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# **TAKING STOCK OF INVESTORS' PERCEPTIONS OF THE SOCIAL RATING**

microREPORT #98

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This publication was produced for review by the United States Agency for International Development. It was prepared by Gary Woller and Jodi Fischer of Chemonics International.

# **TAKING STOCK OF INVESTORS' PERCEPTIONS OF THE SOCIAL RATING**

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Accelerated Microenterprise Advancement Project (AMAP) Financial Services

Contract: GEG-1-00-02-00013-00, Task Order #01

AMAP FS IQC, Knowledge Generation

# ABBREVIATIONS AND ACRONYMS

AMAP	Accelerated Microenterprise Advancement Program
CARS	CDFI Assessment and Rating System
CDFI	Community Development Financial Institution
KG	Knowledge Generation
M-CRIL	MicroCredit Ratings International Limited
MFI	Microfinance Institution
NGO	Non-governmental Organization

# CONTENTS

EXECUTIVE SUMMARY .....	1
INTRODUCTION.....	3
SURVEY AND SAMPLE.....	5
SUMMARY OF SURVEY RESPONSES.....	7
OVERALL CONCLUSIONS.....	13
ANNEX 1: SOCIAL INVESTOR SURVEY .....	16
ANNEX 2: DESCRIPTION OF MICRORATE SOCIAL RATING .....	17
ANNEX 3: SUMMARY OF SURVEY RESPONSES .....	22
ANNEX 4: CARS INFORMATION .....	28
ANNEX 5: SOCIAL RATINGS – SHORT, MEDIUM, & LONG FORMS ..	31

# EXECUTIVE SUMMARY

This microREPORT presents the findings from a survey of social investors on the social rating tool developed by the USAID AMAP Knowledge Generation research team. AMAP researchers provided a sample of seven leading social investment firms with different versions (short, medium, and long) of the MicroRate social rating report on ProMujer Bolivia. Researchers next conducted in-person interviews in which they asked the social investors to answer a number of specific questions related to the content and formatting of the social rating in addition to their perceived market demand and willingness to pay.

The investors' responses permit a number of conclusions (although given the small sample size, these conclusions should not be generalized to the entire population of social investors). One conclusion is that the *process assessment approach* taken in the ProMujer social rating *is valid*—it provides credible information that the surveyed investors find useful in assessing ProMujer's social performance. A second conclusion is that the *report format is appropriate* for its purpose. The format is clear and presents the information in an accessible and straightforward way.

Another conclusion is that although the social investors find the social rating useful, they are not prepared to pay for it, or at least to pay a significant amount for it. The respondents did not express a strong preference for either the short, medium, or long versions of the social rating, although a consensus among them prefers longer (medium to long) reports to short reports.

In terms of weaknesses in the social rating, survey respondents expressed a desire to see benchmark data on social performance in the ratings in addition to direct information on social outcomes and impacts. In the first case, benchmark data on social performance is not yet available for more than a handful of microfinance institutions (MFIs). As social rating (or social performance reporting in general)

becomes more common practice, more baseline data should become available.

In the second case, there exists a legitimate question as to who is responsible for producing social accounts (information on social performance) at MFIs: the MFI itself or the external rating agency? At present, few MFIs produce social accounts. Thus some argue that it is appropriate for external rating agencies to produce this information, at least for the time being. Others argue, however, that it is neither appropriate nor commercially viable for external rating agencies to produce social accounts on behalf of the MFIs. Regardless, it is expected that once cost-effective social performance assessment tools become more widely available and the industry begins to hold MFIs accountable for their social performance, MFIs will increasingly generate their own social accounts thereby eliminating any need for external rating agencies to generate this information.

Despite some pessimistic survey results regarding the willingness to pay, the success of the CARS (CDFI Assessment and Rating System) social rating system in the CDFI (Community Development Financial Institutions) sector offers good reason to be optimistic about the success of the social rating. While the experience of the CARS rating is not necessarily a blueprint for the social rating, it does establish the credibility of the general approach, it indicates that there exists an ample potential market for the social rating, and it provides useful suggestions with regards to appropriate business models. It also re-emphasizes the point that significant effort is still required to educate social investors about the social rating and market it successfully to them.

# INTRODUCTION

Over the past two years, USAID has been working with Chemonics International under the Accelerated Microenterprise Advancement Project - Knowledge Generation (AMAP KG) to develop and test a social rating tool for microfinance institutions (MFIs). Since April 2005, the AMAP KG research team has implemented three pilot tests of the social rating, including a stand-alone social rating in Albania and two integrated social and performance ratings of ANED and ProMujer in Bolivia. These social ratings were conducted in collaboration with specialized microfinance rating agencies, respectively, PlanetRating and MicroRate.<sup>1</sup>

In the process of developing and testing the social rating tool, AMAP researchers and participating institutions have learned a number of useful lessons that have been incorporated into subsequent versions of the social rating. PlanetRating drew on its initial pilot test with the AMAP research team to implement a number of revisions to its social rating tool, which it has subsequently pilot tested with eight MFIs representing different regions, legal status, and stages of development. MicroRate is likewise in the process of revising its social rating tool based on lessons learned from its initial pilot test and is anticipating additional pilot tests in the near future.

However, feedback from social investors has been missing from this process of developing, testing, and revising the social rating tool. This omission is significant given that social investors are the primary intended market for the social rating. Other initiatives working on development of the social rating have also been characterized by a lack of feedback from social investors. To a large extent, the development of the social rating has been *supply-driven* as opposed to *demand-driven*.

This microREPORT attempts to reverse this trend. It presents the findings from a survey of social investors on the social rating. AMAP researchers provided a sample of leading social investors with different versions of the MicroRate social rating report on ProMujer Bolivia. The researchers conducted in-person interviews in which they asked the social investors to answer a number of specific

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<sup>1</sup> The performance rating is similar to the financial (or credit) rating for private sector firms. It differs from the latter in that it combines an assessment of the MFI's key financial risk with an assessment of institutional performance particular to microfinance. It asks, for example, "How good is this MFI at providing microfinance services?" Or "If we lend money to this MFI, will it be effectively used?"

questions related to the content and formatting of the social rating in addition to their perceived market demand and willingness to pay. Their responses offer several useful insights. They also raise important questions about the purpose, content, and target market of the social rating and demonstrate that much work is still needed to market the concept to the social investor community.



# SURVEY AND SAMPLE

The purpose of the survey was not to produce representative perceptions across the social investor community but to obtain a more in-depth understanding of how social investors view the social rating. Given this, the AMAP research team opted to conduct a series of semi-structured interviews with a relatively small group of social investors. To recruit investors to participate in the survey, researchers sent out several inquiries to investors via email to ask about their interest in participating in the survey. The list of social investors assembled by the Investment Sub-Committee of the CGAP Social Performance Task Force provided the names and contact information for this initial round of inquiries. AMAP researchers followed-up their initial inquiries at the Inter-American Development Bank conference in San Salvador in October 2007, where they also contacted additional social investors.

In the end, seven organizations representing some of the leading investors in microfinance, agreed to participate in the survey. In two of the organizations, two or more persons responded to the survey making the total number of persons responding to the survey equal to ten. The organizations responding to the survey are shown in Table 1.

**TABLE 1. Organizations Responding to the Social Investor Survey**

Blue Orchard
MFI Resources
Gray Ghost Funds
Morgan Stanley
Incofin
Grameen Foundation Fund
MicroVest

Prior to carrying out the survey, the research team sent respondents three versions of the MicroRate social rating report of ProMujer Bolivia—a long version (over ten pages), a medium version (seven pages), and a short version (three pages)—and a description and rationale of the MicroRate social rating tool. Respondents were asked to read each of these four documents in preparation for the interview. (The three versions of the social rating are included as Annex 3-5 and the description and rationale for the MicroRate social rating tool sent to respondents is included as Annex 2.) One of the items of interest to researchers and MicroRate was the formatting and content of the social rating report, including the length and depth of information reported. The three versions of the report presented alternative combinations of length, depth, and presentation format.

After allowing a sufficient period of time for respondents to review the supporting materials, AMAP researchers called the respondents to conduct the survey. The survey itself consisted of ten questions administered in a semi-structured method—researchers posed the initial question and followed up where appropriate with probing or clarification questions. (The survey is included as Annex 1.)

# SUMMARY OF SURVEY RESPONSES

Annex 6 provides a narrative presentation of the survey responses. To maintain the anonymity of survey respondents, responding organizations were randomly assigned a number of 1-7. Multiple respondents from the same organization are grouped together and presented as a single response. The responses shown in Annex 6 are summarized below. It bears emphasizing that the survey results are not intended to represent the broad views of the social investor community. They are intended to give specific insights into what a small cross-section of social investors think about the USAID and MicroRate approach to social rating.

## **HOW EFFECTIVELY DO THE REPORTS CONVEY INFORMATION ABOUT PROMUJER'S SOCIAL PERFORMANCE?**

Most respondents thought the social rating *did a good job* conveying information about ProMujer's social performance. One respondent likened the "process" or "systems" focus of the social rating to the common practice in external auditing of evaluating "control systems" in place of "end balances." The approach taken in the social rating, therefore, has a counterpart in public accounting, which lends credibility to it. While other respondents did not necessarily state it in such strong terms, all concluded that the approach taken is valid and conveys useful information about social performance.

Notwithstanding, most respondents also expressed some *concerns about the information* in the social rating. The most common concern was the absence of specific and quantitative information on social outcomes or impacts and depth of outreach (poverty outreach). One respondent also indicated a desire to see more information on customer service and service to staff. Another respondent referred to some of the qualitative information presented in the report as "fluff" and expressed a preference for quantitative information where possible.

One respondent expressed concern that the approach taken in the social rating *may or may not be relevant* for MFIs that do not offer social

services such as ProMujer. It is worthwhile noting that previous pilot tests of the social rating tool (both by the AMAP research team and collaborators as well as other rating agencies) were performed on MFIs who did not offer social services. It is probably safe to say that all those involved in this and other pilot tests would conclude that the social rating works equally well for specialized MFIs offering purely financial services.

There were also some concerns expressed about the *meaning and relevance* of certain indicators. One respondent questioned what the categories in the social rating scale actually meant, another noted that client retention (dropout) is not a sufficient indicator of service quality, while another observed that average new loan size is not a particularly useful indicator of poverty outreach.

### **DO THESE REPORTS HELP IN YOUR POTENTIAL INVESTMENT DECISION? WOULD YOU FEEL COMFORTABLE MAKING AN INVESTMENT DECISION BASED ON THE INFORMATION IN THE REPORTS? WHY OR WHY NOT?**

Overall, respondents agreed that the social rating *is useful* for making investment decisions. Two respondents clarified this further by noting that this information would be useful but used in conjunction with other data they collect. It is probably safe to conclude that this is the general attitude of social investors. Whereas the social rating does appear to provide useful information on social performance, it is one piece of information to be considered along with other pieces.

Some respondents also mentioned a desire to see *peer group comparisons* in the social rating report. Such comparisons would enable them to place the results in context and weigh the relevance of the information. It is not clear, however, whether peer group values are available for certain social indicators and they are certainly not available for the qualitative information presented in the report.

If the social rating gains traction, however, this is expected to change over time as rating agencies conduct enough social ratings to provide reliable benchmark values for quantitative social indicators. Accumulation of qualitative information on internal process quality will also allow rating agencies, or other industry researchers, to develop “best practice” standards in terms of internal MFI processes.

### **IS THE MATERIAL IN THE REPORTS SENSIBLE AND EASY TO FOLLOW?**

*All* respondents noted that the reports were *sensible and easy* to follow. One in particular liked the “layered” outline headings that made it easy to access the different sections of the report. Another respondent, however, noted that the report contained extraneous fluff that he or she would like to see eliminated from the report.

## WHAT ITEMS ARE MISSING FROM THE REPORTS? WHAT WOULD YOU LIKE TO SEE ADDED?

The responses to this question were quite extensive and varied greatly. A list of recommendations is presented below.

- Give *greater weight* to the institutional rating score in the report highlights. This comment derived from a concern that the rating report appeared to give equal weight to the institutional rating and social rating, whereas the respondent considers the institutional rating the more important of the two.
- Provide discussion of *social outcomes*, such as children's schooling.
- Quantify *mission discord*—whether staff understand and act consistently with social mission.
- Report information on *cost and service quality tradeoffs*; for example, whether keeping cost down affects service quality.
- Report numbers on which social services are *subsidized* and which are *self-sustaining*.
- Report information on *interest margins*. Are the MFI's interest rates as low as they can be? It would be useful, moreover, to report average (or peer) values for "interest and commissions." Information of this type would be useful, for example, in assessing the social performance of MFIs that appear to charge exorbitantly high interest rates (e.g., Compartamos).
- Report the number and percentage of *clients with loans from other MFIs* so as to assess how well the MFI is addressing excluded populations.
- Provide information/description on the *types of services* offered.
- Report information on *poverty outreach*. Poverty assessment tools such as Grameen Foundation's Progress out of Poverty Index are well suited for this type of evaluation and could be added to the social rating at a relatively low cost.
- Provide information permitting *comparisons to peer groups*. For example, non-governmental organizations (NGOs) yield different results than regulated entities. Can the social rating account for this?
- Report information on *gender*, such as in the section on recruitment and training.
- Report information related to the *MFI's impact on the environment*.
- Provide information on *social performance and impact over time*.
- Provide more *concrete metrics* on the first page of the report.

