↓

OUTPUTS

Does the institution serve poor and very poor people?
Are the products designed to meet their needs?

↓

OUTCOMES

Have clients experienced social and economic improvements?

↓

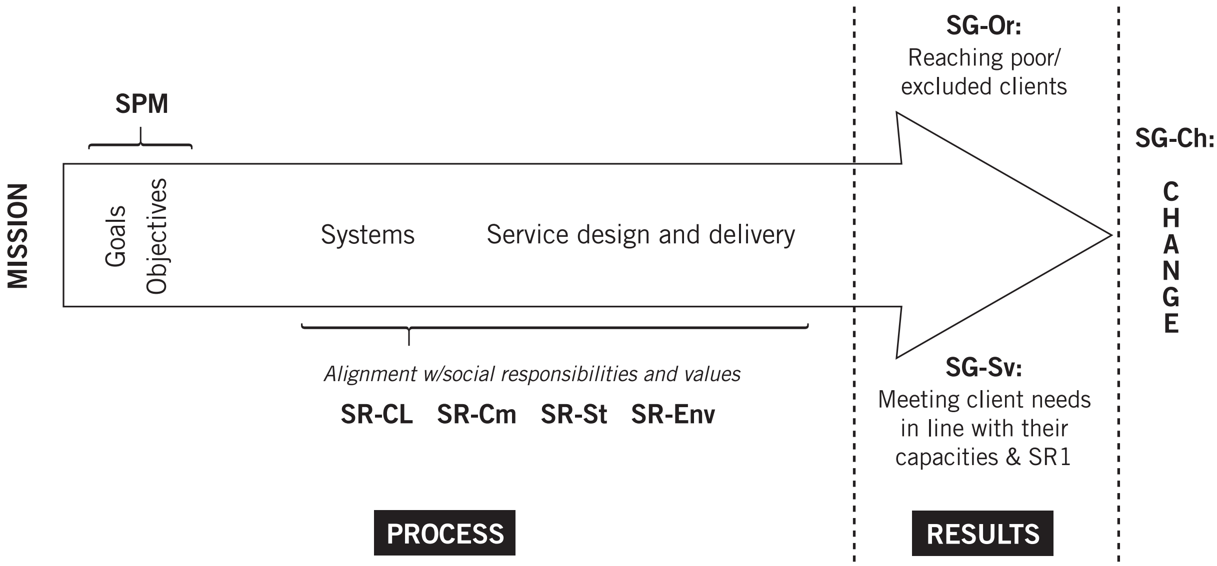
OUTCOMES/IMPACT

Can these improvements be attributed to institutional activities?

Table 1. Common Framework

Component	Dimensions
Context	Country and regional development indicators (from secondary sources) MFI profile and financial services
Process: Governance, Policies, and Systems	SPM: Social performance management—mission clarity, alignment of systems, decision making SR-CL: Responsibility to clients—client protection SR-Cm: Responsibility to community SR-St: Responsibility to staff SR-Env: Responsibility to environment GA: Gender approach MG: Member governance (if member-owned institution) NFS: Nonfinancial services
Results or Achievement of Social Goals: Client and Community Levels	SG-Or: Social goal—outreach SG-Sv: Social goal—services SG-Ch: Social goal—change

Figure 2. Common Framework in Graphical Form



COMMON SOCIAL PERFORMANCE INDICATORS

Another output of the SP Task Force was to form a series of subcommittees made up of task force members to advance the task force's work in different areas. Two of these were the Social Investors Subcommittee and the Subcommittee for Social Performance Core Indicators. The Social Investors Subcommittee engaged social investors to find out their perceptions on alternative indicators that might be used to report on the social performance of MFIs. The Subcommittee for Social Performance Core Indicators surveyed MFIs about their perceptions regarding social performance indicators. The end objective of these projects was to develop a set of **common (core) social performance indicators** that could be used to monitor, report, and compare social performance across MFIs and contexts. These common indicators would be submitted to the MIX Market by individual MFIs for dissemination and benchmarking.

Toward this end, the Social Investor Subcommittee and the Subcommittee for Social Performance Core Indicators carried out separate surveys of social investors and MFIs during Spring 2007 asking about their practices, perceptions, and preferences regarding a set of social performance indicators. These two surveys and their findings are summarized in Annexes 2 and 3 of this section. These findings have enabled the SP Task Force to narrow down and refine (e.g., adjust indicator definitions) the list of common indicators further.

With this refined list of indicators, the SP Task Force will carry out a set of pilot tests with a group of MFIs to test the implementation of the common indicators according to a set of predefined criteria. Annex 1 describes this field test at length and the proposed process for developing a final list of core social performance indicators.

ANNEX 1: PILOT TESTING OF SOCIAL PERFORMANCE INDICATORS: GUIDANCE DOCUMENT

PURPOSE OF PILOT TEST

In April and May 2007, the SP Task Force's Subcommittee for Social Performance Core Indicators created a survey, completed by over 200 institutions, to narrow down a list of around 185 potential social performance indicators to a core set. The survey asked respondents to indicate by a "yes" or "no" whether each of 185 possible social performance indicators was "relevant," "easy to report," or "likely to yield quality results." After analyzing the responses, the subcommittee created a draft set of core SP indicators. The primary purposes of the pilot tests are to (1) better understand and document the process of gathering and inputting the information and data from the SP indicators and (2) finalize the set of social performance indicators.

The subcommittee has worked extensively to clarify the indicators and add definitions based on the extensive feedback received from April to October 2007. The MIX and several members of the subcommittee analyzed over 400 data entries of input and adjusted the indicators to the extent possible. To determine if these indicators should stand as they are or be changed in any way, the subcommittee is asking participating institutions to gather and input the information or data for each social performance indicator and state how strongly they agree or disagree with the following statements:[4]

1. This data can be easily obtained.
2. This data can easily be verified.
3. This indicator is relevant to my institution and will yield useful information.
4. My institution is willing to publish the data of this indicator publicly on the MIX Market.

Participating institutions will also be given the opportunity to provide comments and feedback about each social performance indicator. The answers to these statements and any accompanying comments will ensure the most appropriate, meaningful, practical, and reliable social performance indicators are included as part of the MIX Market reporting framework. Furthermore, participating institutions will be asked how long it takes to complete each section of the survey. This information is intended to help the SP Task Force determine the time required to complete the survey and, therefore, the practicality of such an exercise for future reporting institutions.

The secondary purpose of the pilot tests is to promote the measurement of social performance by MFIs and microfinance networks and the eventual reporting of social performance data to the MIX Market. Through the pilot test, MFIs will become more comfortable measuring and eventually reporting their social performance data. However, the SP Task Force would like to make it very clear that participating institutions will not be required to report the social performance data they collect during this pilot to the MIX Market. The data will only be used to better understand the process of gathering and inputting the data from the SP indicators and finalize the draft set of social performance indicators. Nevertheless, willing institutions can post their social performance data on the MIX Market beginning mid-2008.

4. Each indicator is followed by the options Strongly Agree, Agree, Disagree, and Strongly Disagree.

EXPECTATIONS OF PARTICIPATING MFIS

As the purpose of the pilot is to test the process rather than to hold any particular institution accountable for their social performance, participants should feel confident in reporting their findings regardless of the outcome. The pilot is after all a test of the indicators, and there can be no correct or incorrect outcomes. With this in mind, the SP Task Force asks that participating institutions be as honest and open as possible in both the reporting of their social performance data, as well as their statements and comments about each SP indicator.

The survey will be available through SurveyMonkey.com, which allows participating institutions to work on the survey, save their answers at any time, and come back to them later. Since participating institutions have two and a half months to complete the survey, the SP Task Force asks that they be as thorough and complete as possible. Accordingly, they recommend that participating institutions complete the sections one at a time. The survey has been divided into the following sections and questions (with the approximate time to complete each one):

1. **Introduction to Survey**
2. **About You:** 5 minutes
    a. Name of MFI
    b. Country of operations
    c. Name of respondent
    d. Title of respondent
    e. Contact e-mail address
    f. Contact telephone number
    g. Contact Skype address
3. **Context Indicators:** 10 minutes
    a. Year microfinance operations began
    b. Please list the different products your institution offers.
    c. Please list and define the lending methodologies used by your institution.
    d. Does your institution or partnering institution offer any of the following nonfinancial services?
    e. Total number of active borrowers (not loan accounts) as of the end of 2007
    f. Total members as of the end of 2007
4. **Financial Indicators:** 10 minutes
    a. Gross Loan Portfolio (in US$)
    b. Total Assets (in US$)
    c. Return on Assets (%)
    d. Financial Expense Ratio (%)
    e. Operating Expense Ratio (%)
    f. Loan Loss Provision Expense Ratio (%)
    g. Write-off Ratio (%)
    h. Operational Self-Sufficiency (%)
5. **Mission and Social Objectives:** 15 minutes
    a. Describe the mission of your institution (and date of formulation or update).
    b. Which of the following Social Objectives (SO) are included in your mission statement, or implicit in your mission? (check all that apply)
        i. SO1: Outreach to very poor
        ii. SO2: Outreach to poor
        iii. SO3: Outreach to low income

iv. SO4: Outreach to SMEs[5]
v. SO5: Outreach to underdeveloped areas
vi. SO6: Outreach to women
vii. SO6 (2): Women's empowerment—neutral
viii. SO6 (2): Women's empowerment—transformative
ix. SO7: Outreach to socially marginalized and/or excluded groups or people
x. SO8: Supporting employment—salaried employment
xi. SO9: Observing a change in the lives of your clients or their households
xii. SO10: Observing a change in the local community
xiii. SO11: Quality/appropriate products

c. SO7: Please list the socially marginalized and/or excluded groups or people that you aim to reach.
d. SO9: Please list the types of changes in the lives of your clients or their households you aim to observe.
e. SO10: Please list the types of changes in the local community you aim to observe.

6. **Systems & Processes—Board of Directors & Management Team:** 5 minutes
   a. In which of the following ways does your Board use social performance information/data?
   b. In which of the following ways does your management team use social performance information/data?

7. **Systems & Processes—Staff Incentives:** 2 minutes
   a. Do you have staff performance incentives?
   b. Do you have staff incentives that specifically address your social performance goals?

8. **Systems & Processes—Training:** 2 minutes
   a. Which of the following individuals receive training regarding your social mission?

9. **Systems & Processes—Poverty Assessment:** 15 minutes
   a. How do you measure the poverty levels of your entering clients?
   b. When do you measure this information?
   c. Do you collect information on a sample basis or for all new clients?
   d. Please provide sample details. Make sure to include sampling method, sample size relative to overall program—main client categories (group/individual) or areas (rural/urban)—as applicable, and date of information.
   e. Do you track changes in the economic status of your clients?

10. **Systems & Processes—Women's Empowerment:** 5 minutes
    a. Please explain the services that you provide that promote women's empowerment.

11. **Systems & Processes—Client Satisfaction:** 2 minutes
    a. How often do you conduct or commission client satisfaction surveys or focus groups?

12. **Systems & Processes—Client Retention:** 5 minutes
    a. How often do you review your exit/dropout rate?
    b. How often do you conduct or commission exit surveys or informal feedback from exiting clients?

13. **Social Responsibility to Clients:** 15 minutes
    a. Do you fully disclose, in a clear and understandable way, the cost of effective interest and fees on loan documentation and in training sessions with clients before the loan is disbursed?
    b. In which of the following ways do you disclose this information?

5. small and medium enterprises

c. Do you have a grievance procedure for clients?
d. Do you explain the grievance procedure?
e. Which of the following are included in your grievance procedure?
f. Do you explain a customer's rights and responsibilities and the collections process before the loan is disbursed?
g. Do you have policies on safeguarding the privacy of client files—both in branches and in the MIS?
h. Do you have policies to prevent the unethical treatment of clients, particularly clients who are delinquent in their payments?
i. Which of the following do you do to avoid creating overindebtedness in clients?

14. **Social Responsibility to Staff:** 10 minutes
    a. Which of the following are included in your social responsibility policy toward staff?
    b. How often do you conduct or commission staff satisfaction surveys?
    c. What percentage of your staff left during the year 2006?

15. **Social Responsibility to Community:** 10 minutes
    a. Which of the following are included in your social responsibility policy toward your community?
    b. Do you have systems in place to ensure compliance?

16. **Social Responsibility to Environment:** 10 minutes
    a. Which of the following are included in your social responsibility policy toward the environment—for the type of businesses you support?
    b. Do you have systems in place to ensure compliance?
    c. Which of the following are included in your social responsibility policy toward the environment—for your own organization's practices (including both headquarters and branches)—energy, water, paper, waste?
    d. Do you have systems in place to ensure compliance?

17. **Gender Approach:** 10 minutes
    a. Do your policies reflect gender awareness—for your women clients? (e.g., constraints such as women in mobility, market access, literacy, skills, opportunities . . .)
    b. Do your policies reflect gender awareness—for your women staff? (e.g., constraints such as women in mobility, time, opportunities . . .)
    c. Percent of management (senior management, branch) who are women
    d. Percent of field staff who are women

18. **Member Governance:** 10 minutes
    a. Are your board elections in compliance with your bylaws?
    b. Do you provide training and capacity building for representatives to help them perform their governance role effectively?
    c. Do you have regular all-member meetings?
    d. Do you have effective strategies in place to communicate policy decisions to ordinary members?
    e. What measures do you have in place to ensure that member governance is effective?

19. **Results or Achievement of Social Goals (Social Goal #1: OUTREACH—DEPTH & WIDTH):** 10 minutes (this does not include the time to conduct the client survey to obtain the results)
    a. As of December 2006, what % of your clients are women?
    b. As of December 2006, what is the geographic distribution of all your clients (% urban clients, % semiurban clients, % rural clients)?
    c. Please provide below your institution's definition of Urban, Semiurban, and Rural.

20. **Results or Achievement of Social Goals (Social Goal #1: OUTREACH—DEPTH & WIDTH):** 5 minutes
    a. As of December 2006, what is the women's empowerment strategy distribution between all your women clients (% neutral, % transformative)?
21. **Results or Achievement of Social Goals (Social Goal #1: OUTREACH—DEPTH & WIDTH):** 10 minutes (this does not include the time to conduct the client survey to obtain the results)
    a. As of December 2006, what % of your institution's clients are from socially marginalized and/or excluded groups?
    b. Please provide below your institution's definition of socially marginalized and/or excluded groups.
22. **Results or Achievement of Social Goals (Social Goal #1: OUTREACH—DEPTH & WIDTH):** 20 minutes (this does not include the time to conduct the client survey to obtain the results)
    a. Of your entering clients, as of December 2006, what % were very poor or poor? (Per definitions below, please answer one or more.)
    b. If you used a different definition of very poor or poor other than the ones above, what % of your entering clients were very poor and what % were poor?
    c. Was this data gathered from a sample of clients or all clients?
    d. Which poverty line(s) do you consider appropriate in your context? Please explain your reasons.
23. **Results or Achievement of Social Goals (Social Goal #1: OUTREACH—DEPTH & WIDTH):** 20 minutes (this does not include the time to conduct the client survey to obtain the results)
    a. As of December 2006, what % of your entering clients' children were enrolled in school?
    b. Was this data gathered from a sample of clients or all clients?
24. **Results or Achievement of Social Goals (Social Goal #2: SERVICES—APPROPRIATENESS):** 10 minutes
    a. Portfolio At Risk (30/60 days)
25. **Results or Achievement of Social Goals (Social Goal #2: SERVICES—APPROPRIATENESS):** 15 minutes
    a. Client exit/dropout rate during the year of 2006
    b. How does your institution define client exit/dropout?
    c. How does your institution calculate client exit/dropout rate?
    d. Please provide the following data points to help us calculate your institution's exit/dropout rate if you are not using the M-CRIL formula:
        i. Total number of clients at the beginning of the period
        ii. Total number of clients at the end of the period
        iii. New clients (all those who joined during the period)
        iv. Year of period
26. **Results or Achievement of Social Goals (Social Goal #3: ACHIEVEMENT OF CHANGE):** 5 minutes (this does not include the time to conduct the client survey to obtain the results)
    a. What % of clients who joined in 2001 were still with your institution by the end of 2006?
27. **Results or Achievement of Social Goals (Social Goal #3: ACHIEVEMENT OF CHANGE):** 5 minutes (this does not include the time to conduct the client survey to obtain the results)
    a. % who have moved above the relevant poverty line
    b. Number of years
    c. Please indicate the poverty line you are using.

28. **Results or Achievement of Social Goals (Social Goal #3: ACHIEVEMENT OF CHANGE):** 5 minutes (this does not include the time to conduct the client survey to obtain the results)
    a. % of your client households still below the poverty line
    b. Number of years
    c. Please indicate the poverty line you are using
29. **Results or Achievement of Social Goals (Social Goal #3: ACHIEVEMENT OF CHANGE):** 5 minutes (this does not include the time to conduct the client survey to obtain the results)
    a. What % of your clients' children are enrolled in school?
    b. Number of years
30. **Results or Achievement of Social Goals (Social Goal #3: ACHIEVEMENT OF CHANGE):** 15 minutes (this does not include the time to conduct the client survey to obtain the results)
    a. Please indicate below the number of hired and salaried employees in enterprises supported during the year 2006.

At the end of the pilot period, the SP Task Force and MIX will develop a report that shares how the final list of social performance indicators was determined based on all of the responses that were received. In addition, EDA Rural Systems will produce a qualitative report after debriefing all pilot participants on what they learned and what they have identified as areas for capacity building in the future.

PROCESS INDICATORS AND CLIENT-LEVEL DATA

Indicators related to "Systems and Process" and "Social Responsibility" indicators will be based on organizational information, policies, and procedures. The "Results" indicators, the depth of outreach indicators in particular, require client-level information. Many institutions may already have this information from their own systems, research they have conducted, or from an independent survey such as a social rating. For such institutions, they are in a position to report on client-level information already available and it is not expected that they undertake further research.

For purposes of this pilot, information as of 2006 will be acceptable. Information requested for social reporting ("must have") relates specifically to data about clients on entry and about dropouts. If participating institutions do not have such information, then the SP Task Force requests that they collect it for a sample as part of this pilot (see information about tools and sampling below). Information about changes in the lives of clients and their households is "nice to have" if participating institutions already have it for the period 2006 or later. However, it is *not* required that participating institutions conduct a survey to try to capture change as part of this pilot.

During the survey participating institutions will be asked to calculate their institution's exit/dropout rate. The SP Task Force encourages participating institutions to use the following formula from M-CRIL:

$$Dr = \frac{X0+NC-X1}{X0+NC}$$

where

Dr = Dropout rate

X0 = Total number of clients at the beginning of the period

X1 = Total number of clients at the end of the period

NC = New clients (all those who joined during the period)

This formula calculates dropouts as a proportion of all clients that an MFI has come across during the period. It does not take clients at the beginning of the period as the base, as dropouts could occur from new as well as old clients. The formula has the limitation that it calculates dropouts from the highest possible denominator and hence would tend to be a liberal figure from the MFI's perspective. However, observing the trend of dropouts across various organizations, M-CRIL's perspective is that the MFI has made efforts to serve all the clients it has come across during the period—those that drop out even before the start of a loan cycle have also received some MFI attention. Therefore, they should be included in both the numerator and the denominator of the dropout rate calculation. The number of clients here is determined by M-CRIL's definition of dropouts as set out above.

