PILOT TEST OF THE NEW SOCIAL PERFORMANCE AUDIT TOOL

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ABBREVIATIONS AND ACRONYMS

AMAP	Accelerated Microenterprise Advancement Program
ANED	Asociación Ecuménica de Desarrollo
CSR	Corporate Social Responsibility
GDP	Gross Domestic Product
IADB	Inter-American Development Bank
MBB	MicroBanking Bulletin
MFI	Microfinance Institution
MIS	Management Information Systems
PAR	Portfolios at Risk
PFF	Private Financial Funds
PVO	Private Voluntary Organization
ROA	Return on Assets
ROE	Return on Equity
SPA	Social Performance Assessment

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INTRODUCTION

BOX 1

The Social Performance Assessment tool includes two components:

(1) Social performance scorecard: The social performance scorecard assesses social performance using a set of simple indicators falling under one of seven dimensions of outreach: breadth, depth, length, cost, scope, worth, and outreach to the community.

(2) Social audit: The social audit assesses five key internal processes and the extent to which they align MFI performance with its social mission: (1) mission statement and management leadership, (2) hiring and training, (3) monitoring systems, (4) incentive systems, and (5) strategic planning.

The scorecard and audit results are then combined to assign the MFI an overall social rating score using a standardized rating scale similar to those used by financial rating agencies. The social rating score states the likelihood that the MFI produces significant social impact both now and in the future. It can be used to compare social performance across MFIs and contexts.

Two recent USAID publications—microREPORT #35 and microNOTE #12, both entitled "Proposal for a Social Performance Measurement Tool"—described a new social performance assessment (SPA) tool developed by USAID under AMAP Financial Services Knowledge Generation. Box 1 describes the components of the SPA tool. Note that to avoid confusion with the term *social performance measurement* and its acronym SPM, this microREPORT substitutes the term *social performance assessment* for the term *social performance measurement* used in microREPORT #35 and microNOTE #12.

Two primary uses are envisioned for the SPA tool: social ratings integrated with financial ratings and stand-alone social audits. During March 23-29, 2006, Dr. Gary Woller (the lead researcher for the project) conducted a pilot test with a team from PlanetRating to integrate a social rating in the financial rating of the Asociación Ecuménica de Desarrollo (ANED), a microfinance institution (MFI) based in La Paz, Bolivia. This microREPORT summarizes the results and lessons learned from this pilot test, and includes recommendations for further testing and refining of the SPA tool and for scaling up its use. PlanetRating's GIRAFES report on ANED, including the social audit results, appear as an annex to this report.

THE PILOT TEST

OBJECTIVE

The overriding objective driving the design of the USAID SPA tool is scalability, defined as the widespread adoption of the tool by microfinance stakeholders, including, most importantly, MFIs, social investors, donors, and rating agencies. Achieving significant scale in turn is considered a necessary condition to having significant impact on the microfinance industry and its development.

To facilitate achievement of scale, both USAID and PlanetRating believe that social rating must be made commercially viable. The objective of the pilot test, therefore, was to determine how to integrate social rating into the financial rating process at the lowest possible cost. In this light, it was decided that the financial rating should proceed as normal, while simultaneously integrating tasks related to the social rating. Dr. Woller would play the role of advisor but otherwise leave the work to the members of the PlanetRating team. This process was followed, for the most part, during the rating exercise.

INTEGRATING THE SOCIAL AUDIT INTO THE FINANCIAL RATING PROCESS

The financial rating process consists largely of three core tasks: (1) soliciting and analyzing financial and related institutional performance data, (2) soliciting, finding, and analyzing supplementary institutional information (internal and external), and (3) conducting in-depth interviews with Board members, management, staff (main office and field), and clients. These three core tasks likewise make up the core tasks of the USAID SPA tool.

In addition, much of the information gathered during the financial rating process (both financial and non-financial) is the same type of information gathered during the social performance assessment process. This includes information related to each of the five key internal processes evaluated by the tool.

Given the considerable overlap between the three core tasks and the type of information gathered, the assumption prior to the pilot test was that grafting social performance assessment onto the financial rating process would not require the rating team to make significant changes to its normal processes.

This assumption was confirmed during the pilot test. Integrating questions related to social performance, and the five key internal processes, proved to be reasonably easy. In some cases, relevant information was disclosed during the normal course of the interview without requiring separate questions. Other cases required separate questions related to social performance made within the context of the ongoing discussion. Still other cases required a completely separate line of inquiry related specifically to social performance issues.