## WHAT ITEMS IN THE REPORT REQUIRE GREATER EXPLANATION OR CLARIFICATION?

Most respondents thought that the reports were *sufficiently clear and straightforward*. One noted how important it was to know what the rating scale meant and what the range of possible grades was. Another noted that the content in the report *supported the conclusions*.

Several respondents did note some aspects of the reports that could use some *further explanation or clarification*. These included perhaps explaining more clearly the interpretation of the organizational table, describing the incentive system in greater depth and how it does or does not motivate MFI staff, providing information on how client retention rates are calculated (noting that there is often a lack of transparency surrounding these calculations), providing more detailed information on customer service and poverty outreach.

## WHAT INFORMATION IN THE REPORT IS MOST USEFUL? LEAST USEFUL? WHY?

*Most Useful.* Respondents revealed different perceptions when asked to identify which information in the reports was most or least useful. One respondent considered information on *incentive and monitoring systems* to be the most useful in terms of protecting the MFI from mission drift; another felt that *client dropout* is important information; another liked the discussion of *social services*; and another noted that the information on *social risk* was quite useful in addition to information on average loan size and repeat loans.

*Least Useful.* In terms of information found least useful, one respondent suggested cutting the discussion on *strategic planning and recruitment and training* to make more room for discussion of more important issues, such as social services offered and details related to whether they are obligatory, sustainable, etc. One respondent felt that the *summary table* offered on the first page of the reports was extraneous and that information on *client retention* and the *depth of outreach* matrix were not very helpful.

## WHAT IS YOUR OPINION OF THE REPORT FORMATTING? WHAT WOULD YOU CHANGE ABOUT THE FORMATTING IF YOU COULD?

*All* respondents thought that the *report formatting was good*. One thought there were more external indicators on the country than necessary. Another thought that the reporting format appeared to give *equal weight* to the social rating and institutional rating. This respondent felt that the institutional rating is by far the more important of the two and should be given a higher status in the formatting so as to emphasize this point.

## **OF THE THREE VERSIONS OF THE REPORT WHICH IS MOST USEFUL TO YOU? LEAST USEFUL? WHY?**

*Three* respondents cited a preference for the *long version*; another felt that foundations were more likely to prefer the long version. (Note: The results for this question double count one responding organization in which the two respondents expressed a different preference.)

*Two* respondents cited a preference for the *medium version*. Both felt that the medium version did a good job balancing the tension between too little and too much information. If one of them were forced to choose between the long and short version, this respondent would choose the long version.

*Two* of the respondents said that they preferred the *short version* of the report, and one felt that investors are more likely to prefer the short version. One respondent who preferred the short version noted that the one paragraph summary in each area was sufficient to capture the major issues and get a feeling and flavor of social performance. This respondent, however, warned that this perception was perhaps clouded by the fact that he or she had also read the longer reports in addition to the tool description, which provided important context for understanding the short version.

## **DO YOU THINK THAT THERE IS A MARKET AMONG SOCIAL INVESTORS FOR THIS TYPE OF PRODUCT?**

All respondents said that they believe there is a market for the social rating, but none was sure how large this market might be. While there does appear to be interest in information on social performance, and this appears to be growing over time, no one is comfortable predicting how large this market might eventually be. A couple respondents noted that the investors who do not conduct their own due diligence are particularly likely to find this product useful.

One respondent expressed concern that the social rating report is trying to address two different audiences—one that is looking for social/humanitarian impact and another that already assumes the social component and simply seeks to increase scale by investing in MFIs that have social elements. The respondent's concern is that the social rating tool is not specific enough for the needs of either audience.

## **WOULD YOU BE WILLING TO PAY FOR A SOCIAL RATING REPORT SUCH AS THIS ONE? HOW MUCH? IF NOT, WHAT, IF ANYTHING WOULD NEED TO BE DIFFERENT FOR YOU TO BE WILLING TO PAY FOR IT?**

## BOX 1: CARS AND THE FUTURE OF THE SOCIAL RATING

CARS is a comprehensive, third-party analysis of CDFIs intended to aid investors and donors in their investment decision-making.<sup>1</sup> CDFIs are similar to MFIs in design and intent, and CARS is similar in design and intent to the social rating.

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 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](#).

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

- Alignment of strategy and operations: how well the CDFI's mission, strategies, products and services, output data and impact data are tied together.
- Effective use of financing resources: how well the CDFI uses its financing resources in support of its mission and target population.
- Tracking of outputs that show effectiveness: how well the CDFI tracks its own relevant outputs (activities such as loans disbursed, participants trained, etc.), whether those data indicate that the CDFI is accomplishing its goals, and how the CDFI uses those data to improve its effectiveness.
- Tracking of outcomes or impacts that show effectiveness: how well the CDFI tracks the actual outcomes of its work for disadvantaged people and communities, whether those data indicate that the CDFI is benefiting disadvantaged people and communities, and how the CDFI uses those 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. A full subscription to CARS, available for \$15,000, provides subscribers with 12 analyses.

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, and the Merrill Lynch Community Development Company announced that it would use CARS for a planned \$93 million CDFI investment. As of July 2007, 28 CARS impact performance ratings had been completed with another 34 in the pipeline (see Annex 7 for the CARS rating scale, list of performance ratings and current subscribers).

<sup>1</sup> The discussion on CARS borrows heavily from the CARS Brochure published by the Opportunity Finance Network ([www.opportunityfinance.net/store/Downloads/cars\\_set.pdf](http://www.opportunityfinance.net/store/Downloads/cars_set.pdf)). For general information on CARS: ([www.opportunityfinance.net/financing/finance\\_sub4.aspx?id=56](http://www.opportunityfinance.net/financing/finance_sub4.aspx?id=56)). For an in-depth discussion of CARS, download the document "CARS On the Road—Edition 2" ([www.opportunityfinance.net/store/Downloads/](http://www.opportunityfinance.net/store/Downloads/)

Most of the respondents said that they would be willing to pay for a social rating, but only a relatively small amount at this point. One indicated a willingness to pay only in cases in which additional information is needed to break a tie between investment options, but then no more than around \$250 for the report. The respondent was not optimistic that investors would be willing to pay much more than this. The remaining respondents did not specify how much they would be willing to pay. One respondent noted that there is already a great deal of information on MFI performance available at no cost. Another respondent noted that it depends on the value added by the social rating, implying that the value added is not currently known.

Two respondents suggested that MicroRate consider selling the social ratings on a subscription basis or pay per view basis. Other respondents expressed the belief that philanthropic or other organizations still have a role to play subsidizing the social rating until the market demand grows, while another said that MFIs should pay for rating. One respondent suggested the possibility that groups who are likely to pay for the social rating (such as organizations that receive government funding, governments themselves, or large well-established NGOs) subsidize other groups to take advantage of the resource. Another respondent suggested charging different prices to different organizations so that some organization can subsidize the availability of the social rating for others.

The survey findings offer reasons for both optimism and pessimism. While social investors like the content and format of the social rating and think it is useful, they are hesitant to guess what the demand for the social rating might be, and they do not appear willing to pay much for it at this point. Fortunately, there is a counterpart success story to the social rating that tempers such pessimism and offers legitimate reason to be optimistic about the future of the social rating. This success story is CARS (CDFI assessment and assessment and rating system) in the Community Development Financial Institution (CDFI) sector. (See box 1.)



# OVERALL CONCLUSIONS

The responses to the investor survey permit a number of conclusions while simultaneously raising a number of questions. One conclusion is that the *process assessment approach* taken in the ProMujer social rating *is valid*—it provides credible information that the surveyed investors find useful in assessing ProMujer’s social performance. (As a side note, all other social rating tools currently in use or under development use a process assessment approach similar to that in the USAID social rating tool.) The observation that this approach is similar to that taken by external auditors offers important insight into which USAID, and other industry stakeholders, can tap as they work to increase the visibility and credibility of social rating.

A second conclusion is that the *report format is appropriate* for its purpose. The format is clear and presents the information in an accessible and straightforward way. There may be cause to reconsider certain types of information presented in the report based on investor feedback, including the summary country table on page 1, but there does not appear to be a strong rationale at this point for making significant changes to the types or presentation of information found in the report, aside from a desire for more information on outcomes and impacts (see below), reporting benchmark comparisons, and also perhaps increasing the transparency about how certain indicators or information is derived (for example the client retention rate). The suggestion that the report *include benchmark data* where available is well taken, and it is certainly the intention to generate a store of data over time on social performance that will permit this type of benchmarking and standard setting in the future.<sup>2</sup>

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<sup>2</sup> The Sub-Committee for Social Performance Core Indicators of the Social Performance task force is currently conducting pilot tests with several MFIs of a number of social performance indicators. The objective of the pilot tests is to identify a set of “core” social performance indicators that can be benchmarked to assess social performance across MFIs and contexts.

There was *no overwhelming preference* for either the short, medium, or long versions of the report. The *consensus*, however, *favors longer* to shorter, suggesting that the short version is perhaps too short and something longer (whether the medium or long version) is preferable. It is, of course, possible to create both a longer and short version, depending on the purpose or intended audience.

The oft-stated desire for *outcome or impact information* poses one of the most difficult, and fundamental questions for the social rating methodology. This is a legitimate and completely understandable request. Information on actual social outcomes or impacts is preferable to proxy indicators that are only suggestive of social performance, such as the quality of internal processes or certain other performance or financial indicators.

The AMAP research team anticipated the comments expressing a desire for quantitative information on social outcomes or impact in the social rating. This is a common topic that has come up repeatedly both during the development of this tool and in conversations with other rating agencies and industry stakeholders. Developers of the USAID social rating tool made a strategic decision early in the process not to gather information on social outcomes and impacts as part of the social rating. A primary goal driving the tool development was to produce a cost-effective and commercially viable tool that held potential for wide-scale adoption. Tool developers believed that expanding the scope of the rating to include field research on social outcomes or impacts would increase the cost of the social rating to the point where it would not be commercially viable.

The AMAP team takes the position that it is the responsibility of the MFI, and not the rating agency, to generate social accounts (information on social performance). Comments made by survey respondents appear to imply, however, that it is the rating agency's responsibility to generate social accounts. This perhaps suggests that social investors look at social performance assessment in a different context, with a different set of perceptions and expectations, than they look at institutional (or financial) performance assessment. That is, whereas social investors appear to place responsibility on rating agencies to generate social accounts, they place no corresponding responsibility on rating agencies to generate financial accounts.

It is appropriate to ask, therefore, why the different set of expectations? Does this reflect some inherent differences between the two activities? Does it reflect the current state of evolution in the industry (e.g., the lack of widely available and cost-effective social performance assessment tools and/or a lack of general accountability for social performance that disincentivizes MFIs from creating social accounts) that is likely to change over time? Or, does it reflect the

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(Information on the Social Performance Task Force can be found at [www.microfinancegateway.org/resource\\_centers/socialperformance/](http://www.microfinancegateway.org/resource_centers/socialperformance/).)

need to educate social investors more with regards to the options, costs, methodological issues, and tradeoffs of producing outcome and impact information?

The AMAP team believes that the second and third explanations are the most accurate of the three. Clearly there is a need to educate social investors about the options, costs, methodological issues, and tradeoffs implied by different assessment approaches. Moreover, once cost-effective social performance assessment tools become more widely available and as the industry (including social investors) becomes more sensitized to the need to hold MFIs accountable for their social performance, MFIs will increasingly generate their own social accounts eliminating, or drastically reducing, the need, and expectation, for rating agencies to generate this information.

This view, however, is not universally accepted. Micro-Credit Ratings International Limited (M-CRIL) and Microfinanza Rating have developed an “enhanced” social rating that includes information on social outcomes and poverty outreach generated through field research by the rating agency. Whether the enhanced social rating proves to be commercially viable, however, remains to be seen. Although to be fair, social rating as a general concept has yet to prove its commercial viability. In contrast to M-CRIL and Microfinanza, MicroRate and PlanetRating appear to have decided, for the time being, against offering an enhanced social rating.

Another conclusion is that although the surveyed social investors find the social rating useful, they *are not prepared to pay* for it, or at least to pay much for it. Some, in fact, appear to believe that other industry stakeholders, such as the MFIs themselves or donors, should pay for the social rating. None of the respondents, moreover, felt comfortable projecting potential demand for the social rating. All these findings suggest that the industry in general, and rating agencies in particular, have their work cut out for them in marketing the social rating to the social investment community. It also raises the question as to the appropriate business model or models for the social rating. To date, work on the social rating has tended to focus on development and testing with comparatively little attention given to marketing. This imbalance needs to be redressed.