TECHNICAL SUPPORT FROM SP TASK FORCE

The SP Task Force, MIX, and the microfinance industry are dedicated to the success of this pilot test. Therefore, they are available to support participating institutions throughout the pilot test. Unfortunately, funding is not available to participating MFIs, but the SP Task Force will do what it can to help participating institutions finish the pilot successfully. Participating institutions' liaison to the subcommittee or Patrick Crompton at MIX are free at any time to provide assistance. They will answer any questions and are willing to walk through the entire exercise with participating institutions via phone. If participating institutions require assistance with the survey, their liaison can input the form with them and answer questions as they go along.

POVERTY ASSESSMENT TOOLS

There are numerous poverty assessment tools available to conduct a client survey. The SP Task Force recommends the Progress Out of Poverty Index (PPI) or the USAID–IRIS poverty assessment tool—if they are constructed for the country of participating institutions. Please see details about each tool in Chapter 9, the Consumer's Guide to Social Performance Assessment Tools in Microfinance. Alternatively, participating institutions may already be using other tools such as CASHPOR Housing Index, Participatory Wealth Ranking, Means Test, Food Security Index, Per Capita Expenditure or Per Capita Income. (Ideally, a poverty assessment tool should be benchmarked to a poverty line—either the national poverty line or the international poverty line at purchasing power parity.)

CONDUCTING CLIENT SURVEYS

The following paragraphs briefly explain the general principles of conducting a client survey. This section serves only as an introduction and is not sufficient to accurately conduct a client survey. Therefore, it is important that participating institutions work with their liaison to find a tool and its accompanying documentation to be fully prepared to carry out their client survey.

When conducting a survey, it is not necessary to interview every client, which is both too costly and time consuming. A sample survey, representative of the qualities of their client population and of sufficient size, will yield results that closely resemble the entire client population. To ensure a sample survey is representative, it must be obtained randomly; each item in the population has an equal chance of being selected. Because a simple random sample is also typically costly and time consuming, cluster sampling is the sampling method most employ. In cluster sampling, individuals or clients are randomly chosen from a set of clusters or subgroups of the overall population. In the case of an MFI, clients are "naturally" clustered by virtue of belonging to a single branch.

In addition to the type of sampling technique, the size of the sample is also a key issue. The larger the sample size, the greater the likelihood that the statistical analysis will yield "significant" results that closely resemble the entire client population. A sample size of 500 is ideal from this perspective. However, there is always a practical trade-off between cost, practicality, and the quality of data collected. For purposes of the pilot, a minimum sample of 127, as applied in a social rating, is considered adequate. Again, these are general principles to help one better understand how to conduct a client survey; however, it is very important participating institutions work with their liaison to find a survey tool that works for them.

Part of the reporting will include details of the sampling approach applied, and proportion relative to key parameters of the MFI program (e.g., client category, such as group/individual or rural/urban, as appropriate).

FUTURE REPORTING AND BENEFITS

Reporting in this initial pilot phase should be considered a major achievement, and participants will be widely recognized for their involvement and contributions. Participants may also consider the increasing emphasis that social investors are placing on the verifiability of meeting an institutional mission and in demonstrating the type of clientele the institution serves. Joining the SP indicators pilot in this early testing and reporting phase can provide a solid foundation for participating MFIs to pursue social investment funds.

Those that have looked over the list of SP indicators might have been overwhelmed at the length. After the pilot test, the final core set of SP indicators will be reduced according to the collective input of participating institutions, thus reducing the amount of time and cost associated with collecting and reporting social performance data in the future. Furthermore, the majority of the SP indicators are process indicators which typically only need to be filled out once, with occasional updates needed as an institution changes its social performance policies or procedures. The frequency of reporting client level results indicators is likely to vary from annual update (for dropout rate), yearly or biannual update (for entry-level profiling), and biannual or longer (for change indicators), or as often as an institution wishes to update the information on the MIX Market.

Participating institutions will also have the opportunity to post any social audits or rating reports on the eventual MIX site, to supplement the data that they report. Many practitioners stated that they wanted this opportunity on the MIX Market to share more information with the industry and social investors as they uncover it. This also provides an opportunity to show an external audience that their data has been verified by outside sources.

ANNEX 1A: MFI SURVEY

About You					
	Question 1:				
		Name of the MFI			
		Country of operations			
		Name of the respondent			
		Title			
		Contact email address			
		Contact telephone number			
I. Context Indicators					
	Question 2: Please put a checkmark if you feel the indicator is (1) relevant, (2) easy to report on, and (3) likely to yield quality results:				
			Relevant	**Easy to report on**	**Likely to yield quality results**
		Institutional charter			
		Year microfinance operations began			
		Lending methodology used			
		Your MFI's products			
		For each category of financial product listed above: total amount, total number of accounts or total number of individuals using product(s) (possibly chose between b. or c.) (average amounts are calculated)			
		Total number of active clients			
		Do your clients have access to nonfinancial services?			
		Nonfinancial services (description)			
		Nonfinancial services (number of users)			

II. Achieving Social Objectives					
	Question 3: Describe the mission of the institution (and date of formulation or update). (Please put a checkmark if you feel the indicator is (1) relevant, (2) easy to report on, and (3) likely to yield quality results.)				
			Relevant	**Easy to report on**	**Likely to yield quality results**
	Question 4: Do you have social objectives along these criteria? (Please put a checkmark if you feel the indicator is (1) relevant, (2) easy to report on, and (3) likely to yield quality results.)				
			Relevant	**Easy to report on**	**Likely to yield quality results**
		Outreach to very poor or poor people			
		Outreach to low-income groups			
		Outreach to SMEs			
		Outreach to underdeveloped areas			
		Outreach to women			
		Outreach to socially marginalized and/or excluded groups or communities			
		Outcome: Employment creation (salaried jobs) through small enterprise development			
		Outcome: Change of the lives of the clients			
		Outcome: Change in the household			
		Outcome: Change in local communities			
		Other			
	Question 5: Given the social objectives listed in the previous question, please put a checkmark if you feel the indicator is (1) relevant, (2) easy to report on, and (3) likely to yield quality results:				
			Relevant	**Easy to report on**	**Likely to yield quality results**
		How do you define the <social objective>?			
		Are you targeting to reach the <social objective>? (if applicable)			
		If 'yes,' how do you target to reach the <social objective>? (if applicable)			
		Are you measuring and tracking against your <social objective>?			
		If 'yes,' how do you measure and track against your <social objective>?			

II.1. Social Objective #1: Outreach to very poor or poor people

Question 6: Please put a checkmark if you feel the indicator is (1) relevant, (2) easy to report on, and (3) likely to yield quality results:

	Relevant	Easy to report on	Likely to yield quality results
Do you measure the poverty levels of your entering clients?			
Do you measure the poverty levels of your entering clients for all clients or a sample?			
Of the clients that joined the program in the last year, what percentage of them are below the national poverty line?			
Of the clients that joined the program in the last year, what percentage of them are in the bottom 50% below the national poverty line?			
Of the clients that joined the program in the last year, what percentage of them are earning less than US$1/day per household member?			
Of the clients that joined the program in the last year, what percentage of them are earning less than US$2/day per household member?			
If no tool is available to answer question above, then what percentage of your clients are poor according to the definition/measurement of poverty level that you provided?			

Question 7: How do you define very poor or poor people? (Please provide a description based on your MFI's current practice.)

Question 8: How do you target very poor or poor people? (Please provide a description based on your MFI's current practice.)

Question 9: How do you measure and track the number of very poor or poor people that have access to your services? (Please provide a description based on your MFI's current practice and include details about (1) how you get to measurable results, (2) what tools you used, and (3) how we know that the data is reliable. If no tool was available, please include details on how you measure the poverty level, such as measure of income and expenditure or use of proxy.)

II.2. Social Objective #2: Outreach to low-income groups

Question 10: How do you define low-income groups? (Please provide a description based on your MFI's current practice.)

Question 11: How do you target low-income groups? (Please provide a description based on your MFI's current practice.)

Question 12: How do you measure and track the number of low-income people that have access to your services? (Please provide a description based on your MFI's current practice, and include details about (1) how you get to measurable results, (2) what tools you used, and (3) how we know that the data is reliable.)

II.3. Social Objective #3: Outreach to small and medium enterprises (SMEs)					
	Question 13: How do you define SMEs? (Please provide a description based on your MFI's current practice.)				
	Question 14: How do you target SMEs? (Please provide a description based on your MFI's current practice.)				
	Question 15: How do you measure and track the number of SMEs that have access to your services? (Please provide a description based on your MFI's current practice.)				
II.4. Social Objective #4: Outreach to underdeveloped areas					
	Question 16: What is the geographic distribution of your clients? (Percentage of clients Urban/Percentage of clients Semi-Urban/Percent of clients Rural) (Please put a checkmark if you feel the indicator is (1) relevant, (2) easy to report on, and (3) likely to yield quality results.)				
			Relevant	**Easy to report on**	**Likely to yield quality results**
	Question 17: How do you define underdeveloped areas? (Please provide a description based on your MFI's current practice.)				
	Question 18: How do you target to reach underdeveloped areas? (Please provide a description based on your MFI's current practice.)				
	Question 19: How do you measure and track the number of people in underdeveloped areas that have access to your services? (Please provide a description based on your MFI's current practice.)				
II.5. Social Objective #5: Outreach to women					
	Question 20: Percent of women and men (of total clients) (Please put a checkmark if you feel the indicator is (1) relevant, (2) easy to report on, and (3) likely to yield quality results.)				
			Relevant	**Easy to report on**	**Likely to yield quality results**
	Question 21: How do you target women? (Please provide a description based on your MFI's current practice.)				
	Question 22: How do you measure and track the number of women that have access to your services? (Please provide a description based on your MFI's current practice):				
II.6. Social Objective #6: Outreach to socially marginalized and/or excluded groups/communities/people					
	Question 23: How do you define socially marginalized and/or excluded groups/communities/people? (Please provide a description based on your MFI's current practice.)				
	Question 24: How do you target socially marginalized and/or excluded groups/communities/people? (Please provide a description based on your MFI's current practice.)				
	Question 25: How do you measure and track the number of socially marginalized and/or excluded groups/communities/people that have access to your services? (Please provide a description based on your MFI's current practice.)				

II.7. Social Objective #7: Outcome: Employment creation (salaried jobs) through small enterprise development

Question 26: Please put a check mark if you feel the indicator is (1) relevant, (2) easy to report on, and (3) likely to yield quality results:

	Relevant	Easy to report on	Likely to yield quality results
Number of start-up enterprises/Total number of supported enterprises (%)			
Number of hired/waged employees per enterprise/Total employees (family/self and hired/waged) per enterprise			
Number of women employed per enterprise/Total employees per enterprise			
Distribution of supported enterprises by total number of people employed: Number of supported enterprises that employ 1 to 2; 3 to 5; 6 to 10; 11 to 25; 26 to 50; 51 to 80; and more than 80 people			

Question 27: How do you define employment creation (salaried jobs) through small enterprise development? (Please provide a description based on your MFI's current practice.)

Question 28: How do you measure and track employment creation through small enterprise development? (Please provide a description based on your MFI's current practice.)

II.8. Social Objective #8: Outcome: Change in the lives of the clients

Question 29: Please put a checkmark if you feel the indicator is (1) relevant, (2) easy to report on, and (3) likely to yield quality results:

	Relevant	Easy to report on	Likely to yield quality results
Do you track clients' movement across the poverty line?			
If 'Yes,' describe what poverty line.			
How do you measure whether your clients have crossed the poverty line?			
Do you track changes in the economic status of your clients?			
Do you measure how all your clients have improved any of the following: (1) housing conditions, (2) employment, (3) assets (specify what asset), (4) food security?			
Do you measure how clients that have been with the MFI for a number of years have improved any of the following: (1) housing conditions, (2) employment, (3) assets (specify what asset), (4) food security?			
How do you measure how clients have improved any of the following: (1) housing conditions, (2) employment, (3) assets (specify what asset), (4) food security?			

	Question 30: How do you define change in the lives of the clients? (Please provide a description based on your MFI's current practice.)				
	Question 31: How do you measure and track change in the lives of the clients? (Please provide a description based on your MFI's current practice.)				
II.9. Social Objective #9: Outcome: Change in the household					
	Question 32: Please put a checkmark if you feel the indicator is (1) relevant, (2) easy to report on, and (3) likely to yield quality results:				
			Relevant	**Easy to report on**	**Likely to yield quality results**
		Age range in your country (years): (1) School level—Primary; (2) School level—Secondary			
		Percentage of primary/secondary school–aged daughters/sons of clients attending school			
		Percentage of client households with girls/boys of primary/secondary school age in which all said children attend school regularly			
	Question 33: How do you define change in the household? (Please provide a description based on your MFI's current practice.)				
	Question 34: How do you measure and track change in the household? (Please provide a description based on your MFI's current practice.)				
II.10. Social Objective #10: Outcome: Change in local communities					
	Question 35: How do you define change in local communities? (Please provide a description based on your MFI's current practice.)				
	Question 36: How do you measure and track change in local communities? (Please provide a description based on your MFI's current practice.)				
II.11. Social Objective #11: Other					
	Question 37: How do you define <other social objective>? (Please provide a description based on your MFI's current practice or each additional social objective.)				
	Question 38: How do you target <other social objective>? (Please provide details for each additional social objective, based on your MFI's current practice.)				
	Question 39: How do you measure and track change in <other social objective>? (Please provide details for each additional social objective, based on your MFI's current practice.)				
III. Managing Social Performance					
	Question 40: Adaptation of Services (Please put a checkmark if you feel the indicator is (1) relevant, (2) easy to report on, and (3) likely to yield quality results.)				
			Relevant	**Easy to report on**	**Likely to yield quality results**
		Have you conducted client satisfaction surveys or focus groups in the last 2 years?			

		Do you regularly conduct exit surveys of clients?			
	Question 41: Using information for decision making: Has information about your social performance been used to inform decision making such as improving services, or taking preventive/corrective actions? (Please put a checkmark if you feel the indicator is (1) relevant, (2) easy to report on, and (3) likely to yield quality results.)				
			Relevant	**Easy to report on**	**Likely to yield quality results**
	Question 42: Organizational culture (Please put a checkmark if you feel the indicator is (1) relevant, (2) easy to report on, and (3) likely to yield quality results.)				
			Relevant	**Easy to report on**	**Likely to yield quality results**
		Do the members of the board represent a balance between financial and social perspectives and expertise?			
		Have the organization's mission and social objectives been clearly communicated to all levels of management and field staff?			
	Question 43: Alignment of organizational systems (Please put a checkmark if you feel the indicator is (1) relevant, (2) easy to report on, and (3) likely to yield quality results.)				
			Relevant	**Easy to report on**	**Likely to yield quality results**
		Do staff incentives encourage a balance between financial and social performance objectives?			
		Are staff recruitment, induction, and training aligned to the social mission?			
IV. Being Socially Responsible					
	Question 44: Do you have a written, formal internal social responsibility policy and/or a written, formal code of conduct? (Please put a checkmark if you feel the indicator is (1) relevant, (2) easy to report on, and (3) likely to yield quality results.)				
			Relevant	**Easy to report on**	**Likely to yield quality results**
	Question 45: Does your social responsibility policy and/or code of conduct govern actions of the MFIs vis-à-vis the following groups? (Please put a checkmark if you feel the indicator is (1) relevant, (2) easy to report on, and (3) likely to yield quality results.)				
		1. Employees (including provisions related to level of wages, training, participation in decision making, health insurance, sexual harassment, etc.)			

		2. Clients (including code of conduct governing relations between staff and clients, consumer protection, participation in decisionmaking, empowerment and improvement of social capital, attention to women, policy on risks of overindebtness, impact studies, average time between approval and disbursal of new loan)			
		3. Community (including policy to support local community, strategies to harmonize local culture and values)			
		4. Environment (internal environmental policy and environmental requirements in the lending operations—restriction on activities, etc.)			
IV.1. Social Responsibility Dimension #1: Toward employees					
	Question 46: Please put a checkmark if you feel the indicator is (1) relevant, (2) easy to report on, and (3) likely to yield quality results.				
			Relevant	**Easy to report on**	**Likely to yield quality results**
		How do you implement and ensure effective compliance of your social responsibility policy and/or code of conduct governing the actions of your MFI vis-à-vis its employees?			
		Do you monitor employee awareness of your social responsibility policy for employees?			
		Percentage of women (1) on board of directors, (2) in management, (3) in field staff, (4) in support staff			
		Percentage of permanent employees that have left during the last fiscal year (not including pension leaves, migration, and deaths)			
	Question 47: How do you implement and ensure effective compliance of your social responsibility policy and/or code of conduct governing the actions of your MFI vis-à-vis its employees? (Please provide a description based on your MFI's current practice.)				
IV.2. Social Responsibility Dimension #2: Toward clients					
	Question 48: Please put a checkmark if you feel the indicator is (1) relevant, (2) easy to report on, and (3) likely to yield quality results:				
			Relevant	**Easy to report on**	**Likely to yield quality results**
		How do you implement and ensure effective compliance of your social responsibility policy and/or code of conduct governing the actions of your MFI vis-à-vis its clients?			
		Do you monitor client awareness of your social responsibility policy for clients?			
		Do you have a code of conduct for consumer protection approved by the board of directors?			