On balance, however, adding these questions to the interview process did not materially change the way the process operated, nor did it materially increase the amount of time needed to complete the interviews. As commented by one member of the PlanetRating team, "During the on-site mission, I had the feeling that it was easy to integrate the two approaches, and we did not feel schizophrenic at any time in asking questions for the social part as well as the financial/institutional part. We can operate for this part as we usually do for the others . . . ."

THE SOCIAL PERFORMANCE SCORECARD

Collecting information for the social performance scorecard did not on balance impose a significant increase in time. There were exceptions, however. A few of the indicators proved more difficult than others to collect. One difficulty that arose was determining workable definitions for the indicators given information found in ANED's MIS.

During the tool development phase, indicators were developed based on past experience and on what was assumed to exist in a "typical" MIS. During the pilot test, however, the rating team determined that certain scorecard definitions did not fit the information in ANED's MIS. This required the team to come up with alternative definitions that measured the same underlying factors and which could be measured using ANED's MIS. Examples of problematic scorecard definitions included "percentage of enterprise loan clients whom loan officers visit for regular financial transactions" and "share of portfolio growth attributable to existing clients over the most recent completed fiscal year." While the problems encountered were specific to ANED's MIS, they point to the need to develop generally relevant definitions (at perhaps some cost of precision) that apply to a wide range of information systems.

Another difficulty involved determining precisely how to generate reports on specific indicators in ANED's MIS. This required team members to spend time with the MIS Director during the last day of the rating exercise describing the information that was needed and working out how to generate the corresponding reports.

Counting the additional time required to ask and follow up on social performance related questions and to complete the social performance scorecard, completing the social rating took no more than a few additional hours of management and staff time beyond what it would have spent otherwise.

THE FINAL PRESENTATION TO MANAGEMENT

During the final presentation, the rating team presents its findings and conclusions to management. It is the capstone of the rating exercise. The final presentation typically takes two hours but can last as long as four hours depending on the nature of the findings and the extent of management's questions and/or objections. Adding discussion of the social performance findings to the final presentation introduces the potential for significantly increasing the length of the presentation.

The rating team dealt with this issue by deciding to limit discussion of the social performance findings to one hour if possible. ANED management did not have substantive questions or objections related to the social assessment, so the team was able to complete this discussion in the allotted time. It may not always be possible, however, to limit the discussion of social performance. This will require future users of the tool to develop strategies for balancing the length of the final management presentation with the breadth and scope of issues covered.

THE SOCIAL RATING REPORT

Rather than integrate the social rating report into its standard financial rating report, PlanetRating elected to create a separate social rating report. As is its normal practice, PlanetRating submitted the social rating report to ANED for review, comment, and clarification. On receiving comments back from ANED, PlanetRating revised the report and submitted it to its internal review committee for review and approval. Once approved, PlanetRating will make the report publicly available.

THE SOCIAL RATING SCORE

Going into the pilot test, the intention was to give ANED a social rating score. Based on the pilot test, however, the rating team decided not to assign and publish a social rating score.

As a result of the pilot test, the rating team determined that the SPA tool required further refinement. To the extent that the tool undergoes revision during the course of future field tests, it will make any social rating score assigned today non-comparable to a social rating score assigned later. Besides this, the rating team decided that it needs additional experience with the tool to acquire a sufficient baseline of information that would allow it to make informed judgments about relative social performance. The decision of when to begin to assign social rating scores has therefore been put off to an indeterminate date in the future.

One interim alternative currently under consideration is to assign but not publish a social rating score. In this case, the rating agency would present the rating score to management with an explanation of what it means within the context of the MFIs current operations, although making it clear that the rating score is tentative and cannot be used to compare the MFI's performance to that of other MFIs.

LESSONS LEARNED AND RECOMMENDATIONS

DAYS TO COMPLETE THE SOCIAL RATING

The consensus among the rating team was that several of the interviews did not go into sufficient depth on issues related to social performance. In hindsight, team members could identify topics that they would like to have addressed in greater depth. Examples include product descriptions, training programs and plans, loan officers' perceptions, community activities, and human resource policies.

PlanetRating estimates that it will require approximately five additional days to complete the social rating. Included in this amount is time required to:

- Read additional documentation internal and external to the MFI (e.g., impact or market studies, poverty assessments, and other background information);
- Conduct additional field visits and spend more time talking to loan officers;
- Conduct additional interviews with home office management;
- Verify MFI-generated social performance information;
- Write the social rating report.

In the standard financial rating mission, PlanetRating usually does not count the time for preparing the final management presentation and does this work on the team's own time during nights or weekends. Adding more tasks and time to the rating mission for the social rating, however, will make it necessary to take this time into explicit account.