Finally, the success of the CARS rating system in the CDFI sector offers good reason to be optimistic about the success of the social rating. While the experience of the CARS rating is not necessarily a blueprint for the social rating, it does establish the credibility of the general approach, it indicates that there exists an ample potential market for the social rating, and it provides useful suggestions with regards to appropriate business models. It also re-emphasizes the point that the significant effort is still required to educate social investors about the social rating and market it successfully to them.

# ANNEX 1: SOCIAL INVESTOR SURVEY

This check list outlines key considerations for developing and maintaining a strategic approach to managing and sourcing funding. Details for some of the items can be found in this document and/or other references cited.

1. How effectively do the reports convey information about PROMUJER's social performance?
2. Do these reports help in your potential investment decision? Would you feel comfortable making an investment decision based on the information in the reports? Why or why not?
3. Is the material in the reports sensible and easy to follow?
4. What items are missing from the reports? What would you like to see added?
5. What items in the reports require greater explanation or clarification?
6. What information in the report is most useful? Least useful? Why?
7. What is your opinion of the report formatting? What would you change about the formatting if you could?
8. Of the three versions of the report, which is most useful to you? Least useful? Why?
9. Do you think that there is a market among social investors for this type of product? How large do you think this market might be?
10. Would you be willing to pay for a Social Rating report such as this one? How much? If not, what, if anything, would need to be different for you to be willing to pay for it?

# ANNEX 2: DESCRIPTION OF MICRORATE SOCIAL RATING

## INTRODUCTION

Pioneering microfinance rating agency MicroRate is developing a new rating product called the Social Rating. The social rating is “an independent assessment of an organization’s social performance using a standardized rating scale.”<sup>3</sup> The social rating is based on the same principles underlying MicroRate’s Performance Rating.

The Performance Rating combines an assessment of the MFI’s key 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?”)

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.”

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<sup>3</sup> SEEP Social Performance Glossary  
<http://www.seepnetwork.org/content/article/detail/4728>.

The MicroRate Social Rating measures social performance and social risk by assessing, respectively, six key internal processes and four critical institutional outcomes, as shown in the following table.

**TABLE 2: Factors Assessed to Measure Social Performance and Social Risk in the MicroRate Social Rating**

Component of Social Rating	Factors Used to Measure
Social Performance	<i>Institutional Outcomes</i> <ol style="list-style-type: none"> <li>1. Outreach</li> <li>2. Depth and Variety of Services</li> <li>3. Cost and Sustainability</li> <li>4. Social Responsibility</li> </ol>
Social Risk	<i>Internal Processes</i> <ol style="list-style-type: none"> <li>1. Mission, Communication and Management Leadership</li> <li>2. Strategic Planning</li> <li>3. Customer Service</li> <li>4. Monitoring</li> <li>5. Recruitment and Training</li> <li>6. Incentive System</li> </ol>

On the basis of its analysis of Social Performance and Social Risk, MicroRate assigns the MFI a social rating score and a social risk score. The scores and corresponding explanations are presented in the following table.

**TABLE 3: MicroRate Social Rating Scale**

<b>Social Rating</b>	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.
<b>Excellent</b>	<b>Very good</b> social outcomes with outstanding service outreach and depth. <b>Excellent</b> future outlook for its social projects. MFIs whose operations are <b>exceptionally well-aligned</b> with their social mission.
<b>Good</b>	<b>Good</b> social outcomes with good service outreach and depth. MFIs whose operations are <b>well-aligned</b> with their social mission.
<b>Adequate</b>	<b>Acceptable</b> social outcomes with moderately good service outreach and depth. MFIs whose operations are <b>adequately aligned</b> with their social mission.
<b>Poor</b>	<b>Weak</b> social outcomes with limited service outreach and depth. MFIs whose operations are <b>poorly aligned</b> with their social mission.
<b>Social Risk</b>	Social risk measures the likelihood of a microfinance institution deviating from its social mission and failing to produce a forward-looking social impact.
<b>Low</b>	<b>Low</b> probability of the organization deviating from its social mission or failing to produce a forward-looking social impact.
<b>Medium</b>	<b>Medium</b> probability of the organization deviating from its social mission or failing to produce a forward-looking social impact.
<b>High</b>	<b>High</b> probability of the organization deviating from its social mission or failing to produce a forward-looking social impact.

## **SOCIAL PERFORMANCE**

The MicroRate Social Rating uses impact “proxies” to determine how effectively the MFI is translating its social mission into practice.<sup>4</sup>

### **OUTREACH**

Outreach is determined by the types and numbers of clients reached with microfinancial services. All else equal, social performance is greater the greater the number of people reached with financial and (where appropriate) non-financial services.

### **DEPTH AND VARIETY OF SERVICES**

Variety of Services refers to the extent the MFI satisfies the target market’s diverse financial and (where relevant) non-financial needs through a diversity of appropriately designed products and services. Depth refers to how far down market the services go.

### **COST AND SUSTAINABILITY**

Cost looks at how much clients pay for services. Costs reflect how efficiently the MFI utilizes its resources to offer services. Sustainability measures the MFIs long-term financial viability. Institutional sustainability is crucial to ensure that clients continue to benefit from financial services over the long-term.

### **SOCIAL RESPONSIBILITY<sup>5</sup>**

Overall social impact includes the MFI’s impact on all of its various stakeholders, not just on clients. Accordingly, social responsibility looks at MFI’s relationship with its diverse stakeholders, including staff, clients, local communities, and the environment.

### **SOCIAL RISK**

The six internal processes used to assess social risk are common to all MFIs and organizations, which makes comparisons across MFIs possible. The six internal processes do not constitute an exhaustive list, but experience has shown them to be key areas in terms of their impact on social risk and performance.

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<sup>4</sup> Assessing actual social impact requires skills, resources, and time outside the scope of a rating exercise; it requires, for example, selection and assessment of a non-client control group. If, however, the MFI or an outside entity has carried out or sponsored evaluations relevant to the MFI’s social impact, the results of these evaluations will be incorporated into the social rating.

<sup>5</sup> In the PROMUJER report, the section on Social Responsibility focuses primarily on PROMUJER’s relationship with its staff. It is MicroRate’s intention to expand this section in the future to incorporate other dimensions of Social Responsibility.

## **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.

## **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 non-inclusion, 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; the extent to which this information is incorporated in the design of its products, services, and organizational policies; and the emphasis the MFI places on customer service quality.

## **MONITORING**

Monitoring tells the MFI whether it is on the right track with regards to its social mission and social objectives. In this context, monitoring does not mean a one-off activity, but it 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 on-going 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 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.

# ANNEX 3: SUMMARY OF SURVEY RESPONSES

Question	Responses
How effectively do the reports convey information about PROMUJER's social performance?	<ol style="list-style-type: none"> <li>1. General approach is very sound—similar to the approach used by external auditors. External auditors can look at end balances (accounts) or they can look at control systems. Much of external auditing looks at control systems as not enough time at the end of year to look only at ending balances, thus look at control systems that produced them. For small firms, external auditors could possibly focus only on ending balances, but takes too much time for large firms, so auditors focus instead on systems. In examining systems, external auditor assures that ending balances are credible. Process of looking at systems as a “proxy” for ending balances is well-established and credible.</li> <li>2. Likes the depth, but too much “fluff.” If were more quantitative would be easier to compare. What does “Excellent” in social rating scale mean? Wants to see actual values in graphs/tables, for example 80% of services funded by donations. Wants to see aggregate data.</li> <li>3. “Wonderfully,” it is obvious that ProMujer has a positive social impact. Concerned, however, that rating might be less useful for MFIs that do not have social component—a majority of MFIs do not provide social services?</li> <li>4. Yes.</li> <li>5. Had some questions about methodology. While integrates important amount of social performance dimensions, still lacks some important aspects and indicators. For example, customer service is mainly measured by client dropout rate and by existence of a good data collection and analysis system. This is not sufficient to measure customer service. Other missing aspects are variety of indicators measuring scale and depth of outreach—average new loan indicator is not sufficient. Important</li> </ol>

	<p>dimensions such as transparency and internal customer service (service to staff), among others, not considered in evaluation.</p> <p>6. Was surprised by emphasis placed on institution. Need to check subheadings and make sure indicators/information is accurately reflecting those categories. For example, breadth is not necessarily an indicator, but a solid incentive system is. Also, depth has a description but does not provide the cause and effect and lacks description of who reached, when, and how.</p> <p>7. Believes it does good job; however would like to see more concrete, quantitative information, e.g., how long does it take for clients to experience improvements and what do these improvements look like?</p>
<p>Do these reports help in your potential investment decision? Would you feel comfortable making an investment decision based on the information in the reports? Why or why not?</p>	<p>1. Yes, report captures important concepts in terms of performance and risk areas. Report contents are concise, consistent, and sufficient to think that there is something behind them. Analysis is good.</p> <p>2. Yes, but see answer to question 4.</p> <p>3. Yes, it would be very helpful.</p> <p>4. Social investors want to see social impact. In order to provide substantive and more thorough feedback, it would be very helpful to use this social rating in conjunction with MFI's other social assessments. Regardless, social investors will not base investment decisions solely on social rating but would use it as one of many factors taken into consideration.</p> <p>5. Believes that a rating such as this would be useful for cross-reference and comparative purposes. Says that 65% of social investors do own due diligence but probably only 5% do own SOCIAL performance measurements, so this might be very helpful to them.</p> <p>6. Yes, but it would be worthwhile to provide market information (demand and competition). In a performance rating competition does not necessarily enter the picture, but would be important to know what services MFI is providing versus other MFIs in the region. Also important to know what MFI is providing in comparison with government. Is there a way to assess demand because that would also be a valuable indicator? There are many ways to think about mission of an organization. Could apply all of these categories to companies as well. Using this social rating for Wal-Mart would probably yield a high score. It might be valuable to consider how MFIs are superior to companies and have an indicator that helps to distinguish their value added. It may be a rating that compares an institution with a regular company that allows viewer to see that the social component is superior in the institution.</p> <p>7. NA</p>
<p>Is the material in the reports sensible and easy to follow?</p>	<p>1. Yes, report is well written. Likes the layered outline headings that make it easy to access the different sections.</p> <p>2. Yes, prefer to eliminate extraneous fluff.</p> <p>3. Yes.</p> <p>4. Yes, formatting very easy to follow.</p> <p>5. Yes.</p> <p>6. Yes, easy to read and comprehensive.</p> <p>7. Yes.</p>
<p>What items are missing from the reports? What would you like to see added?</p>	<p>1. Could think of nothing it was missing or that should be added—other than giving greater weight to the institutional rating score in the report highlights and emphasizing incentive systems and monitoring more. Report appears to give the impression that the social rating is equal in importance to the institutional rating, although the latter is clearly more important than the former. Initially thought to recommend combining social performance rating and social risk rating into single indicator, but on reflection concluded that were separate concepts and probably should, though not necessarily, be reported separately.</p> <p>2. Would like to see some discussion of outcomes, for example, information</p>