		Does the institution train and monitor loan officers so they will check if the clients have the ability to repay (financial status, including other loans)?			
		Does the institution train and monitor loan officers so they will explain, at the moment of the loan application, how much in interest and commissions the clients will be paying in total?			
		Does the institution train and monitor loan officers so they will explain what the clients can do in case they have complaints?			
		Do you provide all staff with consumer protection training?			
		Do you fully disclose the cost of interest and fees on loan documentation and/or training sessions with clients?			
		Do you publicize a complaint resolution process to your clients?			
		Are clients complaints reported to the senior management or to the board (the way PAR issues would be) (i.e., trends in complaints: nature, geographic concentration, etc.)			
		Does the institution have a policy regarding privacy rights of client information and a way to promote these rights to clients during the loan application process?			
		Do you explain a customer's rights and responsibilities and the collections process?			
		Does the institution have a distinct way to communicate information to clients who are illiterate or speak indigenous languages?			
		Effective interest rate on different loan products (EIR) (Nominal and Real)			
		Client retention rate			
		Client retention rate, segmented by poverty level			
	Question 49: How do you implement and ensure effective compliance of your social responsibility policy and/or code of conduct governing the actions of your MFI vis-à-vis its clients? (Please provide a description based on your MFI's current practice.)				
IV.3. Social Responsibility Dimension #3: Toward the community					
	Question 50: Please put a checkmark if you feel the indicator is (1) relevant, (2) easy to report on, and (3) likely to yield quality results:				
			Relevant	**Easy to report on**	**Likely to yield quality results**
		How do you implement and ensure effective compliance of your social responsibility policy and/or code of conduct governing the actions of your MFI vis-à-vis the community that you serve?			
		Do you monitor the effectiveness of your social responsibility policy for the community?			
		Do you monitor socially responsible behavior of your small entrepreneur clients ? (Please describe or attach description)			

		Do you have a formal code of conduct for small entrepreneurs that aims to give protection to the small entrepreneurs' employees and/or the environment, and that small entrepreneurs should agree to and sign as part of a loan agreement including: (1) Provisions related to working conditions in microfinance supported enterprises (i.e., health and safety, prevention of abuse of child labor, storage and use of chemicals, respect of basic hygienic conditions, absence of sexual harassment, equal pay for men and women, payment of minimum salary, etc.); (2) Insurance against work accidents in case of high risk (i.e., metal workers, processing of sisal fiber, etc.); (3) Restrictions as to the financing of activities which are heavily polluting or damaging to the environment (i.e., leather production, etc.)			
	Question 51: How do you implement and ensure effective compliance of your social responsibility policy and/or code of conduct governing the actions of your MFI vis-à-vis the community that you serve? (Please provide a description based on your MFI's current practice.)				
IV.4. Social Responsibility Dimension #4: Toward the environment					
	Question 52: Please put a checkmark if you feel the indicator is (1) relevant, (2) easy to report on, and (3) likely to yield quality results:				
			Relevant	**Easy to report on**	**Likely to yield quality results**
		How do you implement and ensure effective compliance of your social responsibility policy and/or code of conduct governing the actions of your MFI vis-à-vis the environment?			
		Do you monitor the effectiveness of your social responsibility policy for the environment?			
	Question 53: How do you implement and ensure effective compliance of your social responsibility policy and/or code of conduct governing the actions of your MFI vis-à-vis the environment? (Please provide a description based on your MFI's current practice.)				

ANNEX 2: COMMON SOCIAL PERFORMANCE INDICATORS—RESULTS OF MFI SURVEY

INTRODUCTION

During Spring 2007, the Subcommittee for Social Performance Core Indicators of the Social Performance Task Force surveyed microfinance institutions (MFIs) about their perceptions regarding social performance indicators (see Annex 1 for a copy of the MFI survey).[6] The purpose of the survey was to generate microfinance practitioner feedback on social performance indicators, with the eventual aim of identifying a set of common, or core, social performance indicators that could be reported by microfinance institutions (MFIs) to the MIX Market. This contribution to the Social Performance Map summarizes the results of this survey.

The survey asked respondents to indicate by a "yes" or "no" whether each of 185 possible social performance indicators was "relevant," "easy to report," or "likely to yield quality results." Indicators included in the survey were classified, based in part on the SP Task Force common framework, into four broad categories (each further divided into multiple subcategories): context, achieving social objectives, managing social performance, and being socially responsible.

SURVEY SAMPLING

The subcommittee developed a database of several hundred MFIs, drawn from multiple sources, who were asked to complete the survey. Over 250 MFIs responded, of which 229 surveys proved usable. While not representative of the entire universe of MFIs, the sample is large enough to provide a reasonably good snapshot of what certain MFIs think about a large and diverse set of social performance indicators. Overall, MFIs from 65 countries responded to the survey. An additional seven MFIs working in multiple countries also responded to the survey. Table A2.1 breaks down the survey respondents by country of origin.

Table A2.1. Country of Origin of MFIs Responding to the Survey

Country	Number	Country	Number
Afghanistan	2	Macedonia	2
Albania	1	Malawi	2
Angola	1	Malaysia	1
Argentina	3	Mali	2
Armenia	1	Mexico	9
Azerbaijan	3	Mongolia	1
Bangladesh	12	Morocco	2
Benin	1	Mozambique	2
Bolivia	5	Nepal	4

6. For more on the SP Task Force, go to www.microfinancegateway.org/resource_centers/socialperformance/.

Country	Number	Country	Number
Bosnia-Herzegovina	3	Nicaragua	1
Brazil	2	Nigeria	2
Cambodia	3	Pakistan	9
Canada	1	Palestinian Territories	1
Chile	1	Panama	1
China	2	Paraguay	1
Colombia	8	Peru	8
Democratic Republic of the Congo	3	Philippines	11
Costa Rica	1	Romania	1
Croatia	1	Senegal	1
Dominican Republic	1	Serbia	2
Ecuador	12	Sierra Leone	2
Egypt	3	Slovakia	1
El Salvador	4	South Africa	2
England	1	Sri Lanka	1
Ethiopia	3	Tajikistan	1
Ghana	4	Tanzania	2
Guatemala	1	Thailand	1
Haiti	2	Tunisia	2
Honduras	3	Uganda	7
India	19	United States	1
Indonesia	4	Vietnam	2
Ivory Coast	1	Zambia	3
Kenya	4	Multiple Countries	7
Kosovo	1	Unknown	9
Lebanon	5		

CONTEXT INDICATORS

Context indicators refer to information about the MFI itself, including its lending methodology, products and services offered, outreach, and portfolio details. Table A2.2 presents the respondents' perceptions of various context indicators.[7] As seen there, all indicators score high (>80% or 90%) in terms of relevance and most score high (>90%) in terms of ease of reporting. Exceptions to the latter finding include indicators related to access, description, and outreach of nonfinancial services. Approximately three-quarters or more of respondents think that the context indicators are likely to yield quality results, although they are particularly optimistic about the lending methodology, product offerings, and the total number of active clients.

7. The percentages reported in this and all other tables are based on the number of MFIs actually responding to the question rather than the total number of MFIs who responded to the survey. This number rarely totaled the full 229 responding MFIs. The actual number responding is not reported to avoid cluttering up the tables.

Table A2.2. Context Indicators (%)

Indicator	Relevant	Easy to Report	Yield Quality Results
Institutional charter	90.0	92.0	78.0
Year microfinance operations began	91.0	97.0	72.0
Lending methodology used	96.0	99.0	91.0
Your MFI's products	98.0	97.0	89.0
For each product: total amount	90.0	93.0	80.0
For each product: total number of accounts	85.0	88.0	78.0
For each product: total number of individuals using product(s)	94.0	90.0	83.0
Total number of active clients	99.0	95.0	91.0
Do your clients have access to nonfinancial services	85.0	71.0	76.0
Nonfinancial services (description)	85.0	70.0	72.0
Nonfinancial services (number of users)	81.0	64.0	73.0

ACHIEVING SOCIAL OBJECTIVES

Indicators measuring achievement of social objectives are grouped into 10 categories:

- Outreach to very poor or poor people
- Social objectives
- Outreach to small and medium enterprises
- Outreach to underdeveloped areas
- Outreach to women
- Outreach to socially marginalized and/or excluded groups or people
- Indirect outreach—supporting employment
- Outcome—change in the lives of clients or households
- Outcome—change in local communities
- Other social objectives

In terms of general attitudes toward social objectives, 100% of respondents said that the institutional mission of the MFI was relevant and in excess of 90% felt that this was easy to report and likely to yield quality results (see Table A2.3).

Table A2.3. Achieving Social Objectives (%)

Indicator	Relevant	Easy to Report	Yield Quality Results
Describe the mission of the institution (and date of formulation or update)	100.0	93.0	95.0

Outreach to Very Poor or Poor People

Approximately three-quarters or more of respondents said that indicators measuring outreach to the very poor or poor are relevant (see Table A2.4). They were particularly likely to say that “process” indicators—related to whether and how the MFI defines poverty, targets the poor, and monitors outreach to the poor—are relevant. They were less likely to say that actually measuring poverty outreach is relevant.

In terms of ease of reporting, one-half to three-quarters of respondents agreed that process indicators (whether and how) are easy to report, while only around one-third agreed that actual poverty outreach values are easy to report. Respondents were correspondingly skeptical about the quality of poverty outreach results while expressing a much higher level of confidence in the quality of process indicators.

Table A2.4. Outreach to Very Poor or Poor People

Indicator	Relevant	Easy to Report	Yield Quality Results
Is outreach to very poor or poor people one of your social objectives?	92.0	75.0	84.0
How do you define very poor or poor people?	94.0	71.0	85.0
Are you targeting very poor or poor people?	90.0	75.0	80.0
How are you targeting very poor or poor people?	90.0	68.0	79.0
Are you measuring and tracking the number of your very poor and poor clients?	83.0	57.0	73.0
How are you measuring and tracking the number of your very poor and poor clients?	83.0	52.0	72.0
Do you measure the poverty levels of your entering clients?	83.0	58.0	80.0
Do you measure the poverty levels of all your entering clients or a sample of clients?	75.0	55.0	73.0
Of the new clients in the last year, what percentage is below the national poverty line?	78.0	36.0	67.0
Of the new clients in the last year, what percentage is in the bottom 50% below the national poverty line?	70.0	31.0	59.0
Of the new clients in the last year, what percentage is earning less than US$1/day per household member?	75.0	36.0	66.0
Of the new clients in the last year, what percentage is earning less than US$2/day per household member?	73.0	32.0	56.0

Social Objectives

The large majority (>85%) of respondents said that indicators measuring whether and how MFIs are attempting to define, achieve, and monitor outreach to low-income groups are relevant (see Table A2.5). They were moderately less likely (70–90%) to say that such indicators would generate quality results and even less likely (58–73%) to say that such indicators would be easy to report. Respondents were particularly pessimistic about the ease of reporting whether and how MFIs are tracking outreach to low-income clients.

Table A2.5. Social Objectives

Indicator	Relevant	Easy to Report	Yield Quality Results
Is outreach to low-income groups one of your social objectives?	94.0	73.0	89.0
How do you define low-income groups?	93.0	76.0	85.0
Are you targeting low-income groups?	91.0	74.0	82.0
How are you targeting low-income groups?	93.0	70.0	85.0
Are you measuring and tracking the number of your low-income clients?	87.0	56.0	76.0
How are you measuring and tracking the number of your low-income clients?	86.0	58.0	71.0

Outreach to Small and Medium Enterprises

From 73% to 90% of respondents said that indicators measuring whether and how MFIs define, achieve, and monitor outreach reach SMEs are relevant, easy to report, and likely to yield quality results (see Table A2.6).

Table A2.6. Outreach to Small and Medium Enterprises

Indicator	Relevant	Easy to Report	Yield Quality Results
Is outreach to SMEs one of your social objectives?	84.0	84.0	83.0
How do you define SMEs?	89.0	85.0	90.0
Are you targeting SMEs?	79.0	85.0	78.0
How are you targeting SMEs?	81.0	77.0	78.0
Are you measuring and tracking the number of your SME clients?	82.0	82.0	83.0
How are you measuring and tracking the number of your SME clients?	80.0	73.0	81.0

Outreach to Underdeveloped Areas

A large majority (>83%) of respondents said that indicators measuring outreach to underdeveloped areas are relevant (see Table A2.7). A moderately smaller percentage (71–88%) said that such indicators were likely to yield quality results. Respondents tended to be less optimistic about the ease of reporting such indicators, with approximately three-quarters, on average, saying that it would be easy to report these indicators.

Table A2.7. Outreach to Underdeveloped Areas

Indicator	Relevant	Easy to Report	Yield Quality Results
Is outreach to underdeveloped areas one of your social objectives?	93.0	85.0	88.0
How do you define underdeveloped areas?	92.0	76.0	86.0
Are you targeting underdeveloped areas?	91.0	79.0	80.0
How are you targeting underdeveloped areas?	87.0	75.0	81.0
Are you measuring and tracking the number of your clients in underdeveloped areas?	83.0	71.0	71.0
How are you measuring and tracking the number of your clients in underdeveloped areas?	84.0	64.0	76.0
Percentage of clients from underdeveloped areas	91.0	72.0	83.0
What is the geographic distribution of your clients (urban clients, semiurban clients, rural clients)?	92.0	75.0	78.0

Outreach to Women

Approximately 90% or more of respondents said that indicators measuring outreach to women were relevant, easy to report, and likely to yield quality results (see Table A2.8).

Table A2.8. Outreach to Women

Indicator	Relevant	Easy to Report	Yield Quality Results
Is outreach to women one of your social objectives?	97.0	100.0	96.0
Are you targeting women?	94.0	97.0	94.0
How are you targeting women?	91.0	92.0	94.0
Are you measuring and tracking the number of your women clients?	97.0	97.0	93.0
How are you measuring and tracking the number of your women clients?	91.0	94.0	89.0

Outreach to Socially Marginalized and/or Excluded Groups or People

Approximately three-quarters of respondents (71–80%) said that indicators measuring outreach to socially marginalized and/or excluded groups or people were relevant (see Table A2.9). They were much less likely, however, to say that such indicators would be easy to report (44–56%) or yield quality results (59–63%). The lack of clarity regarding the definition of "socially marginalized" probably accounts in part for respondents' pessimism in the latter two cases.

Table A2.9. Outreach to Socially Marginalized and/or Excluded Groups or People

Indicator	Relevant	Easy to Report	Yield Quality Results
Is reaching socially marginalized and/or excluded groups or people one of your social objectives?	80.0	56.0	62.0
How do you define socially marginalized and/or excluded groups or people?	79.0	57.0	62.0
Are you targeting socially marginalized and/or excluded groups or people?	77.0	54.0	60.0
How are you targeting socially marginalized and/or excluded groups or people?	74.0	50.0	58.0
Are you measuring and tracking the number of your socially marginalized and/or excluded clients?	72.0	48.0	63.0
How are you measuring and tracking the number of your socially marginalized and/or excluded clients?	71.0	46.0	57.0
Percentage of clients from socially marginalized and/or excluded groups	73.0	44.0	59.0

Indirect Outreach—Supporting Employment (Self and Hired Employment)

Indicators measuring employment support and job creation generated moderate support (66–88%) from respondents in terms of both their relevance (66–88%) and their likelihood of yielding quality results (60–79%) (see Table A2.10). Respondents were much less sanguine about the ease of reporting such indicators with only around one-half of respondents, on average, saying that they were easy to report.

Table A2.10. Indirect Outreach—Supporting Employment (Self and Hired Employment)

Indicator	Relevant	Easy to Report	Yield Quality Results
Is supporting employment one of your social objectives?	88.0	70.0	79.0
How do you define supporting employment?	82.0	65.0	72.0
Are you measuring and tracking employment at your MFI clients?	79.0	59.0	66.0
How are you measuring and tracking employment at your MFI clients?	76.0	56.0	68.0
Number of start-up enterprises/Total number of supported enterprises	77.0	57.0	66.0
Average number self-employed/Total employed for supported enterprises	79.0	55.0	71.0
Average number hired employees/Total employees for supported enterprises	73.0	47.0	62.0
Average number women employees/Total employees for enterprises supported	74.0	45.0	65.0
Distribution of supported enterprises by total number of people employed	66.0	49.0	60.0

Outcome—Change in the Lives of Clients or Households

The percentage of respondents saying that outcome indicators are relevant varies widely, ranging from 67% to 94% (see Table A2.11). Indicators identified as relevant by 90% or more of respondents included whether improving clients' well-being is a social objective and how that is measured. Indicators cited as relevant by 80% to 89% of respondents included whether the MFI tracks changes in economic status, how the MFI defines the poverty line, and whether and how the MFI is tracking changes in clients' lives. Indicators cited as relevant by 70% to 79% of respondents included the percentage of children attending school, whether and how the MFI measures changes in asset ownership and housing conditions, and whether and how the MFI tracks clients' movements across the poverty line. Indicators cited as relevant by 60% to 69% of respondents included the percentage of children attending school regularly and the relevant range of school ages, whether and how the MFI measures changes in food security, and the time period over which the MFI tracks clients' movements across the poverty line.

Respondents were quite pessimistic about the ease of reporting change indicators with, in most cases, only around one-half or fewer saying that reporting such indicators would be easy. Respondents were slightly more optimistic in expecting the indicators to produce quality results with around 50% to 70% responding in the affirmative in the majority of cases.

Table A2.11. Outcome—Change in the Lives of Clients or Households

Indicator	Relevant	Easy to Report	Yield Quality Results
Is observing a change in the lives of your clients or their households one of your social objectives?	94.0	53.0	84.0
How do you define a change in the lives of your clients or their households?	90.0	57.0	76.0
Are you measuring and tracking the change in the lives of your clients or their households?	82.0	51.0	76.0
How are you measuring and tracking the change in the lives of your clients or their households?	83.0	48.0	74.0
Do you track clients' movement across the poverty line?	70.0	39.0	59.0
Over what time period do you track clients' movement across the poverty line?	68.0	48.0	55.0
How do you describe the poverty line?	84.0	66.0	69.0
How do you measure whether your clients have crossed the poverty line?	73.0	37.0	59.0
Do you track changes in the economic status of your clients?	80.0	49.0	69.0
Do you measure how all of your clients have improved their housing conditions?	76.0	51.0	65.0
Do you measure how all of your clients have improved their assets (specify which assets)?	76.0	52.0	69.0
Do you measure how all of your clients have improved food security?	65.0	38.0	62.0

Indicator	Relevant	Easy to Report	Yield Quality Results
Do you measure how clients with the MFI for a number of years have improved their housing conditions?	76.0	46.0	65.0
Do you measure how clients with the MFI for a number of years have improved their assets (specify which assets)?	75.0	46.0	68.0
Do you measure how clients with the MFI for a number of years have improved their food security?	63.0	37.0	61.0
How do you measure how clients have improved their housing conditions?	76.0	50.0	64.0
How do you measure how clients have improved their assets (specify which assets)?	78.0	51.0	68.0
How do you measure how clients have improved their food security?	64.0	47.0	58.0
What is the age range in your country (in years) for primary and secondary school levels?	63.0	57.0	56.0
Percentage of school-aged children of clients who attend school	72.0	47.0	60.0
Percentage of client households with school-aged children who attend school regularly	67.0	42.0	56.0

Outcome—Change in Local Communities

From 63% to 72% of respondents said that indicators measuring changes in the local community are relevant, approximately the same percentage who said that such indicators would yield quality results (see Table A2.12). In contrast, less than one-half of respondents in each case believe that such indicators would be easy to report.

Table A2.12. Outcome—Change in Local Communities

Indicator	Relevant	Easy to Report	Yield Quality Results
Is observing a change in the local community one of your social objectives?	72.0	47.0	66.0
How do you define a change in the local community?	70.0	45.0	68.0
Are you measuring and tracking the change in the local community?	63.0	39.0	63.0
How are you measuring and tracking the change in the local community?	63.0	38.0	60.0

Other Social Objectives

Respondents tended not to believe that indicators on other social objectives are particularly relevant (59–73%), with a roughly similar percentage (56–68%) saying that such indicators are likely to yield quality results (see Table A2.13). Respondents were even less likely (in most cases around 50% or less) to say that other social indicators would be easy to report.