The actual amount of time it takes to complete the social rating, however, will depend on the rating agency, on the MFI being rated, and on other circumstances, in addition to how quickly and how far the rating agency moves up the learning curve. It is expected that with greater experience implementing the tool, the rating agency will become significantly more efficient at implementing the tool and integrating it into the financial rating exercise. In this sense, five additional days beyond the standard financial rating is estimated to be the upper bound to complete the social rating.

SOCIAL PERFORMANCE SCORECARD

PlanetRating identified a number of concerns related to the social performance scorecard.

A. There are too many indicators (40) in the scorecard. PlanetRating prefers to assess a smaller set of indicators. For its financial rating, PlanetRating rates only six core financial indicators: portfolio-at-risk, write-off ratio, return-on-assets, operating expense ratio, staff productivity, and financial self-sufficiency. The remaining financial indicators are used to provide context and depth to the analysis, but they do not figure in the final rating score. Likewise, PlanetRating recommends that the scorecard include fewer *core* indicators and that the social rating report uses the remaining indicators to provide context and depth to the social analysis. No specific target number of indicators is currently envisioned, although future iterations of the scorecard are expected to make significant reductions in the number of indicators.

B. PlanetRating tentatively concluded that numeric indicators are preferable to process indicators (indicators showing whether the MFI engages in certain behaviors, typically scored as “yes” vs. “no”).

C. Under “breadth of outreach,” PlanetRating would like to see whether it is possible to include an indicator measuring geographic breadth. (An indicator measuring geographic breadth was included in earlier versions of the scorecard.)

D. PlanetRating would prefer to eliminate or consolidate some of the indicator (outreach) categories in the scorecard. In particular, it believes that the category “length of outreach” could be cut from the scorecard.

PlanetRating feels uncomfortable using financial indicators to measure social performance. Whereas it believes that financial performance is a necessary condition for social performance, it believes the two to be distinct concepts. Moreover, since PlanetRating already evaluates the length of outreach indicators in its financial rating, it feels it is redundant to include it in the social rating component. It prefers instead to use financial performance as background context to understanding social performance rather than as a direct measure of social performance.

In this context it is important to note that the USAID SPA tool was originally designed under the explicit premise that financial performance was an integral component of social performance. Pragmatic recognition of PlanetRating’s concerns, however, requires the tool designers to rethink, although not necessarily abandon, this premise. In any case, there is general agreement that financial performance is important in understanding social performance;

financially un-viable MFIs are unlikely to produce much social impact over the long-term. The question raised by PlanetRating is how to account for it in doing the social rating, whether as an explicit indicator of social performance or as background information to place social performance in context.

E. In addition to reducing the number of outreach categories and indicators, it may also be worthwhile to consider changing the scoring system for the indicators. One suggestion advanced by PlanetRating is to use a 5-point ordinal scale (e.g., 1-5) in place of the existing 3-point ordinal scale (0-2). The advantage of the larger scale is that it allows for finer distinctions. This of course assumes that such finer distinctions are meaningful.

F. For PlanetRating to transform the SPA tool into a rating methodology, it recommends that the indicator categories (dimensions of outreach) be combined with corresponding parts of the social audit into "evaluation domains," such as the following:

a. Integration of Social Mission

- Decision making processes
- Strategic planning
- HR management
- Monitoring social performance

b. Quality of services

- Adaptation of services to client needs (scope and worth of outreach)
- Consumer protection policies

c. Outreach

- Breadth of outreach
- Depth of outreach

d. Social responsibility

- Responsibility toward staff
- Responsibility toward community
- Non-financial services offered to clients

Further work on defining, weighting, and using the evaluation domains remains pending.

G. Organizing the social performance assessment in terms of evaluation domains (and rating fewer social performance indicators) requires in turn a more thorough assessment of the context behind the indicators. The impact of the scorecard on the final social rating should not simply factor in the scorecard values but should also take into account the context behind the scorecard.

In deciding which indicators to cut, keep, modify, or add to the scorecard, special attention should be paid to identifying ways in which indicators can lead to misleading conclusions. For example, the rating team determined that the indicator measuring "the percentage of enterprise loan clients whom loan officers visit for regular financial transactions" has high potential for creating misleading perceptions about the true cost of outreach. Consequently, this indicator has already been earmarked for removal from the scorecard.

RECOMMENDATIONS FOR FURTHER REFINEMENT AND REACHING SCALE

RECOMMENDATIONS FOR SOCIAL RATING TOOL

The current USAID SPA tool is but a starting point. It is assumed that the tool will undergo a process of refinement through field testing and use. If the objective of scale is to be achieved, it will be necessary to adapt the tool to the needs of its users, which includes not only the rating agencies but also social investors, donors, and practitioners.