	<p>demonstrating that savings had tangible influence on children attending school.</p> <p>Mission discord—it is necessary the loan officers understand social mission. How can this be quantified? Are loan officers required to meet certain objectives? NGO versus regulated entities will yield different results. Does social rating account for this? Concerned that there is pressure on costs versus service quality. When MFIs are pressed to keep service costs down, how does this affect social component? Will that negatively impact service quality? How can that be measured? Would like to see indicators that reflect when borrowers pay for services versus not and how that compares with other organizations providing similar services in region and across other regions. Would be interested in seeing what average portfolio is versus expense ratio which would allow investors to see if it is to offset the social services. Borrowers sometimes choose lenders with higher risks, would like to understand why that might be the case. Recognizes that it is difficult for MFIs to gather, track and report outcome data; however, even if it is just 20 new numbers/indicators, this is important for future assessments.</p> <p>3. When presenting statistics would be helpful to see average comparisons to relevant peer group. Would like to see more numbers about how much services are subsidized versus self-sustaining. Would also be helpful to see peer group comparisons for average point of comparison in the “Interest and Commissions” rating so as to provide point of comparison to determine what is common. Would be good to know how many clients are also clients at other MFIs to help determine how well MFI is addressing excluded populations.</p> <p>In the medium report on third page there is a chart on Variety of Services, what does the “conventional guarantees” mean? Is it a refrigerator? Savings? It would be nice to see more detailed information in the report. Would like to know whether provision of microfinance services is helping people put children in school, helping communities to respond to emergencies, improving health conditions, etc.</p> <p>4. Would be interesting to know interest margin and how it is allocated—are MFI’s interest rates as low as they can be? May necessitate looking at portfolios and cost of funds. Would also like information on how well MFI is reaching poor people. Thinks that information on poverty can be added fairly easily at time of evaluation.</p> <p>5. See response to Question 1. Also, impact on the environment.</p> <p>6. Would like more measurements related to clients movement out of poverty and impact on society/community. Also interested in seeing impact over time. Would like to see more concrete metrics on the first page of report, for example, yield of portfolio/banking average and MFI industry average in that country. Outreach, depth, etc. are good indicators to view at a glance in charts. Would add average loan size as percentage of GDP/per capita. Would like to see gender component added—e.g., for recruitment and training—and more detail on quality of services.</p> <p>7. Fine as is; however, appears to be tabular summary assessment of social performance, but no tabular summary of social risk. Not saying necessary since might make document too long, but appears to be inconsistency.</p>
What items in the	1. Thought that report was clear. Helped to see the rating scale and

reports require greater explanation or clarification?	<p>understand what it meant. “Incredibly important” to know what the range of possible grades is. Examples given in the report supported conclusions well. Did not see any inconsistencies.</p> <ol style="list-style-type: none"> <li>2. Organizational table was most difficult trying to interpret, but was still useful. Particularly likes depth and variety of services (would like to see this on a regular basis). More quantitative indicators are more likely to be utilized.</li> <li>3. Incentive system—is this effective in motivating staff? Would like to see the actual incentive system detailed to allow readers to overcome potential subjective information gathered and draw conclusions that reflect investor priorities. Would like to see better definition on how client retention is calculated. MFIs often manipulate these numbers so is important to be transparent about how this information is being measured.</li> <li>4. Report is pretty straightforward.</li> <li>5. Customer service and depth of outreach.</li> <li>6. Poverty line—would like to know if it was it purposely left out. Inclusion and greater definition of poverty and how it is measured across geographical locations would be useful. This is controversial measurement and would like to know how it is defined in order to determine whether to use.</li> <li>7. Fine as is; however, within definition and indicators of “social risk, what does “impact on the stakeholders” mean?</li> </ol>
What information in the report is most useful? Least useful? Why?	<ol style="list-style-type: none"> <li>1. Wondered at first why report looked at strategic planning—at first blush, it seemed out of place. On reflection concluded that if strategic planning did not consider social performance issues, then would be difficult to actually implement them or integrate them into MFI’s culture. Of six internal processes, believes that incentive and monitoring systems most important in terms of protecting MFI from mission drift. Would probably emphasize these a bit more.</li> <li>2. Dropout rate is important.</li> <li>3. Likes inclusion of social services; however, would like to know if are obligatory. If mandatory, then what is impact? Would also like to know if social services require payment, and if so, whether fees are used to fund the financial services. Concerned that there may be extraction of money from people that ultimately does not improve conditions for client. To add more information on these topics could minimize information on strategic planning and recruitment and training, which have less importance.</li> <li>4. NA.</li> <li>5. Social Risk is important element and provides very useful information. Social rating still in need of improvements, though. Some of statistics in report are not relevant, for example, table on front page. Do not necessarily need all this country information. Outreach table might be helpful, but not all MFIs necessarily have relevant data for all of those categories. Depth matrix and client retention rates are not necessary and somewhat repetitive. Average loan size and repeat loans are also good.</li> <li>6. Please see other answers.</li> <li>7. NA.</li> </ol>
What is your opinion of the report formatting? What would you change about the formatting if you could?	<ol style="list-style-type: none"> <li>1. Formatting is fine. One issue is that it appears to give equal weight to social rating and institutional rating. The latter is by far most important of two and should be given higher status in formatting, while emphasizing that social rating is a complement to institutional rating.</li> <li>2. It is good. See comments to question 3.</li> <li>3. Formatting is good.</li> <li>4. Formatting is good and easy to follow.</li> <li>5. Looks good. Topics covered are good; however, too many country indicators and not indicators on MFI.</li> </ol>

	<p>6. Formatting is good.</p> <p>7. Formatting is good.</p>
<p>Of the three versions of the report, which is most useful to you? Least useful? Why?</p>	<p>1. Thought that most useful report is shortest version—it is concise and encapsulates information well. Is probably sufficient. One paragraph summary in each area sufficient to capture major issues and enough to get feeling and flavor of what is going on in social performance. One possible caveat is that short report may in some cases not be enough to get a sense of methodology behind it. Could understand the methodology behind it because had read description of the approach and longer reports. Without these, may not be as clear. Nonetheless, would like to see social rating combined with complete institutional rating. Although short version is sufficient by itself, wonders whether it would be “overshadowed” were it combined with complete institutional rating. In this case, might be more appropriate to use one of longer versions.</p> <p>2. Longest version. If people are asking for this information then hopes that more MFIs are likely to provide it.</p> <p>3. Medium length report is best. Short one is too short, and the long one is too long. Appreciates details; likes having average loan size, description of services provided in medium report.</p> <p>4. Preferred the medium version. Not sure that longer one is necessary. Medium report is useful but not overwhelming. If forced to choose between short or long reports would select long report because short report is not descriptive enough.</p> <p>5. Foundations might like the long one; investors the short one.</p> <p>6. One respondent preferred the long version and the other the short version.</p> <p>7. Like longer version. Prefers to be able to view in summary first and then read more detail in rest of report.</p>
<p>Do you think that there is a market among social investors for this type of product? How large do you think this market might be?</p>	<p>1. Yes, would differentiate MicroRate from other rating agencies, such as Fitch. Several social investors want to get into microfinance but do not understand its nuances. This could help them. Investors, however, unlikely to pay for in-depth due diligence for single MFI. If someone else does the in-depth due diligence, they would might be willing to pay for this as it allows them to make more informed decisions. Most MFIs have some kind of social mission and thus some degree of social risk. This helps quantify it in useful and credible way.</p> <p>2. Yes...but unsure.</p> <p>3. Yes.</p> <p>4. Yes, but not entirely sure how big.</p> <p>5. Yes, among those that do not conduct due diligence themselves.</p> <p>6. Believes social rating addressing two very different audiences. One is looking for social/humanitarian impact; other already assumes social component and simply seeks to increase scale by investing in MFIs that have social elements. Concerned that rating tool is not specific enough for the needs of either audience. Good tool for social investors or NGOs that want to attract social investors, but in context of social goals that MFI is trying to meet may need more depth of content. For example, if MFI trying to reach women, children, etc., where is this addressed in report? Is social rating too general? Rating very good at addressing institutional sustainability, but if there is niche in which MFI focuses, there should be greater depth. Ultimately, social rating needs it to be broad enough to address range of social indicators, but suggests generating general indicators that allow more detail on the specific niche MFI is addressing.</p> <p>7. Overall believes it is important but is difficult to assess—how much should social risk factor into decision making? Good to know that analysis of this type taking place. Many investors do ask about social performance, but when do, usually make pretty simple requests. Doubts they would</p>

	<p>ever ask for a detailed report like this, but maybe in future they will once they see that this is readily available. Believes the trend will lean towards paying more attention to social factors—events such as the Compartamos controversy draw more attention to this area. Also, social components may have positive correlation with better repayment by clients.</p>
<p>Would you be willing to pay for a Social Rating report such as this one? How much? If not, what, if anything, would need to be different for you to be willing to pay for it?</p>	<ol style="list-style-type: none"> <li>1. To be blunt, does not think that would be willing to pay much. Thinks that MFIs should pay, particularly those who are trying to attract capital and/or want to negotiate lower interest rate. Would not pay individually for ratings unless needed further information to break a tie between competing investment options. Then the respondent might pay around \$250 or a bit more, depending on size of the investment. Thinks many investors would balk at paying much for this type of product. Perhaps some kind of “subscription” approach might work where investor pays, say, \$200 and receives regular reports about MFIs that have been evaluated. If one MFI had this information and the social rating is good, would choose the first one. Social rating tells a “good story.”</li> <li>2. Yes, would be willing to pay if within means. Also interested in paying per view or on subscription basis. If it is available per view or subscription as well. Does believe market will play out and there will be more division between social versus commercial MFIs.</li> <li>3. NA.</li> <li>4. Would be interested knowing whether MFIs, rating agencies or social investors would be expected to pay for it. Would be willing to pay, but, given availability of a lot of free information, not sure how much. Depends on the value added. Interested if the information is available electronically. Believes there may be philanthropic organizations willing to pay for social ratings.</li> <li>5. See response to Question 9.</li> <li>6. Gut says will not be a regular model until it is around for awhile and demand increases. Might have to start subsidized by some IFFY or donor. Consider making it available for different prices for different organizations, so that some can subsidize availability of it to others. Look at groups largely funded by governments—might be room for them to pay for things like this. Ultimately desirable to make ratings transparent and available to all (implies MFI might need to pay). MFIs may or may not be in a position to pay, but donors should because already looking for it. Also possible funding source are large NGOs that can afford and would utilize this type of rating.</li> <li>7. New product, so difficult to predict. If in future think that it will assist company and success in attracting investors, then, yes, would consider.</li> </ol>

# ANNEX 4: CARS INFORMATION

**TABLE 4: CARS RATING SCALE**

<b>AAA</b>	A CDFI in this group has clear alignment of mission, strategies, activities, and data that guides its programs and planning. The CDFI presents data that clearly indicate that it is using its resources effectively to benefit disadvantaged people and communities and achieve positive impacts 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.
<b>AA</b>	A CDFI in this group has clear alignment of mission, strategies, activities and data that guides its programs and planning. It accurately tracks appropriate output data that indicate 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.
<b>A</b>	A CDFI in this group has reasonable strategies and activities given its mission. It tracks basic output data that indicate fairly effective use of its resources to benefit its target populations or communities in line with its mission.
<b>B</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 show 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.



**TABLE 5: CARS Impact Performance Ratings Completed and in the Pipeline**

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

**TABLE 6: Current Subscribers to CARS**

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

# ANNEX 5: SOCIAL RATINGS — SHORT, MEDIUM, AND LONG FORMS

**PROMUJER BOLIVIA**
**BOLIVIA**
*December 2006*
**Summary Description**

**MICRORATE:**  
Sebastian von Stauffenberg  
[sebastian@microrate.com](mailto:sebastian@microrate.com)  
Carlos Ayón  
[carlos@microrate.com](mailto:carlos@microrate.com)

**WOLLER & ASSOCIATES:**  
Gary Woller  
[gary@wollerassociate.com](mailto:gary@wollerassociate.com)

PROMUJER Bolivia (Programas para la Mujer-Bolivia) is a nongovernmental organization within the Pro-Mujer International Network. It was founded in 1990 as a provider of training programs for women and began offering microlending services in 1993.

It serves poor female microentrepreneurs with limited access to the formal financial system in urban, peri-urban and rural areas in eight of the country's nine departments. Microloans are integrated with social services, such as basic health care and business development. It has over 81,000 clients in 47 service centers and a loan portfolio of US\$ 13.6 million.

**Rating Rationale**

<b>Social Rating</b>	<b>Excellent</b>
<b>Social Risk</b>	<b>Low</b>
<b>Performance Rating</b>	<b>α-</b>

\* See Annex 1

Date of visit: **December 2006**

PROMUJER Bolivia is one of the few microfinance institutions able to combine social programs with a successful microlending business. It offers all its clients integrated financial and social services, maintaining a strong social culture, due largely to an effective management and sound internal procedures.

Its social services are among the best observed by MicroRate. The organization prioritizes these types of services, which are complemented by financial services that respond to the funding needs of a poor and marginalized market niche. Moreover, the professional management of its financial services is excellent. Although it offers a limited diversity of financial products, and social services are partially borne by the financial services, the MFI continues to be profitable.

Furthermore, with its customer orientation, product development efforts are geared to meet client needs. This has resulted in a high degree of customer loyalty and has minimized the risk of the institution deviating from its social mission.

Lastly, although the institution relies on donations to cover the high cost of delivering social services, the financial risk is marginal. In other words, a shortage of donations would simply limit its future social services.

**Bolivia: Key Statistics**

	2001	2005	2006
Population (millions)	8.3	9.4	9.6
Population density (persons / Km <sup>2</sup> )	8.6	8.6	8.6
GDP (US\$ billions)	7.9	9.3	
GDP per capita (US\$)	953.0	987.0	
Poverty Rate	0.6	0.7	0.7
Poverty line (US\$ per capita per month)	43.0	37.5	37.9
Extreme poverty line (US\$ per capita per month)	23.0	21.6	21.8
Life expectancy	62.9	62.9	62.9
Infant mortality (per 1000 live births)	61.2	61.2	61.2
Adult illiteracy (persons over 15 years of age)	86.7		

Source: Bolivian National Statistics Bureau

**Highlights**
**POSITIVE**

- A strong social culture at all levels of the organization, with an active and effective leadership.
- Social and financial services with good depth of outreach.
- Internal procedures aligning individual and organizational performance with its social mission.
- Strategic plan that effectively integrates social and financial services.

**NEGATIVE**

- Ineffective incentive system.
- A limited range of financial services.
- The combination rapid growth and the imminent retirement of its Executive Director threatens to put pressure on the organizational culture.

## Organizational Mission

“To help underprivileged women achieve self-sufficiency for themselves, their families and their communities through integrated services.”