Table A2.13. Other Social Objectives

Indicator	Relevant	Easy to Report	Yield Quality Results
Do you have other social objective(s)?	73.0	66.0	68.0
How do you define your other social objective(s)?	73.0	60.0	67.0
Are you targeting your other social objective(s) (if applicable)?	60.0	52.0	58.0
How are you targeting your other social objective(s) (if applicable)?	59.0	54.0	58.0
Are you measuring and tracking your other social objective(s)?	60.0	47.0	59.0
How are you measuring and tracking your other social objective(s)?	62.0	48.0	56.0

Managing Social Performance

Indicators falling under "managing social performance" are further grouped into indicators measuring adaptation of services, using social performance information for decision-making, organizational culture, and alignment of organizational systems (see Table A2.14). Between 84% and 90% of respondents said that indicators measure the MFI's adaptation of services are relevant, easy to measure, and likely to yield quality results.

Over 90% of respondents said that indicators measuring the use of social performance information for decision making are relevant, whereas approximately one-quarter said they were easy to report, and around 80% said that they would likely yield quality results.

Another 90% said that indicators measuring dimensions of organizational culture were relevant, but once again fewer (77–85%) said that they would likely yield quality results and even fewer (75–81%) said that they would be easy to report.

Finally, over 80% felt that the indicator measuring the effectiveness of the MFI's incentive system was relevant and likely to yield quality results, while 75% said it would be easy to report.

Table A2.14. Managing Social Performance

Indicators	Relevant	Easy to Report	Yield Quality Results
Adaptation of Services			
Have you conducted client satisfaction surveys or focus groups in the last two years?	88.0	84.0	88.0
Do you regularly conduct exit surveys of clients?	85.0	85.0	88.0
Using Information for Decision Making			
Has information about your social performance been used to inform decision making?	91.0	73.0	81.0
What type of information has been used to inform decision making (e.g., client profile, market feedback, etc.)?	92.0	79.0	87.0
Has information about your social performance been used to improve services?	94.0	74.0	81.0
Has information about your social performance been used to take preventive/corrective actions?	94.0	78.0	80.0
Organizational Culture			
Do board members represent an effective balance between financial and social perspectives and expertise?	93.0	75.0	85.0
Have your social objectives been clearly communicated to management and field staff?	95.0	81.0	77.0
Alignment of Organizational Systems			
Do staff incentives encourage a balance between financial and social performance objectives?	87.0	75.0	83.0
Are staff recruitment, induction, and training aligned to the social mission?	93.0	73.0	82.0

BEING SOCIALLY RESPONSIBLE

Indicators falling under "being socially responsible" are further grouped into indicators measuring responsibility toward employees, clients, community, and the environment.

Respondents attached a high level of relevance (>90%) to whether the MFI has a formal social responsibility policy and to whether and how it applies the policy to staff and clients (see Table A2.15). They attached a moderately lower relevance (78–86%) to whether and how it applies the policy to the community and environment.

Respondents were significantly less optimistic about the ease of reporting social responsibility indicators (48–87%), particularly those having to do with the community or environment (47–63%). Approximately 80% of respondents believe that indicators measuring social responsibility to staff and clients would yield quality results but fewer than 70% in each case believe that they would yield quality results about the MFI's social responsibility to the community and environment.

Table A2.15. Being Socially Responsible

Indicator	Relevant	Easy to Report	Yield Quality Results
Do you have a written, formal social responsibility policy and/or a written, formal code of conduct?	95.0	87.0	85.0
Does your social responsibility policy and/or code of conduct govern actions of the MFI toward . . .			
. . . its staff?	97.0	84.0	84.0
. . . its clients?	97.0	77.0	86.0
. . . the community?	86.0	63.0	69.0
. . . the environment?	78.0	63.0	65.0
How do you implement your social responsibility policy and/or code of conduct governing actions of the MFI toward . . .			
. . . its staff?	95.0	73.0	82.0
. . . its clients?	93.0	66.0	78.0
. . . the community?	86.0	56.0	66.0
. . . the environment?	79.0	49.0	63.0
How do you ensure compliance of your social responsibility policy and/or code of conduct governing actions of the MFI toward . . .			
. . . its staff?	94.0	71.0	80.0
. . . its clients?	92.0	62.0	80.0
. . . the community?	83.0	48.0	69.0
. . . the environment?	80.0	50.0	64.0

Social Responsibility Toward Employees

With a few exceptions, 80% or more of respondents said that indicators measuring social responsibility toward employees were relevant, easy to report, and likely to yield quality results (see Table A2.16). For the first time, a higher percentage of respondents rated the indicators as easy to report compared to the percentage who said that they are relevant or likely to yield quality results.

Table A2.16. Social Responsibility Toward Employees

Indicators	Relevant	Easy to Report	Yield Quality Results
Do you monitor staff awareness of your social responsibility policy for staff?	86.0	60.0	82.0
Percentage of women on board of directors	80.0	93.0	81.0
Percentage of women in management	87.0	94.0	84.0
Percentage of women in field staff	88.0	93.0	84.0
Percentage of women in support staff	83.0	92.0	77.0
Percentage of permanent staff who have left during the last fiscal year (not including pension leaves, migration, and deaths)	86.0	90.0	80.0

Social Responsibility Toward Clients

Survey respondents rated several of the indicators measuring social responsibility toward clients high (>80%) in terms of relevance, ease of reporting, and likely quality (see Table A2.17). Several other indicators received positive marks in each of the three criteria with at least one receiving 80% or greater approval and none receiving less than 70% approval.

The exceptions to the above included indicators measuring whether the MFI monitors client awareness of its social responsibility policy, whether the MFI has a code of conduct for consumer protection, whether the MFI provides all staff with consumer protection training, whether the MFI publicizes a complaint resolution process to clients, whether the MFI promotes privacy rights of clients, and whether the MFI segments client retention rate by poverty level.

Table A2.17. Social Responsibility Dimension Toward Clients

Indicators	Relevant	Easy to Report	Yield Quality Results
Do you monitor client awareness of your social responsibility policy for clients?	75.0	48.0	69.0
Do you have a code of conduct for consumer protection approved by the board of directors?	68.0	68.0	68.0
Do you train loan officers to check if the clients have the ability to repay?	99.0	96.0	91.0
Do you monitor that loan officers to check if the clients have the ability to repay?	98.0	90.0	87.0
Do you train loan officers to explain how much in interest and commissions the clients will be paying in total?	96.0	93.0	87.0
Do you monitor that loan officers explain how much in interest and commissions the clients will be paying in total?	94.0	75.0	85.0
Do you train loan officers to explain what the clients can do in case they have complaints?	95.0	85.0	86.0

Indicators	Relevant	Easy to Report	Yield Quality Results
Do you monitor that the loan officers explain what the clients can do in case they have complaints?	90.0	73.0	83.0
Do you provide all staff with consumer protection training?	70.0	70.0	71.0
Do you fully disclose the cost of interest and fees on loan documentation and/or training sessions with clients?	96.0	90.0	85.0
Do you publicize a complaint resolution process to your clients?	79.0	78.0	78.0
Are clients' complaints reported to the senior management or to the board?	91.0	81.0	83.0
Do you have a policy regarding privacy rights of client information?	86.0	78.0	79.0
Do you have a way to promote privacy rights of client information to clients during the loan application process?	80.0	67.0	75.0
Do you explain a customers' rights and responsibilities and the collections process?	96.0	78.0	85.0
Do you have a distinct way to communicate information to clients who are illiterate or speak indigenous languages?	87.0	75.0	81.0
Effective interest rate on different loan products (EIR) (Nominal and Real)	87.0	90.0	78.0
Client retention rate	96.0	81.0	88.0
Client retention rate, segmented by poverty level	78.0	51.0	73.0

Social Responsibility Toward the Community

Respondents expressed relatively little support for indicators measuring social responsibility toward the community (see Table A2.18), whether the criterion is relevance (45–73%), ease of reporting (39–45%), or likely quality (48–67%).

Table A2.18. Social Responsibility Toward the Community

Indicator	Relevant	Easy to Report	Yield Quality Results
Do you monitor the effectiveness of your social responsibility policy for the community?	73.0	41.0	67.0
Do you monitor socially responsible behavior of your small entrepreneur clients?	60.0	39.0	57.0
Do you have a formal code of conduct for small entrepreneurs that aims to give protection to their employees and/or the environment?	51.0	39.0	55.0
If so, do small entrepreneurs need to agree to it and sign as part of a loan agreement?	45.0	45.0	48.0

Social Responsibility Toward the Environment

Approximately two-thirds of survey respondents felt that an indicator measuring whether the MFI monitors its environmental responsibility was relevant (see Table A2.19). Less than one-third said it was easy to report, and approximately one-half said it was likely to yield quality results.

Table A2.19. Social Responsibility Toward the Environment

Indicator	Relevant	Easy to Report	Yield Quality Results
Do you monitor the effectiveness of your social responsibility policy for the environment?	68.0	32.0	53.0

SUMMARY OF SURVEY FINDINGS AND IMPLICATIONS

A number of general conclusions about social investors in microfinance can be inferred from the survey responses and from explanatory comments provided by respondents.

- Overall, indicators asking whether a particular item was one of the MFI's social objectives tended to score high (consistently >80%) in terms of relevance.
- Indicator categories that tend to rate high in relevance (consistently ≥80%) include context indicators, social objectives, outreach to underdeveloped areas, outreach to women, outreach to SMEs, managing social performance, being socially responsible, and social responsibility toward employees.
- Outreach to the very poor or poor scored high in relevance with regard to process indicators (measuring whether and how the MFI measures and tracks poverty outreach) but moderately high in relevance (consistently between 70% and 90%) with regard to indicators measuring actual poverty outreach. Other categories scoring moderately high in terms of relevance include outreach to the socially marginalized and/or excluded, supporting employment, and social responsibility toward clients.
- Indicator categories scoring relatively low (multiple indicators <70%) in terms of relevance include changes in the lives of clients and households, change in local communities, other social objectives, social responsibility to the community, and social responsibility to the environment. Overall, indicators measuring community-level social impacts are perceived as comparatively irrelevant by the MFIs responding to the survey. Among client and household change indicators, those scoring lowest in terms of relevance are clustered among indicators dealing with food security.
- Indicators measuring actual social outcomes tended to score lower in all three categories, reflecting, no doubt, the respondents' recognition of the difficulties associated with collecting and reporting client- and household-level outcome data.
- Indicator categories scoring high in terms of ease of reporting (consistently >60%) include context, outreach to SMEs, outreach to underdeveloped areas, outreach to women, managing social performance, social responsibility toward employees, and social responsibility toward clients.
- Indicator categories scoring moderately high (consistently ≥45%) in terms of ease of reporting include social objectives, outreach to the socially marginalized and/or excluded, other social

objectives, supporting employment, outreach to the very poor or poor (if indicators measuring poverty outreach are excluded), and changes in the lives of clients (if indicators related to food security and crossing the poverty line are excluded).

- Indicator categories scoring relatively low (multiple indicators <45%) in terms of ease of reporting include changes in local communities, responsibility to the community, and responsibility to the environment.
- Indicator categories rated high in terms of the likely quality of their results (consistently ≥70%) include context indicators, social objectives, outreach to SMEs, outreach to underdeveloped areas, outreach to women, managing social performance, social responsibility toward employees, and socially responsibility toward clients.
- Indicator categories rated moderately high in terms of the likely quality of their results (consistently ≥60%) include outreach to very poor or poor people, supporting employment, change in local communities, and being socially responsible.
- Indicator categories rated relatively low in terms of the likely quality of their results (multiple indicators less than 50%) include changes in the lives of clients and households, other social objectives, social responsibility toward the community, and social responsibility toward the environment.
- Overall, respondents tended to rate relevance consistently higher than the likely quality of results and the likely quality of results higher than the ease of reporting.
- Overall, the following indicator categories consistently scored among the highest in all three reporting criteria: context indicators, social objectives, outreach to SMEs, outreach to underdeveloped areas, outreach to women, managing social performance, social responsibility toward employees, and social responsibility toward clients.
- Overall, the following indicator categories consistently scored among the lowest in all three reporting criteria: outreach to the poor and socially marginalized; jobs created; changes in clients, households, and communities; social responsibility to the community, and social responsibility to the environment.
- Outreach to women was consistently rated the highest by respondents across all three reporting criteria.
- Overall, indicators asking whether and how the MFI tracks or monitors certain indicators were consistently rated among the lowest in all three reporting criteria.
- Overall, respondents rated process indicators higher than outcome indicators in all three reporting criteria.

ANNEX 3: COMMON SOCIAL PERFORMANCE INDICATORS—RESULTS OF SOCIAL INVESTOR SURVEY

INTRODUCTION

During Spring 2007, the Social Investor Subcommittee of the Social Performance Task Force surveyed social investors in microfinance about their practices, perceptions, and preferences regarding social performance indicators. (See Annex 3A for a list of social investors responding to the survey and Annex 3B for a copy of the social investor survey.) The purpose of the survey was to generate investor feedback on social performance indicators with the eventual aim of identifying a set of common, or core, social performance indicators that could be reported by microfinance institutions (MFIs) to the MIX Market. This contribution to the Social Performance Map summarizes the results of this survey.

SURVEY SAMPLING

To create the sample of social investors, the subcommittee developed a database of 94 social investors that support microenterprise activities either through subsidized or market-interest loans or through equity investments. The database was drawn from a number of sources, including MIX Market clients, business and personal contacts of subcommittee members, or recommendations made by other contacts.

Subcommittee members contacted each of the 94 investors in the database and invited them to take the survey online or administered the survey over the telephone. Of the 94 investors in the database, 45 responded to the survey, a response rate of 47.9%. Annex 2 provides information on those social investors who responded to the survey. While not representative of the entire universe of social investors, particularly the many mainline socially responsible investors who have yet to enter the microfinance market, the sample is nonetheless a reasonable representation of social investors involved in microfinance at the time of the survey.

BREAKDOWN OF SURVEY RESPONDENTS

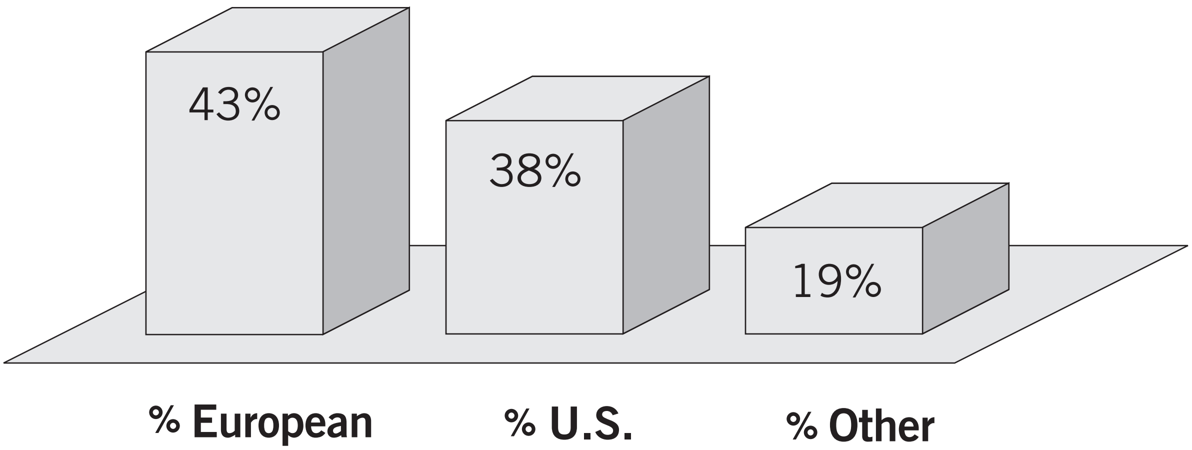
Table A3.1 and Figure A3.1 and provide a breakdown of the social investors who responded to the survey. Twenty-seven (60%) of the survey respondents classify themselves as "Type B" investors who invest at or near market rates. Another 15 respondents (26.7%) are "Type C"—commercially oriented investors investing at market rates—and six (13.3%) respondents are "Type A," investors who invest at subsidized or below-market rates.

As seen in Figure A3.1, survey respondents were predominantly from Europe (44%) or the United States (37%), although nearly 20% of respondents were from developing countries such as India, Pakistan, and Bolivia. The Europeans responding to the survey are heavily represented by institutions from Belgium, the Netherlands, and Germany. All survey respondents have a mission statement that includes some aspect of outreach and employment generation, including the more commercially oriented investors such as Triodos, Netherlands Development Finance Company (FMO), or Citigroup.

Table A3.1. Type of Social Investors Responding to the Survey

Investor Type	Percentage
Type A	13.3
Type B	60.0
Type C	26.7

Figure A3.1. Origin of Survey Respondents



Type A and Type B investors were most likely to cite poverty reduction as part of their social mission, followed by outreach to the poor and increasing employment, with the latter being far less important to Type A investors (Table A3.2). In contrast, Type C investors were most likely to consider "other" factors in their social mission, followed by poverty reduction, employment, and outreach to the poor. Other factors cited were principally those related to private sector/economic development and increased entrepreneurship.

Table A3.2. Mission Orientation of Social Investors

Investor Type	Outreach to Poor	Poverty Reduction	Increasing Employment	Other
Type A	33.3	66.7	16.7	33.3
Type B	55.6	66.7	37.0	33.3
Type C	25.0	33.3	33.3	83.3
Total	44.4	57.8	33.3	46.7

* Multiple responses possible; totals may not add up to 100%.

The survey asked respondents to indicate how frequently they reported social performance information. Most respondents report social performance on an annual basis, although Type A investors are equally likely to report on a monthly or quarterly basis (Table A3.3).

Table A3.3. Reporting Frequency of Social Performance Information

Investor Type	Monthly	Quarterly	Semiannually	Annually
Type A	16.7	16.7	0.0	16.7
Type B	3.7	22.2	7.4	44.4
Type C	8.3	8.3	0.0	66.7
Total	4.4	17.8	6.7	46.7

SURVEY FINDINGS

The survey asked investors to review a list of 45 indicators and to check those that they collect routinely or periodically, or that they do not collect but might like to collect in the future. Indicators included in the survey were classified, using the SP Task Force common framework, into six categories including MFI services, social responsibility, outreach, appropriate services, changes over time, and wider changes. (Changes over time indicators measure outcomes at the client or client household level.) The intent of the survey was to evaluate current investor practices in social performance assessment and to assess their demand for different types of social performance information. The responses are summarized in Tables A3.4–A3.9.

MFI Services Indicators

Indicators falling under MFI services measure breadth of outreach—defined as the number of people reached with loans, savings, and insurance—and depth of outreach, defined as the extent to which the MFI is reaching poor people with loans. The rationale for including breadth of outreach indicators as possible social performance indicators is straightforward: the more people reached with financial services, the greater the social benefit. Including depth of outreach indicators captures the view that society attaches greater value at the margin to reaching poor people with financial services (who presumably enjoy a large incremental benefit per dollar lent, up to a point) than more well-off people.

Overall, survey respondents are highly likely to collect information related to the number and growth of borrowers and loans, but less inclined to collect information related to the number and growth of savers (see Table A3.4). Type C investors are most likely to collect loan- and savings-related information, while Type A investors are the least likely. Despite questions about its accuracy as a poverty proxy, the average loan size remains a popular indicator among all three types of investors.