It is not certain *ex ante* how many field tests are required to complete this process. The answer depends on the number of rating agencies involved, on the complexity/diversity of their needs, and on how quickly those needs can be discerned and addressed. Rating agencies will also naturally make their own adaptations to the tool suited to their needs. The process is inherently iterative. In the end, each rating agency will create its own version of the social rating tool. Nonetheless, the goal of the project is not only to develop a social rating tool but also to develop and establish social rating standards. It will work with the rating agencies and other industry stakeholders to help ensure that tool adaptations conform to established standards.

RECOMMENDATIONS FOR STAND-ALONE SOCIAL AUDIT

In addition to the social rating component, it will also be necessary in the near future to commence pilot tests of the stand alone social audit component, which is targeted to MFIs and MFI networks as an internal assessment tool. It is expected that a similar iterative process will be required to adapt the tool to the needs of the practitioner organizations.

Depending on how the social audit is implemented, the results of the social audit can also be disseminated to external audiences as evidence of social performance, or as evidence that the MFI is doing what it says it is doing. In this case, it will be important to standardize the tool, or more precisely the process for implementing the tool, to the extent possible so that the social audit findings are considered credible by external audiences. This will require, over time, the establishment of something akin to an accreditation process that creates a cadre of trained and certified social auditors.

OBJECTIVES OF FUTURE FIELD TESTS

As stated, one purpose of the pilot tests is to refine the tool and adapt it to the needs of its users. This is considered a necessary condition for achieving scale and significant impact. Another purpose of the pilot tests is to create legitimacy of the tool, and social performance assessment in general via use and dissemination. The more the tool is implemented, the greater its visibility and legitimacy and greater the likelihood that others will decide to use it. Increasing usage enhances the probability of the tool to be accepted as the industry standard, consequently helping it achieve scale and establishing social performance assessment as a legitimate and core function of microfinance.

There are expected to be strong first-mover advantages to the SPA tool that enters the market and achieves both legitimacy and scale. The strategy for pilot testing and dissemination of the USAID SPA tool should bear this point in mind.

SOCIAL PERFORMANCE SCORECARD

Taking the preceding into account, the following sequencing of actions is recommended.

Social Rating:

- Revise SPA tool taking into account recommendations made by PlanetRating.

- Conduct further field tests and tool refinements with PlanetRating beginning in Mali (where PlanetRating is scheduled to conduct social ratings of several MFIs during July and August 2006) and elsewhere as appropriate.

- Solicit interest from other microfinance rating agencies and perform field tests corresponding to the level of interest.

- Solicit interest in supporting and funding field implementation from other microfinance stakeholders, including investors, donors, USAID missions, and relevant program/project administrators.

- Refine the tool to meet the needs of the marketplace through field tests, while identifying opportunities to standardize the tool.

- Demonstrate the usefulness and commercial viability of the social rating tool thereby helping to create an effective demand for social ratings.

Stand-Alone Social Audit:

- Recruit a core of North American Private Voluntary Organizations (PVOs) to field test the social audit tool with their microfinance partner organizations.

- Recruit indigenous microfinance networks from different regions of the world to field test the social audit tool with their member organizations.

- Revise the social audit based on the experience of field tests so as to meet the needs of the users, while looking for opportunities to standardize the tool.

- Develop guidelines for conducting the social audit and create a certification program to train social auditors using the guidelines.

- Conduct “training of trainers” workshops for microfinance practitioners and consultants in the use of the social audit tool. Create a cadre of certified social auditors.

- Demonstrate the usefulness and cost-effectiveness of the social audit thereby helping to create effective demand for social audits.

ANNEX 1: ANED GIRAFE-S

SOCIAL RATING REPORT

ANED, BOLIVIA
MARCH 2006

Mission

"To contribute to the economic and social development of individuals or organizations, through the provision of fair, adapted and appropriate financial services."

Operationalizing the Six Aspects framework entails selection of indicators falling under each of the seven dimensions of outreach. This section describes the criteria and other considerations that went into selecting the indicators.

Vision
"Be the leading, locally-based, socially-responsible, innovative MFI for rural financial services, geared towards the economic and social development of the country."

Institutional goal
"Improve access to adapted sources of funding and other associated financial services for small scale rural producers or microentrepreneurs, in order to help them increase their productivity and income."

DESCRIPTION OF THE EVALUATION
ANED's strong social vision, derived from its institutional mandate and additionally fostered by several requirements of its funders, is evident in ANED's admirable achievement in reaching unattended rural borrowers. At year end 2005, 61% of outstanding loans were for agricultural activities, a high percentage by Bolivian standards. Weaknesses in internal processes however, impeded the MFI from reaching its full potential in terms of social performance.