- PROMUJER Bolivia

## Capsule Assessment

<b>Outreach</b>	Relatively broad outreach given the size of the organization.
<b>Depth and variety of services</b>	Depth of operations has been steadily increasing. Excellent variety of social services, though the range of financial services is somewhat limited.
<b>Cost and sustainability</b>	Social services are funded by earnings and donations. Financial services are self-sustaining.

## SOCIAL PERFORMANCE

### **Outreach:**

PROMUJER Bolivia reaches a relatively large population considering the size of the institution. It reaches close to 81,000 persons in nearly 90% of the country's departments with its social and financial services. The MFI makes many of its services available to the family members of its clients, extending the organization's outreach to more than 450,000 Bolivians (representing nearly 5% of the country's population).

### **Depth and Variety of Services:**

The small average size of its new loans, its large share of poor female clients, and its even larger share of rural clients underscore the depth of its operations. The broad ranges of its social service offerings meet the principle needs of its clientele. However, its financial product offerings are still rather limited.

### **Cost and Sustainability:**

Its financial performance is strong, but only moderately profitable (*see the Performance Rating report*). The incremental costs of its social services are financed by a combination of revenue from social services and donations.

### **Organizational Responsibility:**

Has a sense of organizational responsibility towards its employees and clients, but is still in the early

stages of formalizing its official policies. The organization has effectively empowered its employees by forging close ties between its staff and management, strictly complying with all employee rights under the law.

## SOCIAL RISK

### **Mission, Communication and Management Leadership:**

Management has successfully imbued the entire organization with a sense of its mission. The institution has a strong, effective social culture. With its simple organizational structure, it has been steadily growing. While, at the same time, upholding its social mission as the backbone of its operations.

### **Strategic Planning:**

In the opinion of MicroRate, PROMUJER Bolivia is one of the few MFIs with a strategic plan designed to coordinate and capitalize on its social and financial services, promoting excellence in both programs.

### **Customer Service:**

It has the most sophisticated data collection and analysis system designed to tailor products to client needs seen by MicroRate. It has one of the best social service programs of any Latin American microfinance institution; however, it could offer a larger variety of financial services.

### **Monitoring:**

It has implemented a wide array of projects and investments designed to study and monitor the social impact of its operations. It is hoped that the new IT system will improve its social and financial performance monitoring capacity.

### **Recruitment and Training:**

The organization's recruitment process is effective in finding qualified employees identified with the mission and suited to the type of work. In many cases, its employees are recruited from among its own clients, thereby ensuring their affinity with the program. However, the organization's recruitment and training process has been weakened both by its rapid growth and by its decentralization.

### **Incentive System:**

The incentive system has been ineffective, both in motivating its staff and as a strategic tool, due to its complexity and to the organization's inability to communicate the system with its employees.

**ANNEX 1 – MicroRate Social Rating Scale**

<b><i>Social Rating</i></b>	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.
<b>Excellent</b>	<b>Very good</b> social outcomes with outstanding service outreach and depth. <b>Excellent</b> future outlook for its social projects. MFIs whose operations are <b>exceptionally well-aligned</b> with their social mission.
<b>Good</b>	<b>Good</b> social outcomes with good service outreach and depth. MFIs whose operations are <b>well-aligned</b> with their social mission.
<b>Adequate</b>	<b>Acceptable</b> social outcomes with moderately good service outreach and depth. MFIs whose operations are <b>adequately aligned</b> with their social mission.
<b>Poor</b>	<b>Weak</b> social outcomes with limited service outreach and depth. MFIs whose operations are <b>poorly aligned</b> with their social mission.
<b><i>Social Risk</i></b>	Social risk measures the likelihood of a microfinance institution deviating from its social mission and failing to produce a forward-looking social impact.
<b>Low</b>	<b>Low</b> probability of the organization deviating from its social mission or failing to produce a forward-looking social impact.
<b>Medium</b>	<b>Medium</b> probability of the organization deviating from its social mission or failing to produce a forward-looking social impact.
<b>High</b>	<b>High</b> probability of the organization deviating from its social mission or failing to produce a forward-looking social impact.
<b><i>Performance Rating</i></b>	A performance rating ranks an organization in terms of best practices in microfinance, taking into account financial, operational and strategic considerations. More specifically, it measures the organization's efficiency and effectiveness, level of risk, risk management and future prospects.
<b>α++</b>	MFIs <b>consistently maintaining</b> a clear, sensible balance among financial, operational and strategic microfinance best practice considerations compared with an international assortment of similar firms and emerging microfinance industry standards, an <b>optimum</b> level of efficiency and effectiveness, a <b>very low</b> level of risk, a <b>sophisticated</b> risk management system, with <b>excellent</b> future prospects.
<b>α+ α α–</b>	MFIs <b>endeavoring to maintain</b> a clear, sensible balance among financial, operational and strategic microfinance best practice considerations compared with an international assortment of similar firms and emerging microfinance industry standards, with a <b>high</b> level of efficiency and effectiveness, a <b>low</b> level of risk and <b>good</b> risk management practices, minimally affected by swings in the economy, with <b>good</b> future prospects.
<b>β+ β β–</b>	MFIs <b>striving to achieve</b> a clear, sensible balance among financial, operational and strategic microfinance best practice considerations compared with an international assortment of similar firms and emerging microfinance industry standards, with a <b>satisfactory</b> level of efficiency and effectiveness, a <b>moderate</b> level of risk, affected to some extent by swings in the economy, with <b>satisfactory</b> future prospects.
<b>γ+ γ</b>	MFIs with financial, operational or strategic <b>weaknesses</b> jeopardizing their current or future viability compared with an international assortment of similar firms and emerging microfinance industry standards, a <b>low</b> level of efficiency and effectiveness, a <b>high</b> level of risk, significantly affected by swings in the economy, with <b>poor</b> future prospects.

**PROMUJER BOLIVIA**
*December 2006*
**Summary Description**
**MICRORATE:**

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PROMUJER Bolivia (Programas para la Mujer-Bolivia) is a nongovernmental organization within the Pro-Mujer International Network. It was founded in 1990 as a provider of training programs for women and began offering microlending services in 1993.

It serves poor female microentrepreneurs with limited access to the formal financial system in urban, peri-urban and rural areas in eight of the country's nine departments. Microloans are integrated with social services, such as basic health care and business development. It has over 81,000 clients in 47 service centers and a loan portfolio of US\$ 13.6 million.

**Rating Rationale**

PROMUJER Bolivia is one of the few microfinance institutions able to combine social programs with a successful microlending business. It offers all its clients integrated financial and social services, maintaining a strong social culture, due largely to an effective management and sound internal procedures.

Its social services are among the best observed by MicroRate. The organization prioritizes these types of services, which are complemented by financial services that respond to the funding needs of a poor and marginalized market niche. Moreover, the professional management of its financial services is excellent. Although it offers a limited diversity of financial products, and social services are partially borne by the financial services, the MFI continues to be profitable.

Furthermore, with its customer orientation, product development efforts are geared to meet client needs. This has resulted in a high degree of customer loyalty and has minimized the risk of the institution deviating from its social mission.

Lastly, although the institution relies on donations to cover the high cost of delivering social services, the financial risk is marginal. In other words, a shortage of donations would simply limit its future social services.

<b>Social Rating</b>	<b>Excellent</b>
<b>Social Risk</b>	<b>Low</b>
<b>Performance Rating</b>	<b>α-</b>

*\* See Annex 1*

Date of visit: **December 2006**
**Bolivia: Key Statistics**

	2001	2005	2006
Population (millions)	8.3	9.4	9.6
Population density (persons / Km <sup>2</sup> )	8.6	8.6	8.6
GDP (US\$ billions)	7.9	9.3	
GDP per capita (US\$)	953.0	987.0	
Poverty Rate	0.6	0.7	0.7
Poverty line (US\$ per capita per month)	43.0	37.5	37.9
Extreme poverty line (US\$ per capita per month)	23.0	21.6	21.8
Life expectancy	62.9	62.9	62.9
Infant mortality (per 1000 live births)	61.2	61.2	61.2
Adult illiteracy (persons over 15 years of age)	86.7		

Source: Bolivian National Statistics Bureau

**Highlights**
**POSITIVE**

- A strong social culture at all levels of the organization, with an active and effective leadership.
- Social and financial services with good depth of outreach.
- Internal procedures aligning individual and organizational performance with its social mission.
- Strategic plan that effectively integrates social and financial services.

**NEGATIVE**

- Ineffective incentive system.
- A limited range of financial services.
- The combination rapid growth and the imminent retirement of its Executive Director threatens to put pressure on the organizational culture.

**BOLIVIA**



## Organizational Mission

“To help underprivileged women achieve self-sufficiency for themselves, their families and their communities through integrated services.”

- PROMUJER Bolivia

## Capsule Assessment

<b>Outreach</b>	Relatively broad outreach given the size of the organization.
<b>Depth and variety of services</b>	Depth of operations has been steadily increasing. Excellent variety of social services, though the range of financial services is somewhat limited.
<b>Cost and sustainability</b>	Social services are funded by earnings and donations. Financial services are self-sustaining.

## Social Performance

*This section assesses the organization's results through indicators designed to quantify certain aspects of its social performance.*

### Service Outreach

*All other things being equal, an increase in the number of clients serviced means a larger social impact.*

PROMUJER Bolivia reaches a relatively large population considering the size of the institution. It reaches close to 81,000 persons in nearly 90% of the country's departments with its social and financial services. The MFI makes many of its services available to the family members of its clients, extending the organization's outreach to more than 450,000 Bolivians (representing nearly 5% of the country's population) in a country where 67% of the population is living in poverty.

Outreach	2004	2005	2006
Number of borrowers	48,496	64,517	74,106
Population served by PROMUJER Bolivia	4.10%	5.30%	5.10%
Sexual and reproductive health services		74,145	69,247
Health services for children under 5 years of age		14,975	16,465
Growth screening services for children under 2 years of age		19,148	20,297
Members receiving health training services		61,145	62,054
Children and youths attending English and computer courses		4,617	6,204
Members receiving business training services		44,651	68,076
Geographic coverage (percentage of departments with active clients)	78%	89%	89%

### Depth and Variety of Services

*Social impact is determined in part by the depth of the niche market served by the organization and the range of its service offerings.*

PROMUJER is strategically positioned in urban and peri-urban areas, but it is increasing its presence in rural areas in search of new members and clients for its financial services. In line with its mission statement, women account for over 95% of its financial clients, with the remainder consisting mostly of male family members of current or former clients

PROMUJER offers a wide range of social counseling and training services, complemented by health services, in addition to loans and savings offered through its network of communal banks. With an average loan size of US\$ 183, it compares favorably with the average loan size of US\$ 261 at other Latin American MFIs using the village banking methodology.

The small average size of its new loans, its large share of poor female clients, and its even larger share of rural clients underscore the depth of its operations. The broad ranges of its social service offerings meet the principle needs of its clientele. However, its financial product offerings are still rather limited.



Depth and Variety of Services	2004	2005	2006
Share of clients in rural areas	15%	18%	20%
Share of women clients	95%	95%	95%
Share of loans with unconventional guarantees	98%	98%	98%
Average size of new loans	us\$ 100	us\$ 100	us\$ 100
Number of financial products	3	4	4
Number of voluntary savings products	1	1	1
Client retention rate	77%	78%	94%
Client dropout rate	23%	22%	6%
Portfolio growth attributable to long-standing clients	32%	55%	22%
Share of the portfolio corresponding to clients who have been with the organization for more than 2 years			48%

### Cost and Sustainability

*Producing social impact over time requires organizational efficiency and the ability to generate the necessary funding to ensure long-term institutional sustainability.*

Its financial performance is strong, but only moderately profitable (*see the Performance Rating report*). Non-financial revenues and donations covered the cost of all social services provided by the organization, making it unnecessary to use revenue from its lending operations.

Cost and Sustainability	2004	2005	2006
Return on equity (ROE)*	2.4%	6.1%	4.1%
Return on assets (ROA)*	1.6%	3.8%	2.0%
Portfolio at risk / gross portfolio	0.5%	0.5%	0.3%
Interest and commissions collected / average portfolio	34.5%	35.3%	34.4%
Operating expenses / average gross portfolio	29.5%	27.3%	25.5%
Operating cost per client	US\$ 39.03	US\$ 38.73	US\$ 42.59

\* Adjusted figures, not including donations

### Organizational Responsibility

*The organization's social performance is determined in part by its relationship with its own staff and the degree to which it meets staff needs and creates a productive working environment.*

PROMUJER Bolivia has a sense of organizational responsibility towards its employees and clients, but is still in the early stages of formalizing the official policies. It hopes to formalize its internal processes in the course of 2007.

The organization has effectively empowered its employees by forging close ties between its staff and management through an inverted pyramid management model.

PROMUJER fully complies with its obligation to offer its employees all benefits established by law. In addition, it offers health services to all staff members in the clinics operated by its regional centers. However, it does not offer any supplemental insurance for additional services.