Investors are substantially less likely to adjust the average loan size for local income levels (gross national income, or GNI, per capita), despite the fact that such an adjustment facilitates more accurate cross-country comparisons. Relatively few respondents, moreover, collect information on the average first loan size. (The average size of initial loans is thought by some a more accurate poverty proxy than average loan size because it accounts for the fact that microfinance clients, even poor ones, take out larger loans over time. Thus taking the overall average biases overstates clients' actual poverty status.) Respondents did, however, express moderate interest in collecting average loan size as a percent of GNI per capita and the average new loan size.

Few respondents in all three investor categories collect information on the number of clients with loan, life, or health insurance, although a majority or near majority in each group did express interest in collecting this information in the future.

Table A3.4. MFI Financial Services Indicators (% who collect)

Investor Type	Type A			Type B			Type C			Total		
	Periodically	Routinely	Interested	Periodically	Routinely	Interested	Periodically	Routinely	Interested	Periodically	Routinely	Interested
Number of active borrowers	80.0	20.0	0.0	38.9	55.6	5.7	42.9	57.1	0.0	46.7	44.4	2.2
Number of loans disbursed	16.7	33.3	16.7	44.4	33.3	11.1	33.3	58.3	0.0	37.8	40.0	8.9
Number of voluntary depositors	16.7	50.0	16.7	22.2	33.3	22.2	41.7	25.0	33.3	26.7	33.3	24.4
Percentage growth in active borrowers	16.7	50.0	0.0	44.4	37.0	11.1	50.0	41.7	8.3	42.2	40.0	8.9
Percentage growth in voluntary depositors	33.3	16.7	16.7	18.5	37.0	22.2	25.0	41.7	33.3	22.2	35.6	24.4
Number of clients with loan, life, and health insurance	0.0	0.0	83.3	14.8	7.4	48.1	33.3	8.3	58.3	17.8	6.7	55.6
Average loan size	16.7	66.7	0.0	51.9	40.7	0.0	50.0	50.0	0.0	46.7	46.7	0.0
Average loan size / GNI per capita	0.0	16.7	66.7	29.6	33.3	22.2	33.3	33.3	25.0	26.7	31.1	28.9
Average first loan size	33.3	33.3	16.7	33.3	7.4	29.6	16.7	16.7	50.0	28.9	13.3	33.3

Social Responsibility to Clients Indicators

The effective interest rate measures the cash cost paid by clients for loans. All else equal, a lower effective interest rates translates into greater social benefits, and vice versa. Approximately 80% of respondents in all three groups reported collecting information on the effective interest rate periodically or routinely, and another 11% are interested in collecting this indicator in the future (Table A3.5).

Table A3.5. Social Responsibility to Clients Indicators (% who collect)

Investor Type	Type A			Type B			Type C			Total		
	Periodically	Routinely	Interested	Periodically	Routinely	Interested	Periodically	Routinely	Interested	Periodically	Routinely	Interested
Effective interest rate	16.7	66.7	0.0	22.2	51.9	18.5	25.0	66.7	0.0	22.2	57.8	11.1

Results—Outreach Indicators

Poverty tends to be concentrated among women and in rural areas, making them relatively straightforward and easy-to-collect proxies for poverty outreach. Aside from poverty issues, many MFIs and investors also see lending to women as a means of female empowerment and social capital creation. Not surprisingly, therefore, the percentage of female and rural clients are the most commonly collected outreach indicators among all three investor groups, although less than a majority collect this information for routine due diligence (see Table A3.6). The percentage of female clients is a moderately more popular indicator than the percentage of rural clients among survey respondents, although 20% (including 33.3% of Type C investors) expressed interest in collecting information on rural clients in the future.

Relatively few investors are collecting information on the percentage of clients below national or absolute (US$1 and US$2 per day) poverty lines. This is due less to lack of interest (50% or more of all respondents expressed interest in collecting information on poverty status in the future) than to the technical difficulties and resource costs of data collection.

Similarly, few respondents are collecting information on the percentage of clients living in remote or less developed areas or clients living in marginal or disadvantaged communities. Again, however, this appears due in large part to the difficulties and costs of collecting this type of data, judging by the moderate to large percentage of respondents in each investor group expressing interest in collecting these indicators in the future.

Table A3.6. Results-Outreach Indicators (% who collect)

Investor Type	Type A			Type B			Type C			Total		
	Periodically	Routinely	Interested	Periodically	Routinely	Interested	Periodically	Routinely	Interested	Periodically	Routinely	Interested
Percentage rural clients	16.7	50.0	16.7	40.7	22.2	14.8	25.0	33.3	33.3	33.3	28.9	20.0
Percentage clients in remote rural areas or less developed regions	0.0	16.7	66.7	22.2	3.7	37.0	8.3	16.7	66.7	15.6	8.9	48.9
Percentage female clients	0.0	66.7	16.7	33.3	44.4	3.7	50.0	33.3	8.3	33.3	44.4	6.7
Number employed in MFI-supported businesses	0.0	50.0	33.3	14.8	0.0	44.4	25.0	16.7	50.0	15.6	11.1	44.4
Percentage clients below national poverty line at entry	0.0	33.3	50.0	14.8	0.0	59.3	8.3	16.7	50.0	11.1	8.9	55.6
Percentage clients below US$1 or US$2 per day at entry	0.0	33.3	50.0	7.4	0.0	59.3	8.3	8.3	58.3	6.7	6.7	57.8
Percentage clients from marginal or disadvantaged communities	0.0	16.7	66.7	7.4	3.7	51.9	8.3	58.3	66.7	4.4	6.7	66.7

Results—Appropriate Services Indicators

Portfolio at risk (PAR) and the write-off ratio are common financial indicators that signal both the present and future financial health of the MFI. Financial health is, in turn, a precondition for delivering social benefits; a financially unhealthy or unsustainable MFI is unlikely to produce significant social benefits over the long term. Client turnover also signals financial health, and is a proxy for the value that clients derive from consuming financial services. Clients who derive good value from consumption are, on average, less likely to desert. All else equal, the greater the value derived from consumption, the greater the social benefit.

The popularity of PAR and the write-off ratio as financial indicators is reflected in the survey responses, particularly among Type B and Type C investors (Table A3.7). Over one-half of Type B and C investors collect information on PAR and write-offs routinely for due diligence and another one-third collect the information periodically. Investors in all three groups are less likely to collect information on client turnover, although over one-half in each group report collecting this indicator periodically or routinely. This result perhaps reflects to a degree the lack of consensus on, and confusion surrounding, how to measure client retention/desertion. Over one-quarter of respondents are interested in collecting information on client turnover in the future, including two-thirds of Type A investors and 42% of Type B investors.

Table A3.7. Results—Appropriate Services Indicators (% who collect)

Investor Type	Type A			Type B			Type C			Total		
	Periodically	Routinely	Interested	Periodically	Routinely	Interested	Periodically	Routinely	Interested	Periodically	Routinely	Interested
Client turnover	50.0	16.7	66.7	18.5	33.3	22.2	16.7	33.3	41.7	15.6	35.6	26.7
Portfolio at risk	16.7	66.7	0.0	37.0	55.6	0.0	33.3	58.3	0.0	33.3	57.8	0.0
Write-off ratio	33.3	33.3	16.7	37.0	55.6	0.0	33.3	50.0	8.3	35.6	51.1	4.4

Results—Changes Over Time Indicators

Measuring client changes over time requires client-level data related to changes in client and household well-being. Common client-level indicators include poverty status, asset ownership, and children's schooling. Most MFIs do not, as a matter of course, include this type of data in their information systems. It frequently therefore requires dedicated data collection efforts via, for example, the loan intake form or separate client surveys. The technical demands and resource costs of doing this can be high. In addition, many MFIs that do collect this information lack the capacity and systems necessary to manage, analyze, and use the information.

For all these reasons, it is not surprising that few investors in any group are collecting client-level results indicators (Table A3.8). Notwithstanding, a majority of investors in all groups are interested in collecting this type in the future (the sole exception is Type A investors and change in assets). There is no indication, however, as to the types of the cost/information trade-offs investors are willing to accept (and impose on their investee MFIs) to get this information.

Table A3.8. Results—Change Over Time Indicators (% who collect)

Investor Type	Type A			Type B			Type C			Total		
	Periodically	Routinely	Interested	Periodically	Routinely	Interested	Periodically	Routinely	Interested	Periodically	Routinely	Interested
Change in poverty level	0.0	0.0	66.7	7.4	0.0	63.0	0.0	8.3	75.0	4.4	2.2	66.7
Change in assets	16.7	33.3	16.7	14.8	0.0	55.6	16.7	16.7	50.0	15.6	8.9	48.9
Change in living conditions	16.7	0.0	50.0	3.7	0.0	63.0	0.0	8.3	66.7	4.4	2.2	62.2
Ability to send daughters to primary/secondary school	16.7	0.0	50.0	3.7	0.0	55.6	0.0	0.0	75.0	4.4	0.0	60.0
Ability to send sons to primary/ secondary school	16.7	0.0	50.0	3.7	0.0	55.6	0.0	0.0	75.0	4.4	0.0	60.0

Wider Change Indicators

Information on job creation within supported enterprises is also client-level information and therefore poses the same difficulties with data collection as changes over time indicators. Not surprisingly, virtually no investors are collecting information on employment, despite a uniformly high level of interest in doing so (see Table A3.9).

Table A3.9. Wider Change Indicators

Investor Type	Type A			Type B			Type C			Total		
	Periodically	Routinely	Interested	Periodically	Routinely	Interested	Periodically	Routinely	Interested	Periodically	Routinely	Interested
New hired nonfamily employment in microfinance-supported businesses	0.0	0.0	66.7	0.0	0.0	59.3	8.3	0.0	66.7	2.2	0.0	60.0

MFI Processes—Social Performance Management and Social Responsibility

The survey next posed to respondents a series of questions asking investors to indicate whether their investment fund "must have" or whether it "would be nice to have" evidence that the MFI possesses certain internal processes. Their responses are summarized in Table A3.10.

The only item that a majority of respondents said that MFIs "must have" is a vision/mission that references outreach to the poor with systems to implement. Approximately one-third said that MFIs must have a code of ethics, fund enterprises with decent working conditions, have a vision/mission that references adaptation of services to client needs with effective systems to operate, and measure staff retention, although Type A investors tend to put less importance on adaptation of services and codes of ethics. Investors place a lower priority on measuring poverty levels at entry or over time, links to nonfinancial services, and reviewing staff satisfaction.

Respondents were less discriminating when it came to making a wish list of things it would be nice to have. The only item that a majority of investors said it would not be nice to have is a mission statement referencing outreach to the poor, and this was because most of the respondents already said that the MFI must have this.

Table A3.10. MFI Processes—Social Performance Management and Social Responsibility

Investor Type	Type A		Type B		Type C		Total	
	Nice to Have	Must Have	Nice to Have	Must Have	Nice to Have	Must Have	Nice to Have	Must Have
Has a vision/mission that references outreach to the poor with systems to implement	0.0	66.7	14.8	59.3	33.3	58.3	17.8	60.0
Measures the poverty levels of clients at entry	33.3	33.3	59.3	11.1	83.3	0.0	62.2	11.1
Measures the poverty levels of clients over time	50.0	16.7	63.0	7.4	83.3	16.7	66.7	6.7
Has a code of ethics with effective systems in place to implement	33.3	16.7	44.4	37.0	58.3	33.3	46.7	33.3
Funds enterprises with decent working conditions	16.7	33.3	48.1	33.3	50.0	33.3	44.4	33.3
Offers or links to non-financial services	50.0	0.0	55.6	14.8	75.0	0.0	60.0	8.9
Has a gender-awareness policy	33.3	16.7	51.9	18.5	66.7	0.0	53.3	13.3
Tracks loans/trend information separately for men and women	16.7	50.0	33.3	33.3	83.3	0.0	44.4	26.7
Has a certain proportion of female representation on board, management, and field staff	33.3	16.7	44.4	25.9	66.7	8.3	48.9	20.0
Has a vision/mission that references adaptation of services to client needs with effective systems to implement	33.3	16.7	44.4	40.7	50.0	41.7	44.4	37.8
Has conducted systematic review of staff satisfaction in the last year	33.3	16.7	63.0	3.7	50.0	16.7	55.6	8.9
Measures staff retention rate	16.7	33.3	51.9	29.6	50.0	33.3	46.7	31.1

Level of Investor Interest in Different Types of Social Performance Information

Finally, the survey asked investors a series of questions gauging their interest in a variety of social performance measures and in other items. These are summarized in Table A3.11. The two most striking results in Table A3.11 are the 80% of respondents who said that they were interested in measuring social performance on a regular basis and the 82% of respondents who said that they were interested in information on the poverty level of clients at entry. Another 70-plus percent of respondents said that they were interested in changes in poverty levels over time and in employment and changes in employment over time at supported enterprises. Type C investors were significantly more likely to be interested in employment and employment changes over time. A slightly lower percentage, but still a majority, of respondents also said that they would be interested in information on environmental performance on a regular basis.

In contrast, few investors place a priority on client participation as judged by the small percentages in all three groups who stated an interest in client-owned MFIs or MFIs where clients have formal representation.

Table A3.11. Level of Investor Interest in Different Types of Social Performance Information (%)

Investor Type	Type A		Type B		Type C		Total	
	Yes	No	Yes	No	Yes	No	Yes	No
Interested in poverty level at entry	66.7	0.0	81.5	7.4	83.3	8.3	80.0	6.7
Interested in changes in poverty levels over time	50.0	16.7	74.1	11.1	83.3	8.3	73.3	11.1
Interested in employment at enterprises supported by MFIs	66.7	0.0	74.1	14.8	91.7	8.3	77.8	8.9
Interested in increased employment over time at enterprises supported by MFIs	33.3	33.3	70.4	14.8	91.7	8.3	71.1	13.3
Prioritize client-owned MFIs	16.7	50.0	7.4	70.4	0.0	91.7	6.7	73.3
Prioritize MFIs where clients have formal representation	33.3	33.3	3.7	74.1	0.0	91.7	6.7	73.3
Interested in measuring social performance on a regular basis	66.7	0.0	81.5	7.4	91.7	8.3	82.2	4.4
Interested in measuring environmental performance on a regular basis	33.3	33.3	63.0	18.5	75.0	16.7	62.2	20.0

THE MOST AND LEAST COMMON INDICATORS COLLECTED BY SAMPLE OF SOCIAL INVESTORS

The Most Common Indicators Currently Being Collected

When comparing results across the different indicator categories, seven indicators emerged as the most common indicators collected for due diligence purposes: effective interest rate, portfolio at risk, write-off ratio, average loan size, number of active borrowers, percentage of female clients, and percentage growth in active borrowers (Table A3.12). When combined with investors who collect the same indicators periodically, each of the seven indicators are collected by approximately 80% or more of survey respondents. Among these seven indicators, five are traditional measures of financial performance, and two (average loan size and percentage of female clients) are commonly identified as social performance indicators.

This finding was not a surprise since all seven indicators are routinely reported by MFIs across the world. Most MFIs already have in place appropriate MIS systems that can collect and monitor this information. Social investors more than likely prefer these indicators over others since they are easy to collect at the MFI level. They also, for the most part, coincide with priority indicators identified in another recent survey conducted by the Council of Microfinance Equity Funds (CMEF)[8] as well as findings from the social investor conference held in Bern during March 2007.[9]

8. See Council of Microfinance Equity Funds (CMEF), (2005), "Social Performance Practices of Equity Investors in Microfinance," http://cmef.com/.

9. www.intercooperation.ch/finance/workshops/archive.php

Table A3.12. Most Commonly Collected Indicators Among Sample of Social Investors (%)

	Periodically	Routinely	Total
PAR	33.3	57.8	91.1
Effective interest rate	22.2	57.8	80.0
Write-off ratio	35.6	51.1	86.7
Average loan size	46.7	46.7	93.4
Number of active borrowers	46.7	44.4	91.1
Percentage female clients	33.4	44.4	77.7
Percentage growth in active borrowers	42.2	40.0	82.2

Given the number of other indicators in which the survey respondents expressed interest, it is probably a safe conclusion that this list of seven indicators represents what is practical in the current environment rather than what investors would prefer to have in terms of social performance information. If they could get it, investors would be particularly interested in client-level information related to poverty status, living conditions, and children's schooling as well as information telling whether clients come from disadvantaged or marginal communities. Whether it is feasible and cost-effective to collect this information, and how to interpret it in the absence of comparison groups, are as of yet unanswered questions.

There is also a question as to the usefulness of average loan size as a poverty proxy. Its virtue is its ease of collection and its intuitive appeal (poorer clients will, on average, take out loans commensurate with their needs and ability to pay, which are assumed in both cases to be smaller than better-off clients); its weakness is its lack of empirical validation (including evidence pointing to its limitations as a poverty proxy).[10] In addition, the average loan size is most useful when it is "normalized" by adjusting it for some common standard, such as GNI per capita. Similarly, the effective interest rate requires some kind of normalization factor, such as a baseline interest rate, to account for wide differences in price structures and inflation rates between countries. Adjusting these indicators for local contexts to make them comparable across countries is a relatively simple solution that, for some reason, has yet to gain widespread traction among investors.

A yet more fundamental question suggested by the survey findings is whether financial performance indicators are suitable proxies for social performance. The discussion above explained the rationale for including certain financial performance indicators among the list of possible social performance indicators. Some may find this rationale convincing, while others may not. Moving forward on this issue will require, at some point, that the industry settle this question. However it is resolved, it is likely to create controversy, which points again to the importance of broad stakeholder discussion in addressing this and other issues.

The Least Common Indicators Currently Being Collected

Survey respondents were least likely to be collecting outreach and change over time indicators. Among these, the only indicators collected with a high degree of frequency are the percentage of female clients

10. For good critiques on the use of average loan size (ALS) and ALS/GNI per capita see Mark Schreiner, (2001), "Seven Aspects of Loan Size," *Journal of Microfinance,* 3, 2, 27–48 and Manfred Zeller, "Results from Accuracy Test in Bangladesh."

and the percentage of rural clients. Indicators collected routinely or periodically by approximately 20% of respondents include the percentage of clients in remote rural or less developed regions, number of people employed in MFI-supported businesses, percentage of clients below the national poverty line, and change in asset ownership over time. Indicators collected by the fewest number of investors include the percentage of clients below US$1 or US$2 a day, percentage of clients from marginal or disadvantaged communities, changes in poverty level and living conditions over time, and children's schooling.

Respondents cited the time and costs involved and the unavailability of relevant information at their investee MFIs as major constraints in getting client-level information. Type A investors were more likely than Type B and C investors to collect or wish to collect client-level indicators. All investor types, however, expressed an interest in collecting outreach and change over time indicators more frequently.