Management has articulated a clear statement of organizational mission, vision, and values. It has effectively communicated these at all levels of the organization, including the Board, senior management, field management, and field staff. Social goals are clearly one of the most important of the institution's strategic goals. Consequently, management has recently taken important steps to affirm and operationalize ANED's social mission through revised and improved internal processes allowing the MFI to reach both social and financial goals.

CONCLUSIONS

- Weak yet improving general outreach.
- Good performance in the outreach indicators related to cost, scope and depth of outreach as well as outreach for the community.
- Weaker performance in terms of breadth, length and worth of outreach.

INTERNAL PROCESSES

MISSION STATEMENT AND MANAGEMENT LEADERSHIP

Management has articulated a clear statement of organizational mission, vision, and values, and it has effectively communicated these at all levels of the organization. There exists universal support for the social mission at all levels of the organization including the Board, senior management, field management, and field staff. Management commitment to social mission is evident in ANED's admirable achievement in reaching rural borrows. At year-end 2005, 61% of outstanding loans were for agricultural activities, a high percentage for Bolivian standards. ANED appears to reach a significant number of rural borrowers not served by other Bolivian MFIs.

ANED however did not yet manage to combine its strong social mission with firm financial sustainability nor did it put in place channels or procedures for reinforcing the social mission.

In order to strengthen its financial and operational structure (a priority clearly identified in the five-year strategic plan), ANED plans to reduce its dependency on funds dedicated to remote rural areas and to introduce more traditional loan technologies for small scale traders. Such technology with its higher rotation, higher interest rates and presence in urban or peri-urban areas, can help reduce credit risk, increase the portfolio yield and ease liquidity management. Given the current lack of mechanisms designed to monitor the portfolio composition or reinforce social mission, this change in ANED's strategy implies a risk of mission drift (de-emphasis on rural lending) that will have to be carefully controlled by the management.

STRATEGIC PLANNING

Management recently completed a strategic plan in which it reaffirmed its social mission, vision, and values as well as strategic objectives. These were further clarified by the introduction of a Balanced

Scorecard exercise which, if implemented appropriately, will be instrumental in the follow-up of the completion of the strategic goals.

Management team, Board members, field managers, and others are engaged in follow-up work to refine the strategic objectives, establish appropriate indicators and plan their implementation in frequent meetings assessing actual and planned social performances.

ANED has undergone numerous institutional changes that signal an improved implementation of the social mission.

"Social Responsibility" was introduced as a core duty of the Development Manager. The Credit Department was transformed into the Operations Department, indicating a broader scope of responsibility including savings, insurance or other financial services, in addition to efforts to reinforce the equity base,

Nonetheless, institutional reforms in key internal processes related to social mission fulfilment (communication and leadership, hiring and training, incentive systems, and monitoring systems) are slow in coming and their eventual completion in certain cases is not assured within the time frame of the strategic plan. Of particular concern is that the number and scope of necessary reforms will overwhelm management's ability to implement all of them.

HIRING AND TRAINING

The social mission is effectively communicated to new hires. New hires are explicitly told early on and clearly understand that ANED's primary mission is to serve rural areas and rural-based enterprises. A majority of credit officers are drawn from an agriculture background and/or education. They are thus naturally supportive of ANED's social mission. In some cases, it provides a primary motivation for working at ANED. New hires are given a three-month probationary period during which time they must demonstrate their technical skills and their organizational fit. New hires who do not demonstrate an adequate fit (including, presumably, with social mission) are not retained.

There is however, very little emphasis on the social mission during the induction or training process. The initial training is essentially focused on technical and operational aspects. The development of a pilot on-line training module for new hires and existing staff, represents an important improvement over current practice but its efficiency is yet to be evaluated.

There are limited opportunities for interaction among field managers and field staff outside of their respective regions, limiting opportunities to reinforce social mission via peer interaction and peer pressure. The few regional meetings that have been held have tended to focus on technical and operational issues with little to no discussion on social mission, an exception being a strategic planning meeting in October 2005 attended by senior management, Board members, and field managers. Furthermore, field staff and regional managers do not receive statistics about the performance of other regions or branches, which could contribute to a larger shared vision of the institution.

INCENTIVE SYSTEMS

The incentive system focuses solely on portfolio quality and revenues and does not include incentives to encourage behavior consistent with social vision. Given the changes that are meant to be introduced in the portfolio composition, an incentive system that would include social factors is essential to avoid a mission drift. Changes to the current systems would by any means be needed to correct certain flaws that reduce its efficiency:

- The incentives are regional and are not combined with individual bonus which creates weak individual behavioural incentives and possibly encourages free-riding;

- The incentives are paid with delays of up to four months;

- The bonus (a fixed yearly amount of $80 USD) is not sufficient to motivate good performance.