Organizational Responsibility	2004	2005	2006
Are there internal policies governing relations between employees and customer-employee relations (Social Enterprise Responsibility - SER)?	NO	NO	In progress
SER strategy?	NO	NO	In progress
Organizational values?	NO	NO	In progress
Is there a code of ethics and conduct?	NO	NO	In progress
Does the MFI give its clients formal access to its management?	SI	SI	SI
Does the MFI provide health insurance for its full-time employees (in addition to national health insurance)?	NO	NO	NO
Does the MFI disclose the real interest rate on all its loans?	SI	SI	SI

## **Social Risk**

*This section assesses internal areas of the organization that allow for the measurement of social risk. Social risk is a measure of the likelihood of the organization deviating from its social mission and failing to produce forward-looking social outcomes.*

### **Mission, Communication and Management Leadership**

*In the long run, social performance depends on the creation of a social culture. This, in turn, requires a clear social mission and active leadership communicating and reinforcing the mission at all levels of the organization.*

Management has successfully imbued the entire organization with a sense of its mission. The institution has a strong, effective social culture. With its simple organizational structure, it has been steadily growing, while, at the same time, upholding its social mission as the backbone of its operations.

In the past, its Executive Director would personally take charge of the orientation of new staff members who, as a result, closely identified with her. Furthermore, most center directors are founding members or have been with the organization for a long time. The more the organization grows, the harder it is to imbue it with a sense of mission through the example set by its founders. This challenge is magnified in the short-term with the Executive Director changing jobs to PROMUJER International.

Standardization of its recruitment and orientation procedures will be vital for the continued effective communication of its mission.

### **Strategic Planning**

*In the long-run, an organization's social performance depends on the institutionalization of its social mission and goals in a strategic plan. The degree to which its social mission is taken into account in the planning process is another reflection of its importance to the organization.*

PROMUJER is one of the few MFIs with a strategic plan designed to coordinate and

capitalize on its social and financial services, promoting excellence in both programs.

PROMUJER Bolivia's expansion and market positioning are the result of a duly planned and executed professional approach. The approach begins with clearly identifying its target clientele, finding its niche market and developing social and financial products tailored to the needs of its clients.

Clearly, its non-financial services have been instrumental in helping the organization gain a solid foothold in its target niche market. Its market positioning gives it a competitive advantage in what is turning out to be a highly unstable and risky political climate, particularly for organizations and institutions limited to providing financial services.

Accordingly, the successful integration of its social and financial programs put PROMUJER in a leadership position in what is regarded as one of the most mature microfinance markets.

### **Customer Service**

*Social outcomes are largely dependent on the quality of customer service. The quality of customer service is reflected in client loyalty.*

PROMUJER has the most sophisticated data collection and client assessment system designed of any MFI evaluated by MicroRate. The system includes tools ranging from suggestion boxes and surveys to focus groups and personal interviews. It is an ongoing process conducted by a specialized unit within the organization reporting directly to its Executive Director. Thus, the organization's top priority is on satisfying its clients and on regularly developing new products and services. As a result, it offers a wide variety of client-driven social services.

PROMUJER's financial product lines, and its responsiveness to the financial needs of its clients, are not nearly as well developed as in the case of its social services.

Despite the lack of variety in its financial offerings, PROMUJER's financial products are both well managed and profitable. It offers clients the lowest interest rate possible that allows it to achieve a position of financial sustainability and maintain a solid financial position.

### **Monitoring**

*An effective monitoring system is needed to steer the organization towards social goals and prevent or correct any deviations from this path.*

PROMUJER is in the process of installing a new IT system to enable it to monitor its operations in greater depth. The new system is expected to provide much more feedback, improving the sources of data for its research projects and designed to measure its operations and social performance. However, at the time of the on-site visit, the new system was limited mainly to data collection functions.

The organization is currently in the process of conducting various monitoring projects in an effort to measure its social performance. There are few, if any, organizations that have performed more studies of this type. Despite its leadership role in this area and the large amount of available data on this subject, the organization needs to consolidate its findings in order to make use of the wealth of information generated by such studies.

In 2005, PROMUJER Bolivia received an outside assessment of its integrated services by FINRURAL. The study found PROMUJER to have had a positive impact on its target population, revealing how Bolivian women had stepped up their involvement in social organizations and strengthened the household economy by earning more income and helping to better manage family businesses.

PROMUJER also took part in the SPI – CERISE social audit, scoring very well in all four facets of its social performance.

### **Recruitment and Training**

*The staff recruitment and training process is a way of communicating and reinforcing the organization's social mission and providing the skills and knowledge with which to fulfill the mission.*

PROMUJER's recruitment process remains effective at finding new employees suited to the type of work and that identify with the mission. The training process, which began as a centralized, personalized process, is client-driven and geared to its target population.

Though its training system is adequate, enabling it to control its level of quality, there were inconsistencies in training procedures at different locations, putting the system at risk.

These inconsistencies are attributable to weaknesses in the Human Resources area, where there are no standardized hiring and training procedures. This risk is heightened by the organization's rapid growth and the decentralization of training activities.

Moreover, during the field visit by MicroRate, the HR manager lacked the necessary resources with which to effectively head up the unit. However, the organization's top management was carefully examining this issue, and considered it a top priority for the organization's short-term plans.

### **Incentive System**

*An incentive system is a tool for motivating staff members and aligning their actions with the organization's social mission.*

PROMUJER's incentive system has been ineffective, both in motivating its staff and as a strategic tool, due to its complexity and to the organization's inability to communicate the system with its employees.

Since 2005, the organization has been experimenting with incentive systems involving all personnel. It is noteworthy that the incentive system includes members of its social service staff and remunerates them in the financial service results. The involvement of the social service staff incorporates social objectives into the incentive

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program and promotes team work with the microcredit staff.

However, the lack of information on the incentive system and a limited understanding of the correlation between the variables affecting incentives have undermined the effectiveness of the current system and, thus, its usefulness in motivating staff members. In addition, the old IT system did not allow timely distribution of incentive bonuses for several months in 2006, with adverse effects on staff expectations.

In the face of this problem, the organization's management chose to temporarily suspend the incentive program and to try and speed up implementation of the new IT system.

**ANNEX 1 – MicroRate Social Rating Scale**

<b><i>Social Rating</i></b>	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.
<b>Excellent</b>	<b>Very good</b> social outcomes with outstanding service outreach and depth. <b>Excellent</b> future outlook for its social projects. MFIs whose operations are <b>exceptionally well-aligned</b> with their social mission.
<b>Good</b>	<b>Good</b> social outcomes with good service outreach and depth. MFIs whose operations are <b>well-aligned</b> with their social mission.
<b>Adequate</b>	<b>Acceptable</b> social outcomes with moderately good service outreach and depth. MFIs whose operations are <b>adequately aligned</b> with their social mission.
<b>Poor</b>	<b>Weak</b> social outcomes with limited service outreach and depth. MFIs whose operations are <b>poorly aligned</b> with their social mission.
<b><i>Social Risk</i></b>	Social risk measures the likelihood of a microfinance institution deviating from its social mission and failing to produce a forward-looking social impact.
<b>Low</b>	<b>Low</b> probability of the organization deviating from its social mission or failing to produce a forward-looking social impact.
<b>Medium</b>	<b>Medium</b> probability of the organization deviating from its social mission or failing to produce a forward-looking social impact.
<b>High</b>	<b>High</b> probability of the organization deviating from its social mission or failing to produce a forward-looking social impact.
<b><i>Performance Rating</i></b>	A performance rating ranks an organization in terms of best practices in microfinance, taking into account financial, operational and strategic considerations. More specifically, it measures the organization's efficiency and effectiveness, level of risk, risk management and future prospects.
<b>α++</b>	MFIs <b>consistently maintaining</b> a clear, sensible balance among financial, operational and strategic microfinance best practice considerations compared with an international assortment of similar firms and emerging microfinance industry standards, an <b>optimum</b> level of efficiency and effectiveness, a <b>very low</b> level of risk, a <b>sophisticated</b> risk management system, with <b>excellent</b> future prospects.
<b>α+ α α–</b>	MFIs <b>endeavoring to maintain</b> a clear, sensible balance among financial, operational and strategic microfinance best practice considerations compared with an international assortment of similar firms and emerging microfinance industry standards, with a <b>high</b> level of efficiency and effectiveness, a <b>low</b> level of risk and <b>good</b> risk management practices, minimally affected by swings in the economy, with <b>good</b> future prospects.
<b>β+ β β–</b>	MFIs <b>striving to achieve</b> a clear, sensible balance among financial, operational and strategic microfinance best practice considerations compared with an international assortment of similar firms and emerging microfinance industry standards, with a <b>satisfactory</b> level of efficiency and effectiveness, a <b>moderate</b> level of risk, affected to some extent by swings in the economy, with <b>satisfactory</b> future prospects.
<b>γ+ γ</b>	MFIs with financial, operational or strategic <b>weaknesses</b> jeopardizing their current or future viability compared with an international assortment of similar firms and emerging microfinance industry standards, a <b>low</b> level of efficiency and effectiveness, a <b>high</b> level of risk, significantly affected by swings in the economy, with <b>poor</b> future prospects.

**PROMUJER BOLIVIA**
**BOLIVIA**
*December 2006*
**Summary Description**

**MICRORATE:**  
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[sebastian@microrate.com](mailto:sebastian@microrate.com)  
Carlos Ayón  
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PROMUJER Bolivia (Programas para la Mujer-Bolivia) is a nongovernmental organization within the Pro-Mujer International Network. It was founded in 1990 as a provider of training programs for women and began offering microlending services in 1993.

It serves poor female microentrepreneurs with limited access to the formal financial system in urban, peri-urban and rural areas in eight of the country's nine departments. Microloans are integrated with social services, such as basic health care and business development. It has over 81,000 clients in 47 service centers and a loan portfolio of US\$ 13.6 million.

**Rating Rationale**

<b>Social Rating</b>	<b>Excellent</b>
<b>Social Risk</b>	<b>Low</b>
<b>Performance Rating</b>	<b>α-</b>

\* See Annex 1

Date of visit: **December 2006**

PROMUJER Bolivia is one of the few microfinance institutions able to combine social programs with a successful microlending business. It offers all its clients integrated financial and social services, maintaining a strong social culture, due largely to an effective management and sound internal procedures.

Its social services are among the best observed by MicroRate. The organization prioritizes these types of services, which are complemented by financial services that respond to the funding needs of a poor and marginalized market niche. Moreover, the professional management of its financial services is excellent. Although it offers a limited diversity of financial products, and social services are partially borne by the financial services, the MFI continues to be profitable.

Furthermore, with its customer orientation, product development efforts are geared to meet client needs. This has resulted in a high degree of customer loyalty and has minimized the risk of the institution deviating from its social mission.

Lastly, although the institution relies on donations to cover the high cost of delivering social services, the financial risk is marginal. In other words, a shortage of donations would simply limit its future social services.

**Bolivia: Key Statistics**

	2001	2005	2006
Population (millions)	8.3	9.4	9.6
Population density (persons / Km <sup>2</sup> )	8.6	8.6	8.6
GDP (US\$ billions)	7.9	9.3	
GDP per capita (US\$)	953.0	987.0	
Poverty Rate	0.6	0.7	0.7
Poverty line (US\$ per capita per month)	43.0	37.5	37.9
Extreme poverty line (US\$ per capita per month)	23.0	21.6	21.8
Life expectancy	62.9	62.9	62.9
Infant mortality (per 1000 live births)	61.2	61.2	61.2
Adult illiteracy (persons over 15 years of age)	86.7		

Source: Bolivian National Statistics Bureau

**Highlights**
**POSITIVE**

- A strong social culture at all levels of the organization, with an active and effective leadership.
- Social and financial services with good depth of outreach.
- Internal procedures aligning individual and organizational performance with its social mission.
- Strategic plan that effectively integrates social and financial services.

**NEGATIVE**

- Ineffective incentive system.
- A limited range of financial services.
- The combination rapid growth and the imminent retirement of its Executive Director threatens to put pressure on the organizational culture.



## Organizational Mission

“To help underprivileged women achieve self-sufficiency for themselves, their families and their communities through integrated services.”

- PROMUJER Bolivia

## Capsule Assessment

<b>Outreach</b>	Relatively broad outreach given the size of the organization.
<b>Depth and variety of services</b>	Depth of operations has been steadily increasing. Excellent variety of social services, though the range of financial services is somewhat limited.
<b>Cost and sustainability</b>	Social services are funded by earnings and donations. Financial services are self-sustaining.

## SOCIAL PERFORMANCE

### **Outreach:**

PROMUJER Bolivia reaches a relatively large population considering the size of the institution. It reaches close to 81,000 persons in nearly 90% of the country's departments with its social and financial services. The MFI makes many of its services available to the family members of its clients, extending the organization's outreach to more than 450,000 Bolivians (representing nearly 5% of the country's population).