SUMMARY OF SURVEY FINDINGS AND IMPLICATIONS

A number of general conclusions about social investors in microfinance can be inferred from the survey responses and from explanatory comments provided by respondents:

- Social investors in microfinance constitute a heterogeneous group that possess diverse social missions and use diverse investment strategies.
- Social investors seeking market or near-market returns outnumber those seeking below-market (or subsidized) returns. This comes as no surprise given the more commercial direction that the microfinance industry has taken over the past few years.
- Social investors generally seek both financial and social returns. This double bottom line approach is measured and reported in a myriad of fashions. Indicators measuring different dimensions of MFI financial service delivery and outcomes are the most common indicators collected by survey respondents. Indicators measuring outreach and client changes over time are the least common indicators collected by survey respondents. Type C investors are slightly more likely than Type B investors to collect information on MFI service indicators, outreach indicators, and change over time indicators. In light of the greater market orientation of Type C investors, the former finding is expected, while the latter finding is a surprise.
- The most common individual indicators currently being collected by social investors include effective interest rate, portfolio at risk, write-off ratio, average loan size, number of active borrowers, percentage of female borrowers, and percentage change in the number of active borrowers. Survey respondents are less likely to collect information related to the number of depositors or clients with insurance or client turnover, although a significant number of respondents would be interested in collecting these indicators in the future.
- The least common individual indicators currently being collected by social investors include percentage of clients below US$1 or US$2 a day, percentage of clients from marginal or disadvantaged communities, change in poverty level, change in living conditions, and children's schooling. The social investors responding to the survey are not tracking clients' changes over time. Fewer than 10% in all three groups are tracking changes in clients' poverty levels. Fewer than 20% in either group (and fewer than 10% among Type B and C investors) are tracking changes in clients' living conditions or clients' ability to send their sons or daughters to school. Nearly one-half of Type A investors, one-third of Type C investors, and 15% of Type B investors are periodically or routinely tracking changes in household assets.

- Respondents are lukewarm about change over time indicators. Of Type A investors who are not currently tracking change over time indicators, 67% are interested in changes in poverty level, 33% are interested in change in assets, 60% are interested in changes in living conditions, and 60% are interested in children's schooling. The corresponding percentages for Type B investors are 68%, 65%, 65%, 58%, and 58%. For Type C investors, the relevant percentages are 71%, 65%, 67%, 63%, and 63%. In terms of children's schooling, the survey respondents expressed no preference for information on girls' schooling as compared to boys' schooling.
- A large majority of survey respondents are interested in getting information on poverty status, employment at supported enterprises, and other measures of client and household well-being, although they do not see any of these as a "must." A majority or near majority do, however, say that the MFIs must have a vision/mission that references outreach to the poor and adaptation of services to client needs with effective systems in place to implement them.
- The prevalence of traditional financial performance indicators among the social performance indicators currently being collected by microfinance investors raises the question as to whether financial performance indicators are suitable proxies for social performance. It further highlights the need to resolve this question quickly and by consensus, given the controversy that surrounds this question.
- Respondents tend not to adjust the effective interest rate and average loan size for local conditions in a way that make them more comparable across countries. The rationale and implication of this result merit further investigation.
- Respondents show a moderate to strong interest in information on social responsibility. From one-quarter to one-third of respondents say they must have information on social management and responsibility in areas such as codes of ethics; supporting enterprises with decent working conditions; female representation on the board, in management, and among staff; and staff retention. If those saying that such information would be "nice to have" are added, then these percentages climb to the 70% to 80% range. Another 62% would be interested in information on environmental performance on a regular basis.
- The large majority of respondents expressed an interest in more regular and better social performance data. They are looking for easy, cost-effective methods to improve social reporting from their MFI clients, but they are wary about imposing too great a reporting cost on them. This raises the question both as to the overall practicality of client-level social performance indicators and the feasibility of requiring MFIs to collect and report them. This too is a question that needs to be resolved prior to arriving at a final set of core indicators.

In addition to the above, a number of Type C respondents commented that investing in microfinance is itself evidence of social impact; therefore, it is sufficient for them to report basic MFI service indicators to satisfy any social performance reporting requirements. A number also mentioned that equity investment with representation on the board and effective supervision is far more effective in achieving and monitoring social performance.

A majority of respondents further cited practical difficulties involved with deepening their social reporting to include more rigorous outreach and impact indicators. These results suggest significant remaining hurdles to mainstreaming social performance reporting among social investors, aside from more traditional financial indicators as proxies, despite interest among social investors for this type of information.

A notable omission from the survey was indicators related to the environment and the triple bottom line. We do not know, therefore, investors' attitudes toward indicators measuring MFIs' environmental impact.

Overall, the survey findings help to shed light on the characteristics, practices, and perceptions of social investors and their commitment to social performance. Both the survey results and accompanying comments of the respondents indicate, with few exceptions, a generally strong and broad-based support for improving the measurement and reporting of social performance information in the microfinance sector. It should be noted once again, however, that this survey captured only a very small slice of the social investor universe. A more representative survey that includes perspectives from the broader SRI industry may or may not produce a different set of findings.

ANNEX 3A: SOCIAL INVESTOR SURVEY RESPONDENTS

Alterfin
Calvert Social Investment Foundation
Catalyst Microfinance Investors
Citigroup Microfinance Group
Cordaid Loans & Guarantees
Corporacion Andina de Fomento
Cresud
The Dignity Fund, L.P.
DOEN Foundation
Emergency Liquidity Facility
European Fund for Southeast Europe
FINCA International
FMO
Global Bridge Fund
Global Microfinance Group SA
Global Partnerships Microfinance Funds
Gray Ghost Microfinance Funds
Growth Guarantee Fund
ICCO
Investisseur et Partenaire pour le Développement
KfW
Kiva
Legatum Global Development
LOCFUND
Lok Capital
MFLO
MicroCred
MicroCredit Enterprises
Microcredit Fund
MicroVest Capital Management
MLC Frontiers, LLC
Multilateral Investment Fund
Nicaraguan Credit Alternatives Fund
Partners for the Common Good
Rabobank Foundation
responsAbility Global Microfinance & Microfinance Leaders Fund
ShoreCap International, Ltd.
SIDI
Triodos Investment Management BV
Triple Jump
Unitus Equity Fund L.P.

ANNEX 3B: SOCIAL INVESTOR SURVEY

Fund name:	

NB: If you have different ‘fund’ families, with different implications for social reporting, please complete a separate form for each type of fund.

A. Would you categorize your fund’s involvement in microfinance as:

(place an x in the appropriate box)

Social investor + subsidized/below-market interest rates		Social investor + near-market/market interest rates		Commercial investor	

B. Mission orientation of your fund:

(place an x in the appropriate box)

Outreach to the poor		Poverty reduction		Increasing employment	
Other (please specify)					

C. Review of indicators relevant to social reporting

The indicators on the following page are currently under review as part of an initiative of the Social Performance Task Force, led by the Microfinance Information Exchange, to select and define core indicators to track the social performance of microfinance institutions. The indicators are organized according to broad areas of reference: profile of the organization and clients, outreach and results, microfinance institution processes, and social responsibility. Please note your use of the following indicators, or potential interest. You may refer to selected definitions and notes in the Annex. Please also make use of the spaces available for you to add indicators you think are relevant, or any other comments.

Social indicators Examples	My fund collects info on this indicator routinely, for due diligence YES/NO	My fund reports this indicator periodically (quarterly, annually) YES/NO	My fund currently does not use this indicator, but may like to in future—if feasible YES/NO	Any comments (optional)
MFI financial services				
Number of active borrowers				
Number of loans disbursed (per year)				
Number of voluntary depositors				
% growth in active borrowers (annual)				
% growth in voluntary depositors (annual)				
Number of clients with microinsurance: (a) loan (b) life (c) health				
Average loan size				
Average loan size as % of GNI per capita				
Average size of first loans				
Social Responsibility to Clients				
Effective interest rate (including all commissions/fees)				
Results—Outreach				
% rural clients				
% clients in remote rural areas or less developed regions				
% female clients				
Number employed in MFI-supported businesses				
% clients (at entry) below national poverty line				
% clients (at entry) below US$1/day or US$2/day poverty line				
% of clients from specified marginal/disadvantaged communities				

Results—Appropriate Services				
Client turnover (%)				
Portfolio at Risk (>30 or >60 days)				
Write-off ratio				
Results—Change over time				
Client households				
Change in poverty levels (as defined by national/international poverty line)				
Change in assets (key productive assets/consumer assets)				
Change in living conditions (housing, access to health care, diet, nutrition)				
Ability to send daughters to school (primary/secondary level)				
Ability to send sons to school (primary/secondary level)				
Wider change				
New hired (non-family) employment in microfinance-supported businesses				

MFI Processes—Social Performance Management and Social Responsibility	My fund must have evidence that the MFI…	It would be nice to have evidence that the MFI…	Any comments (optional)
Has a vision/mission that references outreach to the poor, with systems to implement			
Measures the poverty levels of clients at entry			
Measures the poverty levels of clients over time			
Has a code of ethics (social responsibility to clients) with effective systems in place to implement, for example, consumer protection training to staff, transparency and communication explaining customers' rights and responsibilities including privacy rights, etc.			
Funds enterprises with decent working conditions			
Offers or links clients to nonfinancial services			
Has a gender-awareness policy			
If has men and women clients, tracks loan/trends information separately for men/women			
Has a certain proportion of female representation—on its board of directors, management, field staff			
Has a vision/mission that references adaptation of services to client needs, with effective systems to implement (e.g., systems to obtain/monitor client satisfaction)			
Has conducted a systematic review of staff satisfaction in the last year			
Staff retention rate (%)			

A few additional questions

1. Is your fund interested in . . .
    a. the poverty level of MFI client households, at entry? YES/NO
    b. changes in the poverty levels of MFI client households (over time)? YES/NO
    c. employment in enterprises/businesses supported by MFIs? YES/NO
    d. increased employment in enterprises/businesses supported by MFIs (over time)? YES/NO
2. Does your fund prioritize . . .
    a. client-owned MFIs? YES/NO
    b. MFIs where clients have formal representation? YES/NO
3. Is your fund interested in measuring social performance on a regular basis? YES/NO
4. Is your fund interested in measuring environmental performance on a regular basis? YES/NO
5. How frequently does your fund report indicators on social performance to investors? (monthly, quarterly, semiannually, annually . . .)
6. When you represent your fund on the board of directors of the MFIs you invest in, do you require any social performance information to be reported? YES/NO
7. Do you have any ideas or plans to change how you report social performance? (If yes, what are they?) YES/NO
8. Is your fund interested in measuring social performance on a regular basis? Why or why not? YES/NO
9. Is your fund interested in measuring environmental performance on a regular basis? Why or why not? YES/NO
10. How frequently does your fund report indicators on social performance to investors? (monthly, quarterly, semiannually, annually . . .)
11. When you represent your fund on the board of directors of the MFIs you invest in, do you require any social performance information to be reported? If so, what? YES/NO

Name and position of person who filled in the questionnaire:

____

Date

____

Annex: Definitions and Notes for Selected Indicators

Examples of Social Indicators	Definitions/Notes
MFI Financial Services and Access (Indicators based on MFI portfolio information)	
Number of active borrowers	SEEP FRAMEWORK: Number of Active Borrowers (= SEEP N3 indicator) = The number of individuals who currently have an outstanding loan balance with the MFI or are primarily responsible for repaying any portion of the (B4) Gross Loan Portfolio. Individuals who have multiple loans with an MFI should be counted as a single borrower. (Note: Number of loan accounts does not equal number of borrowers)
Number of loans disbursed	SEEP FRAMEWORK: (= SEEP P1): Number of all loans disbursed during the period. For MFIs using a group lending methodology, the number of loans should refer to the number of individuals receiving loans as part of a group or as part of a group loan. If one person receives more than one loan in the period, count each loan.
Number of voluntary depositors	SEEP FRAMEWORK: Number of Voluntary Depositors (= SEEP N4 indicator) = The number of individuals who currently have funds on deposit with the MFI on a voluntary basis; i.e., they are not required to maintain the deposit account to access a loan. This number applies only to deposits held by an MFI, not to those deposits held in other institutions by the MFI's clients. The number should be based on the number of individuals rather than the number of groups. A single deposit account may represent multiple depositors.
% growth in active borrowers (annual)	$\frac{\text{Number of active borrowers, current year} - \text{Number of active borrowers, previous year}}{\text{Number of active borrowers, previous year}}$
% growth in voluntary depositors (annual)	$\frac{\text{Number of voluntary depositors, current year} - \text{Number of voluntary depositors, previous year}}{\text{Number of voluntary depositors, previous year}}$
Number of clients with microinsurance	Insurance services may be provided directly by the MFI, or through linkage with a corporate insurance company
Average loan size	Total loans disbursed during the previous year/total number of loans disbursed during the period. (Note: Provides a clearer representation of loan size than the average loan outstanding)
Average loan size as a % of GNI per capita	Average Loan Size relative to GNI per capita (=SEEP R17/ GNI per capita) GNI per Capita (= SEEP N12) = gross national income, converted to U.S. dollars using the World Bank Atlas method, divided by the midyear population. GNI is the sum of value added by all resident producers plus any product taxes (less subsidies) not included in the valuation of outputs plus net receipts of primary income (compensation of employees and property income) from abroad. The rate is available at MIX.
Average size of first loans disbursed during the year	Segments the portfolio to analyze the average size of loan borrowed by clients at entry. Total amount of first loans/number of first-time borrowers

Social Responsibility to Clients	
Effective interest rate (including all commissions/ fees)	The cost to clients of borrowing from the MFI, including interest on declining annual basis, all fees, commissions, insurance premium and the effect of compulsory savings/deposits
Results—Outreach (Client-level information)	
% female clients	(Usually) Number of women active borrowers/ Total number of active borrowers
% rural clients	Number of rural active borrowers/ Total number of active borrowers Per SEEP Social Performance Glossary: A rural area is "an area in which the primary economic activities are small-scale agriculture and livestock rearing, although it also includes small-scale trade, service, and manufacturing activities. It is also characterized, in relative terms, by geographic isolation, low population densities, poorly developed infrastructure, underdeveloped market for goods and services, and high poverty concentration."
% clients in remote rural areas—or less developed regions	To be defined—if of interest. Representing operations in underdeveloped areas, probably at higher cost.
Number employed in MFI-supported businesses	Indirect outreach. To be defined, to include a. Number of family/self-employment, and/or b. Number of hired/wage employees in MFI-supported businesses
% of clients (at entry) below national poverty line	Applies to entry-level clients to capture the poverty level of their households when they join the MFI.
% of clients (at entry) below international poverty line: US$1 or US$2 per capita per day at purchasing power parity	Recent initiatives now enable the direct measurement of household poverty using simple, robust indicators, statistically correlated with different poverty lines, based on national sample data sets. These are the Poverty Scorecard (supported by Grameen Foundation and CGAP) and the IRIS tool (supported by USAID). The appropriate poverty line depends on the country. The international benchmark is US$1/day for low-income countries (subsaharan Africa, South Asia, Southeast Asia) and US$2/day for middle-income countries (mostly in Latin America, Central Asia, and Eastern Europe). The World Bank provides tables updating purchasing power parity of the currency of most countries.
% clients from specified marginal/disadvantaged communities	Many MFIs specifically target certain communities in their local context (e.g., refugees or disaster-affected, HIV-affected, or other recognized marginal groups)
Results—Appropriate Services	
Client turnover (%)	SEEP defines Client Turnover rather than Client Retention: Client Turnover (= SEEP R16) = (Number of active clients, end of period + Number of new clients during period - Number of active clients, beginning of period)/ Average number of active clients, with: Number of new clients during the period (= SEEP N2 indicator) = The number of clients who did not have an active account at the beginning of the period but do have an active account at the end of the period. (Definition for number of active clients in indicator 4)

Portfolio at risk	SEEP FRAMEWORK: PAR >30 days ratio (= SEEP R9 indicator) = (Outstanding balance, loans overdue >30 days/Gross loan portfolio) - includes renegotiated loans. Applicable for short-term loans (less than 6 months). For 12-month loans, PAR 60 days is applicable.
Write-off ratio	SEEP FRAMEWORK: Write-off ratio (= SEEP R10 indicator) = (Value of loans written-off/ Average Gross Loan Portfolio) during the previous year
Results—Change *(Conventionally interpreted as 'impact,' attributing causation to the microfinance intervention. Because of the complexity and cost of impact assessment, these indicators may alternatively be tracked as outcomes [i.e., changes at the household or enterprise level] without attributing causality)*	
Client households *(Indicators usually relate to household level [not just client]; often linked to achievement of the Millennium Development Goals; applicable to clients with an MFI over a specified period [usually 3–5 years])*	
Change in poverty levels—movement above a specified poverty level over time	A key aspect of development with tools mentioned earlier (Poverty Scorecard) now available to measure
Change in assets (key productive assets/consumer assets)	To be defined, in relation to local context. May include • What percentage of your clients have » increased value of equipment/building for nonfarm enterprise? » increased animal ownership? » increased land ownership? » increased ownership of transport assets? » increased ownership of consumer appliances?
Change in living conditions/ reduced vulnerability	To be defined, in relation to local context. May include • What percentage of your clients have » improved housing conditions? » improved cooking fuel? » improved access to drinking water? » improved regularity of food intake (report no shortage of food)? » improved quality of food (report consumption of higher value food items)?
Schooling of children	% clients' children attending school: • Percentage of primary school–aged daughters attending school • Percentage of secondary school–aged daughters attending school • Percentage of primary school–aged sons attending school • Percentage of secondary school–aged sons attending school
Wider change (Change that affects others in the community)	
Employment generation: new hired (nonfamily) employment in microfinance-supported enterprises	Increase in hired employment as a result of business growth; may also include reference to male/female employment, full/part-time, and wages earned.

<table>
<tr><th>MFI Processes</th><th>Notes</th></tr>
<tr><td>Measures the poverty levels of clients at entry</td><td rowspan="2">Refer to Poverty Scorecard mentioned above.</td></tr>
<tr><td>Measures the poverty levels of clients over time</td></tr>
<tr><td>Funds enterprises with “decent” working conditions</td><td>Excerpt from “Microfinance for Decent Work: Toward Action,” paper presented at the ILO/VNO-NCW/Rabobank Meeting on Microfinance, March 2, 2007, Utrecht, the Netherlands, by: Bernd Balkenhol, ILO:
Decent work is “productive work in which rights are protected, which generates an adequate income, with adequate social protection.” Also refers to sufficient work (full access to income-earning opportunities) (“Report of the Director General to the 87th session of the International Labour Conference,” 1999, page 1). The definition emphasizes aspects of work that are also declared goals for microfinance:
• Income level
• Income security
• Equality of opportunity
Or (per common social performance indicators list):
Do you have a formal code of conduct for small entrepreneurs that aims to give protection to the small entrepreneurs’ employees and/or the environment, and that small enterpreneurs should agree to, and sign as part of a loan agreement, including
• Provisions related to working conditions in microfinance-supported enterprises (i.e., health and safety, prevention of abuse of child labor, storage and use of chemicals, respect of basic hygienic conditions, absence of sexual harassment, equal pay for men and women, payment of minimum salary, etc.)
• Insurance against work accidents in case of high risk (i.e., metal workers, processing of sisal fiber, etc.)
• Restrictions as to the financing of activities that are heavily polluting or damaging to the environment (i.e., leather production, etc.)</td></tr>
<tr><td>Gender-awareness policy</td><td>Takes account of constraints that women face in many cultures
• as clients (e.g., low literacy, low mobility, low skills, market segmentation—low income)
• as staff (e.g., domestic work pressure, mobility)
Likely to affect, for example, communication strategy, identification of enterprise support measures, and norms for women staff</td></tr>
<tr><td>Staff turnover (%)</td><td>From MBB Issues No. 6 on Productivity:
Number of staff who left the MFI/Average number of staff (within a 12-month period)</td></tr>
</table>

12. SOCIAL PERFORMANCE IN MULTISECTOR DEVELOPMENT ORGANIZATIONS[1]

INTRODUCTION

A large number of microfinance institutions (MFIs) are owned or supported by multisector international development NGOs (INGOs). Prominent examples of the latter include World Vision, Save the Children, Catholic Relief Services (CRS), CARE, and World Relief. But is the microfinance sector's work in developing and testing social performance frameworks and tools relevant to these multisector organizations and the different (nonmicrofinance) sectors in which they operate? To answer this question, members of the Social Performance Working Group of SEEP conducted interviews with key personnel at a sample of SEEP member organizations, including Save the Children, Oxfam America, Trickle Up, CARE, and CRS.