MONITORING SYSTEMS

ANED collects a substantial amount of financial and social data, but does not use it to monitor compliance with its social mission. Potentially useful information in the MIS for monitoring social mission includes areas served, types of clients reached, use of loans, and loan repayment status.

The loan application form captures a substantial amount of social information on clients, including information on family composition, access to basic services, housing quality, household assets, business assets, livestock ownership, land ownership and cultivation, household income, and household expenditures. This information, however, is not entered into the MIS nor is it used in any other manner to monitor compliance with social mission.

Regional and branch offices cannot create reports from the MIS that would allow them to monitor their compliance with the social mission. Such reports are only available at head office.

ANED does not conduct research to monitor market variables relevant to social mission fulfilment, such as client satisfaction, client desertion, client perceptions, client needs and wants, or types of clients reached. To date, ANED only supported market research carried out by outside entities, such as studies by FINRURAL on client loyalty, client desertion, and non-payment. These punctual studies are informative but cannot replace on-going internal research or studies that would allow ANED to efficiently monitor if it is reaching its target market and offering the services and products to clients in a satisfactory manner.

BREADTH OF OUTREACH	DECEMBER 2005
Number of borrowers	12,380
Clients with non-enterprise loans as a percentage of borrowers	8.1%
Voluntary savers as a percentage of borrowers	0.0%
Clients with other financial services as a percentage of borrowers)	8.5%
Clients with non-financial services as a percentage of borrowers	0.0%

ANED is among the bottom tier of the larger microfinance NGOs in Bolivia: it has 12,380 active borrowers and an outstanding loan portfolio of $12.8 million USD as of December 2005. ANED has also achieved considerable geographic breadth with 42 field offices throughout the country, with several of them located near rural populations underserved by other Bolivian MFIs. Nonetheless, its number of clients is still considerably lower than the number of clients of other MFIs in Bolivia, such as Private Financial Funds (PFF), which have as many as 50,000 borrowers. This is relevant given that after 28 years of operations, ANED is the oldest MFI in the country.

DEPTH OF OUTREACH	DECEMBER 2005
Average loan size as a percentage of GNI per capita	12.6%
Percentage of loans less than $400	35.9%
Percentage of female clients	38.5%
Percentage of rural clients	61.0%
Percentage of enterprise loan clients selected with direct poverty targeting tools	0.0%

The average loan size at ANED at year-end 2005 was $1,039 compared to an average loan size of approximately $1,400 for clients who took out their first loan during 2005[1]. This average loan represents 150% of the Bolivian GDP[2] per capita; this relatively high percentage is explained by the type of agricultural products, which usually require higher amounts with longer reimbursement terms, although they are not necessarily demanded by clients with more resources. Of loans outstanding at the end of 2005, 36% were less than $400.[3]

ANED explicitly targets rural areas and rural borrowers. The percentage of rural loans in the overall loan portfolio is approximately 61%, which is very high by Bolivian standards. ANED locates its field offices in the main cities of Bolivian departments, from where it can

[1] The discrepancy between the two figures is likely accounted for by the fact that ANED provides a relatively large percentage of long-term loans (in excess of one year), many of which had been substantially paid off by year-end 2005.
[2] GDP per capita is estimated in $960 USD. http://www.doingbusiness.org/ExploreEconomies/Default.aspx?economyid=25
[3] The $400 threshold is the cut-off point established by the U.S. Congress to indicate a loan to a very poor person in Latin America.

reach both, rural and also urban and suburban clients, who represent the 39% remaining. In contrast, ANED does not explicitly target female borrowers. The share of females among ANED clients totalled 38.5% at year-end 2005. Nonetheless, this percentage requires to be analysed cautiously: usually ANED's loans are demanded to finance family business where men sign the contract, but the whole family benefits from the loan. Other times, the loan is signed by a specific member of the family, simply because the other ones already have other loans and are shown in the credit bureau.

ANED does not use any explicit targeting tool to reach rural and/or poor borrowers. It does, however, use the indirect targeting tool of geographical targeting. It consciously locates its field offices in or near rural areas, which facilitates working with rural and agricultural borrowers. It also promotes its services through disbursements to producer associations, where some of its members have already worked with ANED.