### **Depth and Variety of Services:**

The small average size of its new loans, its large share of poor female clients, and its even larger share of rural clients underscore the depth of its operations. The broad ranges of its social service offerings meet the principle needs of its clientele. However, its financial product offerings are still rather limited.

### **Cost and Sustainability:**

Its financial performance is strong, but only moderately profitable (*see the Performance Rating report*). The incremental costs of its social services are financed by a combination of revenue from social services and donations.

### **Organizational Responsibility:**

Has a sense of organizational responsibility towards its employees and clients, but is still in the early

stages of formalizing its official policies. The organization has effectively empowered its employees by forging close ties between its staff and management, strictly complying with all employee rights under the law.

## SOCIAL RISK

### **Mission, Communication and Management Leadership:**

Management has successfully imbued the entire organization with a sense of its mission. The institution has a strong, effective social culture. With its simple organizational structure, it has been steadily growing. While, at the same time, upholding its social mission as the backbone of its operations.

### **Strategic Planning:**

In the opinion of MicroRate, PROMUJER Bolivia is one of the few MFIs with a strategic plan designed to coordinate and capitalize on its social and financial services, promoting excellence in both programs.

### **Customer Service:**

It has the most sophisticated data collection and analysis system designed to tailor products to client needs seen by MicroRate. It has one of the best social service programs of any Latin American microfinance institution; however, it could offer a larger variety of financial services.

### **Monitoring:**

It has implemented a wide array of projects and investments designed to study and monitor the social impact of its operations. It is hoped that the new IT system will improve its social and financial performance monitoring capacity.

### **Recruitment and Training:**

The organization's recruitment process is effective in finding qualified employees identified with the mission and suited to the type of work. In many cases, its employees are recruited from among its own clients, thereby ensuring their affinity with the program. However, the organization's recruitment and training process has been weakened both by its rapid growth and by its decentralization.

### **Incentive System:**

The incentive system has been ineffective, both in motivating its staff and as a strategic tool, due to its complexity and to the organization's inability to communicate the system with its employees.

## SOCIAL SERVICES

PROMUJER was originally designed as a social assistance program delivering comprehensive services to poor Bolivian women. In keeping with its clearly defined mission, it continues to offer specialized social services. These services are systematically monitored, both through their internal procedures outside assessments.

Most of PROMUJER Bolivia's social services focus on health and education programs. All of its programs have specially equipped facilities and specialized professional staff.

The principle social service is primary health care. Special clinics have been established for this service at all its regional centers. These same centers also offer reproductive counseling services, pediatric examinations, and medical check-ups for women, among other things. All centers are staffed with nurses, and the organization has its own staff of physicians regularly servicing its regional centers. Certain regional centers also offer specialized services, such as X-rays.

In addition to healthcare services, PROMUJER Bolivia provides all its members with ongoing advisory services delivered on topics ranging from general medicine to management and accounting. Business training and financial education are provided by specialists in the relevant field, while health counseling services are provided by nurses at its regional centers.

The institution also offers English and computer literacy classes at all regional centers. These centers are outfitted with computer equipment and staffed with specialized instructors. Such services are available to the children of its members and are offered informally to other family members and, even, friends and neighbors of PROMUJER members at no additional cost.

Other service offerings include workshops for young entrepreneurs targeted at the older children of members. These workshops are designed to promote entrepreneurship and give advice on how to start a project that can be transformed into a new family business.

Finally, PROMUJER provides child care services for young children of its members attending meetings and informal talks. These services are

located in small, well-equipped facilities managed by professional educators, mainly recent graduates.

**Major social services offered in 2006**

Service offering	Number*
Sexual and reproductive health services	69,247
Sexual and reproductive health counseling services	32,946
Pap tests for organization members	13,297
Pre-natal check-ups for pregnant women	7,953
Health services for children under 5 years of age	16,465
Growth screening services for children under 2 years of age	20,297
Health training services for organization members	62,054
English and computer courses for children and youths	6,204
Business development training for organization members	68,076
<b>Total</b>	<b>296,539</b>

\*Source: Internally generated statistics by Promujer Bolivia



## SOCIAL PERFORMANCE

*This section assesses the organization's results through indicators designed to quantify certain aspects of its social performance.*

### Service Outreach

*All other things being equal, an increase in the number of clients serviced means a larger social impact.*

Outreach	2004	2005	2006
Number of borrowers	48,496	64,517	74,106
Population served by PROMUJER Bolivia	4.10%	5.30%	5.10%
Sexual and reproductive health services		74,145	69,247
Health services for children under 5 years of age		14,975	16,465
Growth screening services for children under 2 years of age		19,148	20,297
Members receiving health training services		61,145	62,054
Children and youths attending English and computer courses		4,617	6,204
Members receiving business training services		44,651	68,076
Geographic coverage (percentage of departments with active clients)	78%	89%	89%

PROMUJER Bolivia has had a presence in 8 of Bolivia's 9 departments since 2005. The organization has 81,517 members, nearly all of whom are women. More than 68,076 members have received business training, 62,045 have received health-related training and more than 74,100 were granted business loans at its 47 regional centers. It sustained this level of coverage throughout 2006, while expanding its client portfolio by opening new service outlets or regional centers in departments in which it was already providing services.

The organization has further expanded its outreach by making many of its services available to the family members of its clients. On average, each member has six<sup>1</sup> relatives, which would extend its outreach to more than 480,000 individuals, or approximately 5% of the country's population. This figure is considered quite high for an organization of its size, in a country where 67% of the population is living in poverty.

<sup>1</sup> Source: Bolivian National Statistics Bureau: global fertility rate = 3.8 children per woman (3.1 children in urban areas). The nuclear family also includes 2 parents or 1 parent and another relative.

However, the growth of its client portfolio appears to have slowed over the past year for two main reasons.

The first was related to internal control problems in one regional center, which led to loss of part of that centers' portfolio. The organization reacted quickly, successfully solving the problem and thus preventing damage to its image.

The second factor contributing to the slowdown in its growth was Bolivia's growing political instability, in the face of which most institutions took a conservative stance, preferring to slow down their lending activities. The event that most impacted microfinance institutions was the sale of one of Bolivia's flagship MFIs (PRODEM) to a Venezuelan state bank. Notwithstanding, PROMUJER expanded the number of clients served by nearly 15% during 2006, while its gross portfolio grew by 22% during the same period.

### Depth and Variety of Services

*These indicators show the depth of the niche market served by the organization and the range of its service offerings.*

Depth and Variety of Services	2004	2005	2006
Share of clients in rural areas	15%	18%	20%
Share of women clients	95%	95%	95%
Share of loans with unconventional guarantees	98%	98%	98%
Average size of new loans	us\$ 100	us\$ 100	us\$ 100
Number of financial products	3	4	4
Number of voluntary savings products	1	1	1
Client retention rate	77%	78%	94%
Client dropout rate	23%	22%	6%
Portfolio growth attributable to long-standing clients	32%	55%	22%
Share of the portfolio corresponding to clients who have been with the organization for more than 2 years			48%

According to PROMUJER's mission statement, the organization is clearly focused on serving Bolivian women, who account for over 95% of its financial clients, with the remainder consisting mostly of male family members of current or former clients.

PROMUJER is strategically positioned in urban and peri-urban areas, but it is increasing its presence in rural areas in search of new members and clients for its financial services. Its concentration in urban and peri-urban areas allows it to serve large numbers of clients, maximizing its productivity and giving its programs greater depth.

PROMUJER furthers its goal of serving the poorest microfinance market niche by extending loans to new clients in amounts of up to US\$ 100. However, the average size of the loan serviced by the organization is US\$ 183 due to its “stepped” lending activities under which subsequent loans to the same borrower increase in size. Nonetheless loan sizes are remarkably small by Latin American standards. In MicroRate’s database, the average loan size of Latin American MFIs using the village banking methodology was US\$ 261 as of December of 2006.

PROMUJER Bolivia offers a wide range of social counseling and training services, complemented by health services. However, its financial offerings are still somewhat limited. Financial services were developed as complements to its training services to meet client needs for formal financial services in light of the limited financing facilities available to this niche market.

All told, PROMUJER offers four different types of loans through its network of communal banks. In addition, it offers its clients membership in a savings plan under a strategic partnership with FFP FIE.<sup>1</sup> PROMUJER offers no financial services other than loans and savings services

Its social services are designed to serve women in two main areas. The first is health, because of its strong impact on the household economy. Poor health is considered the main factor keeping PROMUJER’s clients in poverty. The second area is education, which seeks to provide poor women with the tools they need to realize their potential. As a complement, the organization is starting to make educational services available to the children and other direct family members of its clients.

<sup>1</sup> FFP FIE (Fondo Financiero Privado para el Fomento de Iniciativas Económicas S.A.) has service counters at PROMUJER regional centers through which it operates a savings plan for each group of PROMUJER clients. FFP FIE does not offer individual savings accounts to this market segment due to the small amounts involved.

The organization has made a number of changes in the past few years designed to strengthen its structure, primarily in product research and development-related areas. One innovation was the formation of discussion groups on matters of special interest to its members, addressing issues such as business training and health-care. These groups are highly valued by the clients.

MicroRate had never before observed such a highly-organized effort and wide range of discussion topics, which partially explains the organization’s high client retention rates despite the high cost of its financial services.

### **Cost and Sustainability**

*Producing social impact over time requires organizational efficiency and the ability to generate the necessary funding to ensure long-term institutional sustainability.*

#### **Social Services**

PROMUJER Bolivia took in close to US\$ 450,000 in revenue from social services in 2006, of which nearly 70% came from dues of US\$ 0.60 collected from organization members. Added to this revenue were donations of close to US\$ 500,000 for the year 2006. Non-financial revenues and donations covered the cost of all social services provided by the organization, making it unnecessary to use revenue from its lending operations.

However, the organization’s growth is making it increasingly reliant on a dwindling supply of donations. As a contingency measure, the organization needs to generate enough revenue to make up for an eventual shortage or scarcity of donations. Without the donations of the last two years, profitability for 2006 would have been nil, or slightly negative.

#### **Financial Services**

Since its inception, PROMUJER has consistently maintained a conservative capital structure and moderate profitability. The debt to equity level has been remained under 1:1. The adjusted Return on Equity was 4.1, and its Return on Assets was 2.2% It has also managed to restructure a majority of its debt obligations to a long-term, position, thereby avoiding maturity mismatches. Furthermore, only 10% of its debt is exposed to interest-rate risk.

PROMUJER Bolivia has a sound, conservative financial policy, with a consistent interest rate policy and a portfolio yield of 34.4%. The portfolio yield is the lowest in the *MicroRate Latin American Village Banking Methodology Sample*, but similar to other Village Banking MFIs in Bolivia. Nonetheless, the yield remains quite high when compared to the formal Bolivian microfinance institutions (Average of 18% as of December of 2006).

Cost and Sustainability	2004	2005	2006
Return on equity (ROE)*	2.4%	6.1%	4.1%
Return on assets (ROA)*	1.6%	3.8%	2.0%
Portfolio at risk / gross portfolio	0.5%	0.5%	0.3%
Interest and commissions collected / average portfolio	34.5%	35.3%	34.4%
Operating expenses / average gross portfolio	29.5%	27.3%	25.5%
Operating cost per client	US\$ 39.03	US\$ 38.73	US\$ 42.59

\* Adjusted figures, not including donations

Organizational Responsibility	2004	2005	2006
Are there internal policies governing relations between employees and customer-employee relations (Social Enterprise Responsibility - SER)?	NO	NO	In progress
SER strategy?	NO	NO	In progress
Organizational values?	NO	NO	In progress
Is there a code of ethics and conduct?	NO	NO	In progress
Does the MFI give its clients formal access to its management?	SI	SI	SI
Does the MFI provide health insurance for its full-time employees (in addition to national health insurance)?	NO	NO	NO
Does the MFI disclose the real interest rate on all its loans?	SI	SI	SI

## Organizational Responsibility

*The organization's social performance is determined in part by its relationship with its own staff and the degree to which it meets staff needs and creates a productive working environment.*

PROMUJER Bolivia has a sense of organizational responsibility towards its employees and clients, but is still in the early stages of formalizing the official policies. It hopes to formalize its internal processes in the course of 2007.

The organization has effectively empowered its employees by forging close ties between its staff and management through an inverted pyramid management model.

PROMUJER fully complies with its obligation to offer its employees all benefits established by law. In addition, it offers health services to all staff members in the clinics operated by its regional centers. However, it does not offer any supplemental insurance for additional services.

## SOCIAL RISK

*This section assesses internal areas of the organization that allow for the measurement of social risk. Social risk is a measure of the likelihood of the organization deviating from its social mission and failing to produce forward-looking social outcomes.*

### **Mission, Communication and Management Leadership**

*In the long run, social performance depends on the creation of a social culture. This, in turn, requires a clear social mission and active leadership communicating and reinforcing the mission at all levels of the organization.*

With its simple organizational structure, PROMUJER Bolivia has been steadily growing, while at the same time upholding its social mission as the backbone of its operations. Its management has effectively imbued the entire organization with a sense of its mission.