PERCEPTIONS OF MULTISECTOR INTERNATIONAL NGOS

Overall, interviewees expressed general interest in social performance and lessons learned from the microfinance sector. Interviewees also expressed a general perception that they lacked practical relevance to other development sectors. In particular, they felt that microfinance is fundamentally different from other development sectors. The process of self-selection, which forms the basis of microlending methodologies, together with the pressure to achieve financial sustainability, can at times work (or create incentives) to screen out certain vulnerable populations, even in cases where these vulnerable populations are the intended market.

In contrast, interviewees did not consider such mission drift to be a significant risk in most other development sectors. In the case of other sectors, such as orphans and vulnerable children (OVC), maternal health and child survival, antitrafficking, and HIV/AIDS, there is no self-selection and thus identifying and reaching the target population is relatively straightforward. Noted exceptions include sectors that are under pressure from donors to achieve institutional sustainability, such as agriculture and agro-enterprise, and anti-retro therapy approaches (ART) within the HIV/AIDS sector, although the risk of mission drift in the latter case was not seen as a major concern.

Of course, social performance is about more than mission drift. Issues related to program impact and institutional design remain quite relevant, even to large multisector organizations. Assessing impact, though important, lies outside the scope of the social performance movement, but institutional design can still provide important indications of the likelihood and type of program impact. For this reason, tools such as the social audit (perhaps revised to reflect the complexities and issues in multisector organizations) appear to have significant potential as a bridge linking social performance in microfinance to social performance in multisector INGOs.

Another impediment to integrating the microfinance social performance framework to other development sectors stems from general difficulties in linking microfinance to other development programs. Many microfinance entities owned or supported by multisector INGOs have at one point or another

1. This section draws heavily on the work by Jan Maes, Wendy-Anne Rowe, and Rajan Samuel.

sought to link, or integrate, financial services with other development sectors such as HIV/AIDS, agriculture, maternal health and child survival, orphans and vulnerable children, and antitrafficking. The going, however, has been rough, due in part to restricted funding mechanisms that have not permitted linkages and also, in some cases, the dynamics of internal organizational structures.

In light of these challenges, several multisector INGOs have chosen to take a more proactive approach to becoming effective service providers using more holistic frameworks. Natural linkages through community-based participatory assessments of community needs and holistic service provision is now the preferred approach rather than forced integration. Organizations such as Save the Children, CARE, and CRS have been testing various holistic frameworks that address not only the social and economic well-being of communities but also the physical and environmental.

CHALLENGES INTEGRATING SOCIAL PERFORMANCE INTO MULTISECTOR ORGANIZATIONS

Driven by clear social missions, it might seem that social performance tools would fit naturally within this holistic approach. In interviews, however, respondents identified a number of challenges in integrating social performance within the multisector framework. Several of the interviewees did not feel a strong sense of urgency for assessing or managing social performance. Their work in diverse sectors is, for the most part, guided by principles of targeting the poor, and they felt confident that work in these sectors was consistent with this mission.

On top of this, some multisector INGOs are only in the preliminary stages of developing systems that reflect their individual holistic frameworks. They are, to a certain extent, starting from square one; they are operating from new frameworks and still working out the operational bugs. Newer sectors (e.g., fair trade, water and sanitation, peace building) are particularly struggling to identify relevant performance, let alone social performance, indicators.

In contrast, the microfinance sector has benefited from dynamic practitioner networks that have worked throughout the years to develop and refine methods for assessing program effectiveness, including performance tracking, impact assessments, market research, and poverty assessment. Social performance assessment and management is the natural progression of this process.

In this context, social performance does not rank as a high priority among certain multisector INGOs. Many of these INGOs are facing challenges in capturing even basic information on performance trends, again particularly the newer sectors that still lack a core practitioner community. While they acknowledge the importance of social performance, they see less of a likelihood that it will be relevant to their work until they are able to capture and manage some of their more basic information needs.

The work within the microfinance sector on common social indicators does have crossover relevance for those cases in which multisector INGOs have managed to link or integrate financial services with other development services, or alternatively in those cases where INGOs are operating microfinance programs. A good example is INGOs that specialize in or have a focus on child well-being. Save the Children, for example, conducted an assessment of child welfare indicators for integrated microfinance programs and found the field already well developed, albeit with important gaps. The study concludes that "the challenges with gathering data on the impact of microfinance products and services on child welfare and well-being are significant, but not insurmountable." [2]

It has less relevance, however, in terms of guiding indicator selection within other development sectors. The multisector INGOs will need to hammer out their own set of unique performance indicators

2. Save the Children, (2007), "Impact of Microfinance Programs on Children: An Annotated Survey of Indicators," p. 5, www.microfinancegateway.com/content/article/detail/46163.

that measure the diversity of activities in which they are engaged. Relative to microfinance, there is even greater diversity in how different organizations define and measure success given they must measure success across multiple sectors and activities, a task that is significantly more complicated than the one the microfinance sector has been struggling to solve.

POTENTIAL FOR LINKAGES BETWEEN MICROFINANCE AND SAVINGS-LED DEVELOPMENT

One specific approach within the holistic framework that has perhaps greater potential for linkage with social performance activities in microfinance is the "savings and internal lending" or "savings-led" approach being adopted by INGOs such as CARE (Village Savings & Loans), PACT (WORTH model), CRS (Savings and Internal Lending Communities), and Oxfam (Saving for Change). This approach uses local, indigenous self-help groups (SHGs) to provide a variety of financial and nonfinancial services to poor or otherwise marginal persons (often women). The SHGs operate independently but receive assistance of various forms from local NGOs, often supported financially and otherwise by partner INGOs. Although the term "savings-led" might be interpreted to mean an emphasis on finance, it needs to be emphasized that these groups provide a variety of services meeting diverse development needs and thus fit squarely within the holistic framework discussed here.

In this approach, the INGO works with local partners during a preliminary phase to promote group formation, provide training and other services, and monitor the progress of the program over a period of time. Once these groups are formed, the intention is that they become self-governed, independent groups.

The potential for linking the social performance work in microfinance to the savings-led movement appears much higher than that for linking to multisector INGOs in general, for a number of reasons:

1. While the savings-led model works well for very poor communities, it does not automatically target the poor, and it is subject to issues related to self-selection and mission drift. Promoters of the savings-led approach, moreover, are held to many of the same standards related to their impact on poverty and personal/household well-being.
2. Related to 1 above, a common (though not universal) goal of savings-led groups is social intermediation, defined in this context as creating sustainable linkages between marginal clients and formal financial institutions. The emphasis on intermediation and sustainability potentially creates further incentives for mission drift.
3. Within INGOs adopting the savings-led approach, there appears to be stronger interest to review the relevance of the microfinance social performance movement, and its associated tools and indicators, to their own programs. Importantly, these organizations are in the process of adopting a common framework for the financial performance of self-managed savings groups, which is arguably a key dimension of social performance. This is also in part a response to the financial performance standards of MFIs, with which they could not compete in the past because they did not collect similar data. Now they will, and they think that self-managed groups will show some very strong financial performance dimensions.
4. Members of these savings groups or the groups themselves are sometimes clients of MFIs.

One challenge in linking the savings-led INGOs to the microfinance social performance work is that the INGOs' role is limited to that of support; they are not establishing or running any institutions on the ground. This means that although social performance might be relevant for the INGO or partner responsible for promoting the methodology, there are questions regarding its relevance at the group level. While there may be no relevance for SHGs on issues such as human resource management, mission compliance, consumer protection, etc., the social intermediation function may be of importance. In some countries SHGs are forming networks (federations) for which certain social performance management activities may have some relevance. Other social performance principles *are* relevant even for very small and informal groups. These include issues such as transparency, accountability, financial performance, fraud, and inclusivity.

13. SOCIAL PERFORMANCE STANDARDS AND STAKEHOLDER ENGAGEMENT

WHY SOCIAL AND ENVIRONMENTAL PERFORMANCE STANDARDS?

An array of standards and tools exist to guide organizations in integrating social and environmental performance (SEP) into their business strategies and governance-management processes. Their purpose is to provide generally accepted reference points for improving aspects of social and environmental performance and as such drive firm performance consistent with the goals of sustainable development. The proliferation of SEP standards and tools is such that the choice for many organizations is less whether to use such tools but rather which ones to use and in what combination.

An ongoing debate centers on the desirability and usefulness of industry SEP standards versus company-specific standards. The basic argument for company-specific standards is that organizations are different with different missions and strategic objectives and operate in different environments, factors that are not captured by industry standards. A reasonable concern is that industry standards do not allow organizations to demonstrate their unique value added or, alternatively, that they are ultimately irrelevant to the company as either a governance or management tool.

These are legitimate concerns that must be taken into consideration, but they are not compelling enough arguments to forego industry standards; if anything, they point to the necessity of stakeholder engagement in developing industry standards. Besides, there is no reason why a company cannot use its own set of standards for internal purposes, although admittedly forces will likely create over time a convergence between internal and external standards.

There are, in contrast, numerous important benefits to adopting industry SEP standards. Industry standards:

1. Grant legitimacy in that they are based on a social contract expressed in international agreements or through negotiation between relevant stakeholder groups
2. Establish clear performance benchmarks
3. Provide normative clarity in terms of identifying what is the “right thing to do”
4. Promote fair competition (i.e., organizations are less likely to attract resources based on claims they cannot substantiate)
5. Facilitate transparency and knowledge sharing
6. Reduce standard development and implementation costs
7. Reduce standard development and implementation risks (e.g., the risk that a company’s own standards will not be accepted by external stakeholders)
8. Establish best practices and thereby allow organizations to focus on developing better SEP systems
9. Provide a readily useable tool to help organizations put commitments into practice

10. Improve the ability of organizations to communicate their commitments, requirements, and performance levels, both internally and externally
11. Help organizations ensure that all material SEP issues are addressed

PRACTICAL QUESTIONS IN IMPLEMENTING SEP STANDARDS

The above recitation on the benefits of industry standards makes it clear that a globally consistent approach to SEP is necessary. However, returning to the concerns expressed above, these standards need to incorporate a certain amount of flexibility. Differences in national laws, culture, and levels of experience imply that any SEP standard must accommodate "entry level" in addition to "gold standard" performers.

The Global Reporting Initiative (GRI) is a good example of a SEP reporting framework that has built in this type of flexibility.[1] The GRI uses a "report" or "explain" approach to performance standards. An organization can choose which GRI indicators to report based on its situation. If the organization chooses not to report a specific indicator, however, it is expected to explain why. In this sense, the GRI is a "mass customizable" reporting framework. It is a mass reporting framework in that it is broad enough to apply to all organizations. It is a customizable in that it allows individual organizations to adopt the reporting framework to their specific context.

Although SEP standards and tools are for the most part voluntary, some are emerging as de facto industry standards (including normative frameworks, process guidelines, and management systems) offering the benefits described above. Notwithstanding, so far there is no single framework of generally accepted standards and tools for doing SEP. This leaves organizations with a number of dilemmas:

- Should we use a national, regional, or global framework?
- Should we use a series of issue-specific standards (e.g. human rights, labor, the environment) or a comprehensive framework for overall sustainability performance?
- How can we be sure that the standards capture the issues that are material to the company and its stakeholders?
- How should we assure our social and environmental performance?
- How can we communicate our performance internally and externally?
- How can we ensure our performance standards are applicable throughout our global operations and supply chain?

Industrywide standardization can be considered in place when the large majority of organizations in a particular industry conform to international standards. This is typically achieved through consensus agreements among industry stakeholders. They agree on the standards themselves, on the corresponding indicators used to measure the standards, on the relevant terminology, and on the specifications and criteria to be applied consistently in measuring and reporting the standards.

DEVELOPING SEP STANDARDS AND STAKEHOLDER INCLUSIVENESS

Reaching this consensus, however, can be time consuming; it takes an average of *five years* to complete an industrywide standard. It is important for the process to proceed deliberately. Going too far too fast could significantly reduce the take-up of any SEP standard if it results in truncated participation by an insufficiently diverse cohort of stakeholders.

1. www.globalreporting.org

Multistakeholder engagement also requires reasonable equity among different stakeholders so that the perspectives of weaker stakeholders are not trumped by those of stronger (or more vocal) stakeholders; otherwise there can be no consensus. Important components of the engagement process, therefore, include (1) the assessment of capacity (financial and otherwise) constraints to participation and (2) capacity-building.

Some stakeholders possess a relatively sophisticated understanding of SEP while others are just beginning. It is important to expand the circle of stakeholders beyond the "usual suspects" and engage with those whose views and interests might otherwise be underrepresented. In certain cases, this implies a willingness to provide arms-length financial assistance to certain stakeholders so as to facilitate their participation and ensure the legitimacy of the process.

If the process is not flexible or inclusive enough to grant voice to all important stakeholders, those excluded from the process will have little incentive to participate further in the development process, to implement the standards, or to engage with organizations that are implementing them. At the same time, if certain stakeholders lack the capacity to engage effectively, they will not be able to get their issues addressed, with similar results. SEP standards that are not based on legitimate stakeholder engagement are likely to produce unwelcome consequences. First, they will lack credibility among certain stakeholder groups. Second, lacking diverse perspectives, organizations are less likely to find them useful, resulting in lower take-up.

A critical issue in any stakeholder engagement process is to identify the stakeholder groups who have standing, defined as a legitimate interest in the company's operations and outcomes. Stakeholders include the full range of "individual(s) or group of individuals who affect and/or are affected by an organization and its activities."[2] This definition gets us part of the way there, but it still leaves significant room for discretion. In any case, best practice in standards development recommends that the process be as inclusive and diverse as possible, preferably with multiple venues for soliciting stakeholder feedback, and that systems are put in place to ensure reasonably equitable participation among stakeholder groups.

STAKEHOLDER ENGAGEMENT: EXAMPLES FROM THE GRI, ISO, AND ILO

The development of the GRI G3 Sustainability Reporting Guidelines provides a good case study of how this process might operate. The development of the G3 guidelines was the result of a lengthy iterative process of research, application, discussion, feedback, and consensus-seeking with stakeholders from geographically dispersed business, investment, accountancy, public sector, academic, labor, and civil society organizations. It involved a variety of engagement venues—including practitioners' networks, workshops and events, and public review opportunities—enabling the process to tap into more people than would be the case with a single-engagement approach. To participate in a G3 working group, GRI required interested parties to submit expressions of interest outlining their experience and qualifications, thereby helping to ensure a balance across regions and business sectors. The necessary balance of participants across regions and sectors could therefore be more easily ensured when making selections.

There were some concerns as to whether this application process might intimidate some stakeholders, particularly those from developing countries, and scare them off from making an expression of interest whether due to a lack of confidence, expertise, or resources. Nonetheless, this process produced fewer problems than feared and probably fewer than would have occurred under a less formalized system. According to one participant, "By structuring the process you avoid recruiting just the champions. You get more of a balance, without which you fail to get a product that carries legitimacy and accountability with

2. See the SEEP Social Performance Glossary.

a broad range of users."[3] It turned out that more formal engagement discouraged ad hoc recruitment and made the process more accountable to a diverse group of stakeholders.

Boxes 1 and 2 describe the standards-making process at the International Organization for Standardization (ISO), the world's largest developer of international standards, and the International Labour Organization (ILO), which has developed a series of international labor standards.

Box 1. How International Standards are Developed at the International Organization for Standardization (ISO)

How ISO Decides What Standards to Develop

Working through the ISO system, the sectors needing the standards are at the origin of their development. The need for a standard is felt by an industry or business sector, which then communicates the requirement to one of ISO's national members. The latter then proposes the new work item to ISO as a whole. If accepted, the work item is assigned to an existing technical committee. Proposals may also be made to set up technical committees to cover new scopes of activity. In order to use resources most efficiently, ISO only launches the development of new standards for which there is clearly a market requirement.

Who Develops ISO Standards

ISO standards are developed by technical committees comprising experts from the industrial, technical, and business sectors that have asked for the standards, and which subsequently put them to use. These experts may be joined by others with relevant knowledge, such as representatives of government agencies, testing laboratories, consumer associations, environmentalists, academic circles, and so on. The experts participate as national delegations, chosen by the ISO national member institute for the country concerned. These delegations are required to represent not just the views of the organizations in which their participating experts work, but of other stakeholders too. According to ISO rules, the member institute is expected to take account of the views of the range of parties interested in the standard under development and to present a consolidated, national consensus position to the technical committee.

How ISO Standards are Developed

The national delegations of experts of a technical committee meet to discuss, debate, and argue until they reach consensus on a draft agreement. This is then circulated as a Draft International Standard (DIS) to ISO's membership as a whole for comment and balloting. Many members have public review procedures for making draft standards known and available to interested parties and to the general public. The ISO members then take account of any feedback they receive in formulating their position on the draft standard. If the voting is in favor, the document, with eventual modifications, is circulated to the ISO members as a Final Draft International Standard (FDIS). If that vote is positive, the document is then published as an International Standard.