LENGTH OF OUTREACH	DECEMBER 2005
Financial self-sufficiency	69.0%
Operational self-sufficiency	93.2%
Return on assets (ROA)	(1.0%)
Portfolio at risk < 30 days	4.5%
Operating expense ratio	13.9%

ANED has yet to generate a positive return (as of Dec.05 ROA and ROE were -1.1% and -14.6%, respectively). This results from a very low portfolio yield due to low interest rates on loans (see "Cost of Outreach") and a poor portfolio quality. ANED suffers from high levels of portfolio at risk (PAR>30 is 9.1% as of Dec.05). In contrast, ANED has succeeded reaching very low operational costs (13.9% as of Dec.05).

The high portfolio at risk requires a large share of the loan officer's time to track down borrowers in arrears and try to recoup the loan. This translates into slower portfolio growth, lower profits, and reduced levels of overall customer service. ANED's long-term sustainability is to a degree dependent on its ability to get control of and move past the arrears problem.

In spite of financial performance difficulties, with 28 years of sustained operation, ANED is one of the longest operating MFIs in Bolivia, which stands out as a significant accomplishment, given the dynamism of the Bolivian market. Thanks to its clear commitment to serve rural areas, ANED has managed to generate the funds it needs to continue operations.

SCOPE OF OUTREACH	DECEMBER 2005
Number of distinct enterprise loan products	5
Number of distinct other loan products	1
Number of other financial services	2
Type of savings offered	Voluntary
Percentage of clients with two or more products or services	<2%

ANED offers a wide variety of enterprise loans and other non-traditional financial products. In total, it offers seven distinct types of financial products, including five types of enterprise loans (individual, solidarity, group, associations and village bankings), one non enterprise loan product (housing loans, which represents 8.1% of total outstanding portfolio) and two non-traditional financial products (leasing and microwarrants).[4] It has also recently entered into an agreement with FIE to mobilize savings from its clients and the rural areas. Is spite of this wide variety of products, the percentage of clients with two or more products or services is still low.

ANED has cultivated an innovation culture where it comes to product offerings, driven both by funding mandates (specific donations to develop new products) and social mission. However, the impact of these products is still limited due to the lack of funding and some deficiencies in procedures, resulting in the slow development of such initiatives.

- ANED is known world-wide for its leasing product (8.5% of its total outstanding portfolio), which has been financially supported by the IADB. In its leasing service, ANED purchases the equipment or machinery and subsequently leases it to the client. At the end of the lease, the client may purchase the equipment or machinery for a set residual value.

- ANED also offers microwarrants to farmers (50 clients as of Dec.05). It allows farmers to withhold their products from the market and sell it at a later date at a higher price while providing them with the resources to begin the crop cycle in the interim. Once the farmer sells last season's harvest at the higher market price, he uses the proceeds to pay off the loan.

Unlike many other MFIs, loan terms offered by ANED are flexible with regard to size, length, interest rate, grace period, payment frequency, and guarantee, making loans useful for a variety business and non-business purposes. For example, ANED offers housing loans for

[4] A microwarrant is a service that allows farmers to sell their harvest at a particular market price, while simultaneously providing financing to allow the farmer to begin anew the crop cycle.

home repairs and renovations (there were 988 housing active borrowers and an outstanding portfolio of $1 million USD as of Dec.05).

ANED is trying to create alliances with other NGOs to offer non-financial products to its clients. For example, in El Alto branch, ANED works with the NGO PROPEDE, which offers trainings and recommends ANED's services.

ANED also plans to develop trainings related to community participation, leadership and literacy.

COST OF OUTREACH	DECEMBER 2005
Real yield on average gross loan portfolio	12.2%
Nominal yield on average gross portfolio relative to prime commercial lending rate in home country	133.0%
Weighted average number of days to approve and disburse loans after completion of loan application	2 weeks
Percentage of loan clients providing non-traditional collateral	64.0%

In 2005, ANED earned a 16.0% nominal yield and an adjusted 12.2% real yield in real terms[5]. This portfolio yield is only 33% higher than the prime lending rate in Bolivia of 12.0%. Both the nominal and real portfolio yields are low by comparison to other MFIs operating in Bolivia[6] and elsewhere reflecting a relatively low effective interest rate charged on loans. This is in part due to funding mandates (donors make low interest rates a condition for funding) and in part due to payment capacity of its target rural clients. Within the general range of interest rates established by funding mandates or organizational policy, Regional Managers have discretion on how much interest to charge based on the competition, perceived risk, collateral, and ability to pay.

Low monetary costs at ANED are offset by relatively high transactions costs.

- ANED takes on average two weeks or more to evaluate, approve, and disburse loans.
- Approximately 20% of loan transactions are concluded at the client's place of business or at a location convenient to the borrower.