Its Executive Director, backed by a highly efficient and communicative team, has taken a personal interest in reaching out to the organization's staff and motivating its employees to make a personal commitment to working towards the empowerment of Bolivian women. Thus, its management staff appears closely identify with its mission.

All staff members are familiar with the organization's mission and clearly identify with it, although many were unable to articulate it consistently. There is also a clear propensity on the part of its staff to want to help clients and strengthen their potential by providing them with moral support and knowledge in addition to mere financial assistance. Thus, the organization has effectively embraced its social objective, which is focused on the promotion of Bolivian women.

However, while all levels of the organization are effectively imbued with a sense of its mission, this is not the case as far as organizational values are concerned. The organization shows certain weaknesses in this respect, which were exposed in several cases of fraud, which destabilized part of the loan portfolio, forcing the organization to take action. Management rose to the challenge and showed strong leadership by effectively dealing with the problems and improving institutional integration.

The organization's operations, service centers and staff are growing rapidly, making the task of effectively communicating its mission that much more challenging.

In the past, its Executive Director would personally take charge of the orientation of new staff members who, as a result, closely identified with her. Furthermore, most center directors are founding members or have been with the organization for a long time. The more the organization grows, the harder it is to imbue it with a sense of mission through the example set by its founders. This challenge is magnified in the short-term with the Executive Director changing jobs to PROMUJER International.

Standardization of its recruitment and orientation procedures will be vital for the continued effective communication of its mission (*see the section on Recruitment and Training*).

### **Strategic Planning**

*In the long-run, an organization's social performance depends on the institutionalization of its social mission and goals in a strategic plan. The degree to which its social mission is taken into account in the planning process is another reflection of its importance to the organization.*

PROMUJER Bolivia offers a comprehensive product providing integrated financial and social services. PROMUJER is one of the few MFIs with a strategic plan designed to coordinate and capitalize on its social and financial services, promoting excellence in both programs.

PROMUJER Bolivia's expansion and market positioning are the result of a duly planned and executed professional approach. The approach begins with clearly identifying its target clientele, finding its niche market and developing social and financial products tailored to the needs of its clients.

The strategic plan includes a market evaluation designed to maximize the impact of its operations on the target population. Each service center is studied and evaluated with a view to serving the largest possible target population. Once its strengths and weaknesses have been clearly established, the next step is an in-depth study for purposes of the strategic planning of its operations, setting realistic targets according to the market needs.

Thus, the reduction in the average loan size and the market penetration observed in 2006 are in keeping with its previously established strategic plan and a way of preparing the organization to weather the impact of anticipated changes in the economic and political conditions at the country level.

Clearly, its non-financial services have been instrumental in helping the organization gain a solid foothold in its target niche market. Its market positioning gives it a competitive advantage in what is turning out to be a highly unstable and risky political climate, particularly for organizations and institutions limited to providing financial services.

Accordingly, the successful integration of its social and financial programs put PROMUJER in a leadership position in what is regarded as one of the most mature microfinance markets.

### **Customer Service**

*Social outcomes are largely dependent on the quality of customer service. The quality of customer service is reflected in client loyalty.*

### **Social Services**

PROMUJER Bolivia has the most sophisticated data collection and client assessment system designed of any MFI evaluated by MicroRate.

PROMUJER has always identified with its target clientele, confining itself to a single, clearly defined niche market of poor female microentrepreneurs without access to formal financial services. Accordingly, it has forged rather strong ties with its clients, who are the main drivers of new products.

To this end, it has developed a rather elaborate system for gathering data on customer satisfaction and identifying client needs and concerns.

This system is one of the most complete systems of its type, including tools ranging from suggestion boxes and surveys to focus groups and personal interviews. It is an ongoing process conducted by a specialized unit within the organization reporting directly to its Executive Director. Thus, the organization's top priority is on satisfying its clients and on regularly developing new products and services. As a result, it offers a wide variety of client-driven social services.

### **Financial Services**

While its basic communal bank product is extremely successful, PROMUJER's financial product lines, and its responsiveness to the financial needs of its clients, are not nearly as well developed as in the case of its social services.

This is explained in part by the fact that financial products were originally developed as an extension of social services in response to client needs transforming themselves over time into a major product line. Consistent with its mission, PROMUJER continues to focus on the provision of social services, which also helps account for the relatively low level of financial product development.

PROMUJER offers four distinct loan products through the communal bank methodology. It also offers savings accounts through FFP FIE in which clients deposit obligatory and voluntary savings. (Clients are assessed a fixed amount on the payment date for each outstanding loan that is deposited into an obligatory savings account.)

Despite the lack of variety in its financial offerings, PROMUJER's financial products are both well managed and profitable. It offers clients the lowest interest rate possible that allows it to achieve a position of financial sustainability and maintain a solid financial position.

PROMUJER's dedication to customer is reflected in a major improvement in its client retention rates. In 2006 client retention reached 94%, up sharply from 78% in 2005. This is among the highest rates observed by MicroRate.



An example of the loyalty of its clientele is the fact that, even after repaying their loans and, in many cases, without needing a new loan, many clients choose to remain in its savings plan in order to retain their membership status in PROMUJER and continue to reap the benefits of its social programs.

## Monitoring

*An effective monitoring system is needed to steer the organization towards social goals and prevent or correct any deviations from this path.*

PROMUJER is in the process of installing a new IT system to enable it to monitor its operations in greater depth. The old system had a number of limitations and was designed to focus on its lending activities, making it unsuitable for the number and variety of different social services offered by the organization. The new system is expected to provide much more feedback, improving the sources of data for its research projects and designed to measure its operations and social performance.

The new system is customized for PROMUJER operations. It is designed to facilitate efforts to monitor different types of non-financial services. However, at the time of the on-site visit, the new system was limited mainly to data collection functions.

The team observed that data was being entered manually and there were a number of inconsistencies in the recorded data. Moreover, the system was not yet able to interpret the collected data and, thus, was limited to producing general reports.

The organization is currently in the process of conducting various monitoring projects in an effort to measure its social performance. There are few, if any, organizations that have performed more studies of this type. It has effectively capitalized on opportunities to obtain domestic as well as international donations and loans to fund these studies. Despite its leadership role in this area and the large amount of available data on this subject, the organization needs to consolidate its findings in order to make use of the wealth of information generated by such studies.

In 2005, PROMUJER Bolivia received an outside assessment of its integrated services by FINRURAL. The study found PROMUJER to have had a positive impact on its target population, revealing how Bolivian women had stepped up their involvement in social organizations and strengthened the household economy by earning more income and helping to better manage family businesses.

In addition, PROMUJER has been actively involved in a number of projects, including the selection of social indicators as part of a SEEP (Small Enterprise Education and Promotion) Network,<sup>1</sup> project working with several microfinance institutions. PROMUJER also took part in the SPI – CERISE (Social Performance Indicators Initiative - Comité d'Échanges, de Réflexion et d'Information sur les Systèmes d'Épargne-crédit, a network of French-based microfinance stakeholders) social audit, scoring very well in all four facets of its social performance.

## Recruitment and Training

*The staff recruitment and training process is a way of communicating and reinforcing the organization's social mission and providing the skills and knowledge with which to fulfill the mission.*

PROMUJER's recruitment process remains effective at finding new employees suited to the type of work and that identify with the mission. The training process, which began as a centralized, personalized process, is client-driven and geared to its target population. However, the process has been weakened, both by the organization's growth and by its decentralization.

Initially, as a small organization, the recruitment process was handled by management. Qualifications for prospective employees had clear social overtones. Moreover, successful clients were recruited as analysts thereby helping to promote closer identification with the niche market. This gave staff an attractive job opportunity with a well-respected career path. This type of recruitment process has the advantage of ensuring empathy with its target clientele and a commitment to the social mission.

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<sup>1</sup> An international network supporting micro and small-scale development projects.

As the organization grew, it decided to upgrade the professional level of its staff at the recommendation of a consulting firm. To this end, it began to hire a more highly qualified professional staff, with very poor results. In sum, it was unable to establish needed synergies due to the inability of its new staff to identify with its target population and the difficulty of dealing with the idiosyncrasies of its clients. As a result, none of the professionals recruited to upgrade its staff are still with the organization.

In the wake of this experience, and after a study of the labor market, the organization established a new set of job qualifications more in keeping with its objectives and with the market to help improve the recruitment of new personnel.

Though its training system is adequate, enabling it to control its level of quality, there were inconsistencies in training procedures at different locations, putting the system at risk.

These inconsistencies are attributable to weaknesses in the Human Resources area, where there are no standardized hiring and training procedures. This risk is heightened by the organization's rapid growth and the decentralization of training activities.

Moreover, during the field visit by MicroRate, the HR manager lacked the necessary resources with which to effectively head up the unit. However, the organization's top management was carefully examining this issue, and considered it a top priority for the organization's short-term plans.

## **Incentive System**

*An incentive system is a tool for motivating staff members and aligning their actions with the organization's social mission.*

PROMUJER's incentive system has been ineffective, both in motivating its staff and as a strategic tool, due to its complexity and to the organization's inability to communicate the system with its employees.

Since 2005, the organization has been experimenting with incentive systems involving all personnel. It is noteworthy that the incentive

system includes members of its social service staff and remunerates them in the financial service results. The involvement of the social service staff incorporates social objectives into the incentive program and promotes team work with the microcredit staff.

However, the lack of information on the incentive system and a limited understanding of the correlation between the variables affecting incentives have undermined the effectiveness of the current system and, thus, its usefulness in motivating staff members. In addition, the old IT system did not allow timely distribution of incentive bonuses for several months in 2006, with adverse effects on staff expectations.

One of the system's main weaknesses was the need for manual calculations and the manual entry of necessary data. However, the new system provides for the automation of these processes. Thus, hopefully, these constraints can quickly be overcome.

In the face of this problem, the organization's management chose to temporarily suspend the incentive program and to try and speed up implementation of the new IT system.

**ANNEX 1 – MicroRate Social Rating Scale**

<b><i>Social Rating</i></b>	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.
<b>Excellent</b>	<b>Very good</b> social outcomes with outstanding service outreach and depth. <b>Excellent</b> future outlook for its social projects. MFIs whose operations are <b>exceptionally well-aligned</b> with their social mission.
<b>Good</b>	<b>Good</b> social outcomes with good service outreach and depth. MFIs whose operations are <b>well-aligned</b> with their social mission.
<b>Adequate</b>	<b>Acceptable</b> social outcomes with moderately good service outreach and depth. MFIs whose operations are <b>adequately aligned</b> with their social mission.
<b>Poor</b>	<b>Weak</b> social outcomes with limited service outreach and depth. MFIs whose operations are <b>poorly aligned</b> with their social mission.
<b><i>Social Risk</i></b>	Social risk measures the likelihood of a microfinance institution deviating from its social mission and failing to produce a forward-looking social impact.
<b>Low</b>	<b>Low</b> probability of the organization deviating from its social mission or failing to produce a forward-looking social impact.
<b>Medium</b>	<b>Medium</b> probability of the organization deviating from its social mission or failing to produce a forward-looking social impact.
<b>High</b>	<b>High</b> probability of the organization deviating from its social mission or failing to produce a forward-looking social impact.
<b><i>Performance Rating</i></b>	A performance rating ranks an organization in terms of best practices in microfinance, taking into account financial, operational and strategic considerations. More specifically, it measures the organization's efficiency and effectiveness, level of risk, risk management and future prospects.
<b>α++</b>	MFIs <b>consistently maintaining</b> a clear, sensible balance among financial, operational and strategic microfinance best practice considerations compared with an international assortment of similar firms and emerging microfinance industry standards, an <b>optimum</b> level of efficiency and effectiveness, a <b>very low</b> level of risk, a <b>sophisticated</b> risk management system, with <b>excellent</b> future prospects.
<b>α+ α α–</b>	MFIs <b>endeavoring to maintain</b> a clear, sensible balance among financial, operational and strategic microfinance best practice considerations compared with an international assortment of similar firms and emerging microfinance industry standards, with a <b>high</b> level of efficiency and effectiveness, a <b>low</b> level of risk and <b>good</b> risk management practices, minimally affected by swings in the economy, with <b>good</b> future prospects.
<b>β+ β β–</b>	MFIs <b>striving to achieve</b> a clear, sensible balance among financial, operational and strategic microfinance best practice considerations compared with an international assortment of similar firms and emerging microfinance industry standards, with a <b>satisfactory</b> level of efficiency and effectiveness, a <b>moderate</b> level of risk, affected to some extent by swings in the economy, with <b>satisfactory</b> future prospects.
<b>γ+ γ</b>	MFIs with financial, operational or strategic <b>weaknesses</b> jeopardizing their current or future viability compared with an international assortment of similar firms and emerging microfinance industry standards, a <b>low</b> level of efficiency and effectiveness, a <b>high</b> level of risk, significantly affected by swings in the economy, with <b>poor</b> future prospects.



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