Source: www.iso.org/iso/en/aboutiso/introduction/index.html

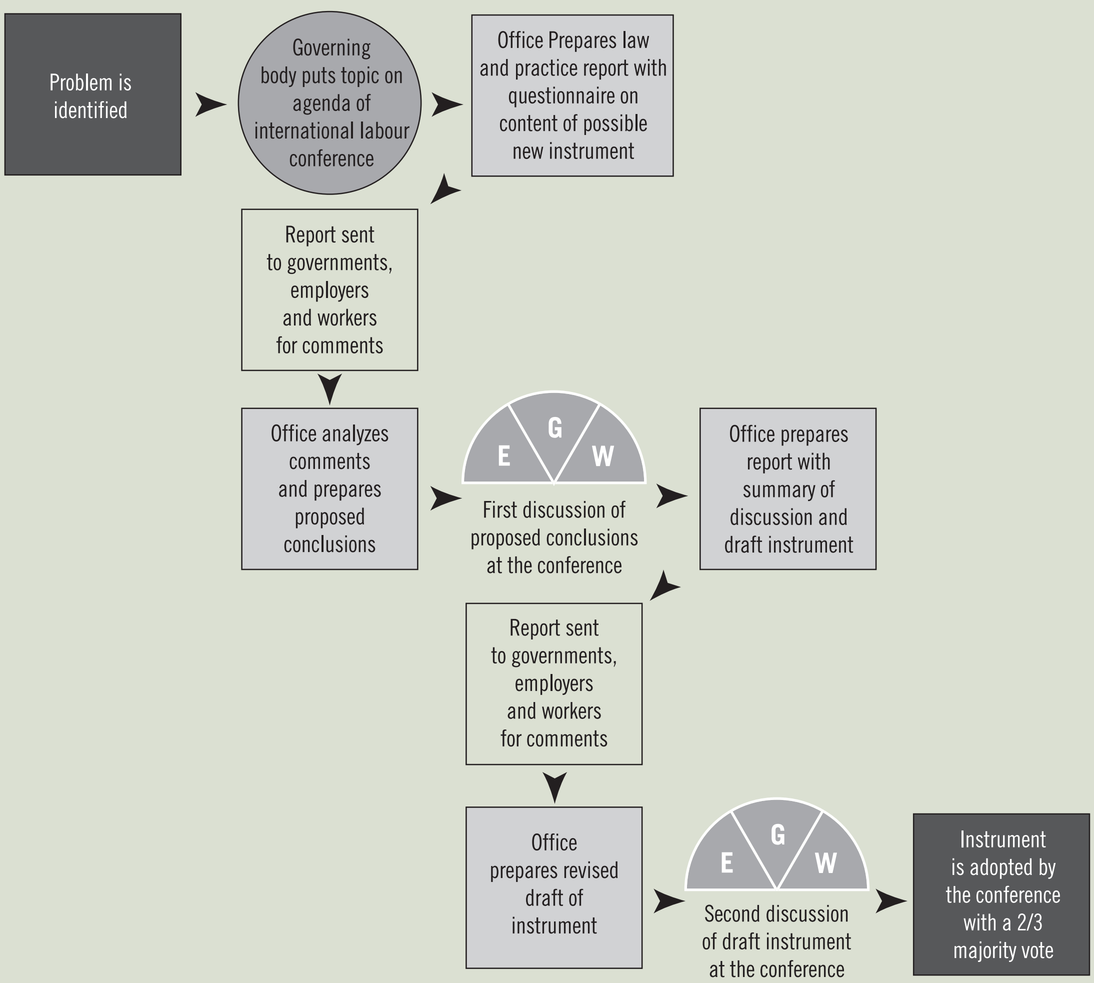
3. www.globalreporting.org/NR/rdonlyres/B2E70533-6026-4260-AF2D-06C814E860C8/0/DickinsonByStakeholdersForStakeholders.pdf

Box 2. How International Labor Standards are Developed at the International Labour Organization (ILO)

International labor standards evolve from a growing international concern that action must be taken on a particular issue, for example providing working women with maternity protection or ensuring safe working conditions for agricultural workers. Developing international labor standards at the ILO is a unique legislative process involving representatives of governments, workers, and employers from around the world.

As a first step, the Governing Body agrees to put an issue on the agenda of a future International Labour Conference. The International Labour Organization prepares a report that analyzes the laws and practices of member states with regard to the issue at stake. The report is circulated to member states and to workers' and employers' organizations for comments and is discussed at the International Labour Conference. A second report is then prepared by the organization with a draft instrument for comments and submitted for discussion at the following conference, where the draft is amended as necessary and proposed for adoption. This "double discussion" gives conference participants sufficient time to examine the draft instrument and make comments on it. A two-thirds majority of votes is required for a standard to be adopted.

How an International Labor Standard Is Adopted at the ILO



Ratification

ILO member states are required to submit any convention adopted at the International Labour Conference to their national competent authority for the enactment of relevant legislation or other action, including ratification. An adopted convention normally comes into force 12 months after being ratified by two member states. Ratification is a formal procedure whereby a state accepts the convention as a legally binding instrument. Once it has ratified a convention, a country is subject to the ILO's regular supervisory system responsible for ensuring that the convention is applied.

Universality and Flexibility

Standards are adopted by a two-thirds majority vote of the ILO's constituents and are therefore an expression of universally acknowledged principles. At the same time, they reflect the fact that countries have diverse cultural and historical backgrounds, legal systems, and levels of economic development. Indeed, most standards have been formulated in a manner that makes them flexible enough to be translated into national law and practice with due consideration of these differences. For example, standards on minimum wages do not require member states to set a specific minimum wage but to establish a system and the machinery to fix minimum wage rates appropriate to their economic development. Other standards have so-called flexibility clauses allowing states to lay down temporary standards that are lower than those normally prescribed, to exclude certain categories of workers from the application of a convention, or to apply only certain parts of the instrument. Ratifying countries are usually required to make a declaration to the Director-General of the ILO if they exercise any of the flexibility options, and to make use of such clauses only in consultation with the social partners. Reservations to ILO conventions, however, are not permitted.

Source: www.ilo.org/global/What_we_do/InternationalLabourStandards/lang--en/index.htm. For an in-depth presentation of the ILO standard setting process, see www.ilo.org/global/What_we_do/Publications/lang--en/docName--WCMS_084165/index.htm.

STAKEHOLDER BENEFITS TO PARTICIPATING IN STANDARD SETTING

In addition to the benefits that arise from the development of international standards, there are distinct benefits that accrue to stakeholders who take an active role in standards development. These benefits include the following:

- Early access to specifications and prototypes
- Greater understanding of the standards and their underlying designs, tradeoffs, and compromises made during their development, and the operating conditions and environments they are intended to serve
- Relationships and contacts that can become technical resources
- Reduction in commercial risks through lower development costs as a result of knowledge and experience gained
- Improved ability to identify future trends as a result of research developed and shared
- Greater opportunity to influence the final standard
- Personnel capacity development by giving them the opportunity to work with leaders in the field and to witness standards development processes that maximize cooperation and consensus building

- Enhanced image as an industry leader
- Enhanced credibility and image regarding staff technical expertise
- Public relations benefits stemming from promotion of the standard
- Participation in exclusive technical events, such as workshops, development meetings, conferences, etc.
- Increased market access and acceptance
- Risk reduction through greater assurance that the final standards are implementable and incorporate best practices
- Reduced time and costs for the development of proprietary standards as a result of having in place a cadre of personnel experienced in standards development

14. ORGANIZATIONAL GOVERNANCE

WHY ORGANIZATIONAL GOVERNANCE MATTERS FOR SOCIAL AND ENVIRONMENTAL PERFORMANCE

If stakeholder engagement is to foster a meaningful culture of organizational accountability, rather than being simply a reporting mechanism or management tool, it requires a system of organizational governance that incorporates stakeholder views directly into organization decision making and by which stakeholders can hold management to account. The term **organizational governance** in this context refers to the processes by which organizations are governed, including the way in which power is exercised over the management and direction of the organization; the supervision of executive actions; accountability to owners and other stakeholders; and the regulation of organizational bodies by the state.

Organizations that build good governance systems are generally able to produce higher returns and thereby solidify their reputation as highly valued members of society. In contrast, organizations that pay less attention to issues of governance are more prone to institutional crises, which can cause them significant damage, either through legal action or through the loss of investor confidence. There is little debate within the business and investment communities regarding the relationships between organizational governance and financial performance. Most accept that maximizing financial return requires responsiveness to the demands and expectations of stakeholders, a strong and independent board of directors, and productive relationships with the communities in which firms operate.

RISKS POSED BY WEAK ORGANIZATIONAL GOVERNANCE

There is a risk, however, to placing too much emphasis on the business case for corporate social responsibility (CSR); namely that it encourages a "soft" form of accountability in which firms engage in stakeholder dialogue for the limited purpose of voluntary self-reporting as part of a reputation-building strategy. This type of soft accountability builds in no institutional rights to information and does little to promote true participation in that it leaves existing power differentials between the firms and nonfinancial stakeholders unchanged. Organizational governance does not consist of yet more focus groups or opportunities for people to express themselves but rather of some kind of **countervailing power** that resists, or balances, the all-out drive for profits for the sake of social well-being.

Just because an organization engages with stakeholders does not mean it is accountable to them, and vice versa. A critical question is why the organization engages with stakeholders in the first place. Is it to further interests of stakeholders or those of the organization? Stakeholder engagement is prone to the risk of **managerial capture,** which occurs when management co-opts CSR into a means to pursue a shareholder wealth maximization strategy.

There are also cases in which CSR is largely pro forma and relegated to a mere "box-ticking" exercise, or to the extent a company does stakeholder engagement, in which the results are confined to a CSR report for public consumption but are not brought to the attention of management or the board. In such cases a few CSR issues may reach management or even the boardroom, particularly high-profile issues; however, it is unlikely that this will result in a meaningful process that considers different dimensions of social and environmental performance.

CORE PRINCIPLES OF ORGANIZATIONAL GOVERNANCE

From the various CSR initiatives, it is possible to identify a set of core principles related to organizational governance:

- Disclosure, accountability, and transparency
- Board and management diversity in terms of skills, knowledge, backgrounds, and expertise
- Board independence
- Board-level processes for overseeing the identification and management of the economic, environmental, and social risks and opportunities
- Risk management
- Board compensation
- Linkage between executive compensation and achievement of financial and nonfinancial goals

A number of organizations have developed or adopted formal guidelines addressing a range of organizational governance issues. While these guidelines vary from firm to firm, they tend to share the following common characteristics:

- Mission statements include a statement of board purpose and primary responsibilities.
- Board structure and composition address issues such as size, independence, and diversity.
- A focus on director selection, evaluation criteria, compensation, age, term limits, and conflicts of interest.
- Board operations involve issues such as the schedule and agenda of meetings and board access to management.
- Management oversight includes policies related to evaluating CEO performance, compensation, and succession planning.
- Board self-evaluation includes guidelines for assessing board effectiveness.

The scope of organizational governance is expanding beyond an exclusively financial focus. In tandem with this trend, a growing number of companies are establishing board committees focusing on CSR issues or expanding the charter of existing committees to do this.

IMPORTANT QUESTIONS IN ORGANIZATIONAL GOVERNANCE

The board's duty is to navigate the organization through all the legislative, financial, ethical, environmental, and other risks and opportunities. To fulfill this duty, the board needs to address the following questions:

- Do we have all the facts to enable a decision?
- Is the decision in the best interests of the company?

- Is the communication to shareholders about this issue/decision transparent and responsive?
- Is the company acting in a socially responsible way?
- Are board members good stewards of company assets?
- Would the board be embarrassed if its decision and process employed appeared on the front page of a newspaper?

Answering these questions is facilitated by nontraditional sources of information, such as those accessed as part of a good faith CSR strategy. These help the board place financial information into context and see the company through a social lens.

15. SOCIAL PERFORMANCE INTERNET RESOURCES

This section of the Social Performance Map offers a sample of Internet resources on social performance inside and outside the microfinance sector. For novices in social performance, the resources listed here provide a sufficient starting and ending point for investigating this topic in depth. For those looking for even more information, these resources are but a small share of the total number of Web-based resources. These readers are invited to investigate this topic further. A number of search terms (e.g., corporate social responsibility, social investing, socially responsible investing, business ethics, triple bottom line, corporate philanthropy, etc.) will yield of wealth of information that readers can investigate to deepen their understanding of this and related topics.

(Note: For Internet-based resources on social investment in microfinance, the reader is encouraged to refer to Tables 4 and 5 in Chapter 3, Socially Responsible Investing.)

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS

Coalition of Community Development Financial Institutions (CDFI)
www.cdfi.org

Community Development Bankers Association
www.communitydevelopmentbanks.org

Community Development Finance Association (CDFA)
www.cdfa.org.uk

Community Development Venture Capital Alliance
www.cdvca.org

CORPORATE SOCIAL RESPONSIBILITY AND CSR STANDARDS

AFL-CIO Capital Stewardship
www.aflcio.org/corporatewatch/capital/whatis.cfm

Association of British Insurers
www.abi.org.uk

Association of Chartered Certified Accountants, Environmental, Social, and Sustainability Reporting on the World Wide Web: A Guide to Best Practice
www.accaglobal.com/pubs/publicinterest/activities/library/sustainability/reporting_pubs/acca_rj3_002.pdf

Business for Social Responsibility
www.bsr.org

Center for Corporate Citizenship, Boston College
www.bcccc.net

Corporate Responsibility Officer
www.thecro.com

Corporate Social Responsibility Initiative, Harvard University
www.hks.harvard.edu/m-rcbg/CSRI

CSR Wire
www.csrwire.com

Equator Principles
www.equator-principles.com

Fairtrade Labelling Organizations International (FLO)
www.fairtrade.net

Financing for Development Initiative
www.weforum.org/en/initiatives/developmentfinance/index.htm

Financing the Future: The London Principles
www.forumforthefuture.org.uk/node/978

Forum for the Future
www.forumforthefuture.org.uk

IFC Social Responsibility Program
www.ifc.org/ifcext/enviro.nsf/Content/SocialResponsibility

ILO's World Commission on the Social Dimension of Globalization
www.ilo.org/fairglobalization/lang--en/index.htm

International Association for Impact Assessment, Principles of Environmental Impact Assessment Best Practice
www.iaia.org/modx/assets/files/Principles%20of%20IA_web.pdf

International Business Leaders Forum
www.iblf.org

International Labour Standards
www.ilo.org/global/What_we_do/InternationalLabourStandards/index.htm

InterPraxis
www.interpraxis.com

ISO Social Responsibility 26000
www.iso.org/sr

Organisation for Economic Co-Operation and Development (OECD), Guidelines for Multinational Enterprises
www.oecd.org/daf/investment/guidelines

Principles for Responsible Investment
www.unpri.org

Social Accountability International & SA8000
www.sa-intl.org

Social Economy Network
www.socialeconomynetwork.org

Social Enterprise Partnership
www.sepgb.co.uk

UN Commission on Human Rights, Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises
www.unhchr.ch/huridocda/huridoca.nsf/(Symbol)/E.CN.4.Sub.2.2003.12.Rev.2.En

UNDP's UN Commission on the Private Sector and Development
www.un.org/esa/socdev/csd

UNEP's Finance Initiative
www.unepfi.org

UN Global Compact
www.unglobalcompact.org

United Nations Convention Against Corruption
www.unodc.org/unodc/en/treaties/CAC/index.html

World Business Council for Sustainable Development
www.wbcsd.org

World Commission on Environment and Development (Brundtland Commission), *Our Common Future*
www.un-documents.net/wced-ocf.htm

World Economic Forum
www.weforum.org

DATABASES

AA1000 Assurance Standard Register
www.corporateregister.com/aa1000as/?com=15493-1420413733-b

CDFI Data Project
www.cdfi.org/cdfi-dataproject.asp

Corporate Register
www.corporateregister.com

Global Compact Register
www.corporateregister.com/gc/?com=15493-1420413733-b

GRI Register
www.corporateregister.com/?d=1

International Corporate Sustainability Reporting
www.enviroreporting.com

ENVIRONMENT

AXYS Environmental Consulting
www.axys.net

EcoVentures International
www.eco-ventures.org

FMO Environmental & Social Risk Audit
www.fmo.nl/en/publications/environmental_social_risk_management_tools_MFI.php

Green Microfinance
www.greenmicrofinance.org

Green Money Journal
www.greenmoneyjournal.com

MICROFINANCE

Microenterprise for Self-Reliance Act
www.microlinks.org/ev_en.php?ID=7750_201&ID2=DO_TOPIC

Social Performance Resource Center
www.microfinancegateway.org/resource_centers/socialperformance

POVERTY ASSESSMENT TOOLS

Grameen Progress Out of Poverty Index (PPI)
www.grameenfoundation.org/what_we_do/microfinance_support/social_performance/the_ppi_tool/

IRIS Poverty Assessment Tool (PAT)
www.povertytools.org

Library of papers on poverty scoring
www.microfinance.com/#Poverty_Scoring

SOCIAL AUDITING

AccountAbility
www.accountability21.net

Global Reporting Initiative
www.globalreporting.org

GRI G3 Sustainability Reporting Guidelines
www.globalreporting.org/ReportingFramework/G3Online/

New Economics Foundation (NEF)
www.neweconomics.org

Quality Audit Tool for Managing Social Performance
www.mfc.org.pl/images/pliki/223_fma_qat_overview_eng.pdf
www.mfc.org.pl/publication.html

Social Audit Network
www.socialauditnetwork.org.uk

SOCIAL PERFORMANCE ASSESSMENT TOOLS

CERISE Social Performance Indicators Initiative
www.cerise-microfinance.org

CGAP Poverty Assessment Tool
www.microfinancegateway.org/section/resourcecenters/clienttargeting/povertyassessment

FINCA Client Assessment Tool
www.seepnetwork.org/content/article/detail/3121

Housing Index
www.microfinancegateway.org/content/article/detail/1578

INAFI–Oxfam Novib–Ordina Social Impact Measurement Tool
www.inafiinternational.org/cms/index.php?option=com_remository&Itemid=36&func=select&id=4

Internal Learning System
www.enterprise-impact.org.uk/pdf/Noponen.pdf
www.microfinancegateway.org/section/resourcecenters/impactassessment/developing/methodologicalissues/organisational/internal/

Means Test
www.microfinancegateway.org/content/article/detail/1578

MicroSave Market Research Tools
www.MicroSave.org

Participatory Wealth Ranking
www.microfinancegateway.org/content/article/detail/1578

SEEP/AIMS Tools
www.seepnetwork.org/content/library/detail/646

USAID Social Performance Assessment Tool
www.microfinancegateway.org/resource_centers/socialperformance/article/35405

SOCIAL PERFORMANCE MANAGEMENT

Imp-Act Consortium
www.imp-act.org

SOCIAL RATING

M-CRIL Social Rating
www.m-cril.com/social-rating-microfinance-institutions.html

MicroFinanza Rating Social Rating
www.microfinanzarating.com/index.php?pg=cms&ext=p&cms_codsec=5&cms_codcms=36

MicroRate
www.microrate.com

Opportunity Finance Network CARS
www.opportunityfinance.net/financing/finance_sub4.aspx?id=56

Planet Rating Social Rating
www.planetrating.com/EN/rating_performance.php

SOCIALLY RESPONSIBLE INVESTMENT

Citi Foundation Microfinance
www.citigroup.com/citigroup/citizen/microfinance/index.htm

CLSA
www.clsa.com

Community Investing Center
www.communityinvest.org

Co-Op America
www.coopamerica.org

Council of Microfinance Equity Funds (CMEF)
www.cmef.com

Domini Social Investments
www.domini.com

KLD Research & Analytics
www.kld.com

Lloyd Kurtz Empirical Studies on Socially Responsible Investing
www.SRIstudies.org

MicroPlace
www.microplace.com/learn_more

National Congress for Community Economic Development (NCCED)
www.ncced.org

SAM Group
www.sam-group.com

Social Funds
www.socialfunds.com

Social Investment Forum
www.socialinvest.org

Socially Responsible Investment Coalition (SRIC)
www.sric-south.org

SRI Adviser
www.sri-adviser.com