[5] Because the ANED loan portfolio is primarily in US dollars, the real yield was derived by adjusting the nominal yield for the 2005 US inflation rate. The formula for deriving the real portfolio yield is equal to (nominal portfolio yield – inflation rate) / (1 + inflation rate).
[6] Latin America overall benchmark for portfolio yield is 26.5% and 28.6% for non profit MFIs, as of Dec.04 according to the MBB.

- Just under two-thirds of ANED clients benefit from a form of “non-traditional” collateral, including group guarantees, movable property and equipment, and third-party guarantees.

WORTH OF OUTREACH	DECEMBER 2005
Write-off ratio	5.3%
Client retention rate	64.0%
Share of two-year clients still with the program	25%
Share of portfolio growth attributable to existing clients over most recently completed fiscal year	30.0%
Type of market research conducted	None

ANED demonstrates a poor worth of outreach:

- ANED’s write off ratio is high (5.3% in Dec.05);
- A low percentage of clients stay in the institution after two years with the program (25%);
- Only 30% of portfolio growth can be attributed to old clients;
- But in contrast, ANED’s client retention rate is relatively high (64%).

ANED does not conduct market research on its own. It has, however, been the beneficiary of three major market studies carried out by FINRURAL on client loyalty, client desertion, and non-payments.

OUTREACH TO THE COMMUNITY	DECEMBER 2005
Human Resources	
Female-male employee ratio among professional-level staff	22.0%
Percentage of employees that have left during two most recently completed fiscal	16.0%
Whether the MFI provides health insurance for full-time employees (in addition to national health coverage system)	Yes
Percentage of employees receiving at least two days of training during most recently completed fiscal year (does not include new hire training)	41.0%
Social Corporate Responsibility	
Whether the MFI has a written, formal internal CSR policy	No
Whether the MFI has a written, formal code of conduct governing actions towards employees and clients	Yes
Percentage of operating revenues reinvested back into the community during most recently completed fiscal year	0.021%

Clients Protection	
Whether the MFI provides clients formal access to management	Partial[7]
Whether the MFI discloses the effective interest rate on all loans	Yes
Whether the MFI provides credit life insurance for borrowers	No

HUMAN RESOURCES

ANED has achieved moderate gender diversity in its hiring and promotion practices (only 20% of the members of the senior management team are women, 10% of regional managers, and 5% of loan officers). Overall, 21.7% of ANED's professional employees (not including administrative support staff) are women.

ANED offers an attractive social package to its staff, which includes good health insurance, life insurance and a pension fund system. These elements contribute to increased staff motivation. Yet ANED experienced a relatively high staff turnover during 2005 of 16%, mainly due to the numerous changes in the Finance Department, and some difficulties experienced by this area.

ANED is currently paying for 32% of the staff (all Regional Manager plus some experienced loan officers) to attend an outside diploma course in microfinance, co-funded by the employee, ANED and an external subsidy. In addition to improvement to staff internal capacities, this Diploma adds important value to employees.

CORPORATE SOCIAL RESPONSIBILITY

ANED does not have a formal corporate social responsibility (CSR) policy. ANED made community investments for an amount of $500 USD during 2005. They mainly consist of financial support to different community development activities (environment protection campaign in Comarapa, community activities in Vallegrande, school activities in Santa Rosa del Sara-Yapacani, Entre Rios-Tarija, sports and civilian activities in Palos Blancos, Vallegrande, etc.).

ANED has a formal, written code of conduct describing the rights and responsibilities, prohibitions of the organization and employees. The Reglamento also includes internal processes and guidelines governing hygiene and physical security, social security, sexual harassment, free association, labor conflicts, dispute resolution, and dealing with employee malfeasance.

CONSUMER PROTECTION

ANED practices full disclosure in terms of loan pricing. It has no formal policy, however, granting clients access to management to voice

[7] Leasing clients with photovoltaic panels can present their critics and suggestions to a toll free number; in Rurrenabaque, Sucre and Cochabamba, there are regional councils, in which clients contribute to product development; in Oruro, there is a suggestion box.

concerns and complaints. ANED does not offer credit-life insurance to clients leaving the families of clients unprotected, at least formally, in the event of the clients' death.

VALIDITY OF OUTREACH INDICATORS

Overall, information related to outreach indicators presented in this report is quite accurate:

- Outreach indicators relying on information taken from the MIS are judged to be very accurate: all of breadth, depth, length of outreach indicators, and some indicators related to cost, scope and worth of outreach.

- Some indicators related to cost, breadth and worth of outreach could not be extracted directly from the MIS. They were calculated instead through a careful analysis of MIS data. Its level of accuracy is also very high.

- Outreach indicators not taken from the MIS can be verified in internal documents or by the knowledge and experience of management and staff. These too are judged to be accurate. These are mainly outreach to the community indicators.

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