Social Audit Tool Handbook

Using the Social Audit to Assess the Social Performance of Microfinance Institutions

Table of Contents

About this handbook

This handbook describes the USAID social audit tool (SAT) and provides practical guidelines to microfinance practitioners for implementing the tool. The SAT is the result of USAID's work under the AMAP Knowledge Generation task order to develop and test methods for assessing the social performance of microfinance institutions (MFIs). The SAT is intended to be used alongside other social performance assessment (SPA) tools that make up part of an MFI's social performance management (SPM) system.

The SAT is a practical tool designed to enable microfinance institutions to assess whether they are fulfilling their social missions and to determine how they can improve social mission fulfillment over time.

The Social Audit Tool

WHAT IS THE SOCIAL AUDIT TOOL?

Most MFIs have a social mission. Social missions can take a variety of forms and include, for example: extending financial services to under-served areas or to persons previously excluded from the formal banking sector, supporting micro and small enterprises, promoting corporate social responsibility, protecting the environment, contributing to gender equity, reducing poverty or vulnerability among the poor, bringing marginal groups into mainstream society, or facilitating job creation.

The SAT is a practical tool designed to enable MFIs to assess whether they are fulfilling their social mission and to determine how they can improve social mission fulfillment over time. The SAT achieves this purpose through the transparent disclosure of social performance to stakeholders in a way that both increases the MFI's social accountability to its stakeholders and that provides useful information for improving the effectiveness of internal processes aligning organizational performance with social mission.

WHAT IS SOCIAL AUDITING?

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

CHARACTERISTICS OF THE SOCIAL AUDIT

The social audit is similar to the financial audit, but whereas the former is directed towards the recording, processing, summarizing, and reporting of financial data, the latter is directed towards the recording, processing, summarizing, and reporting of social data. The two differ further in that stakeholder engagement is much more integral to the social audit. A principal purpose of the social audit is to determine how its diverse stakeholders (e.g., management, board of directors, staff, customers, suppliers, community members, policymakers, etc.) view the organization's social performance.

Although the content and scope of the social audit can vary, it possesses (at least) six common characteristics: it is multi-perspective, it facilitates comparisons to norms

and benchmarks, it is comprehensive, it aims to integrate (or embed) SPA in organizational processes, it strives for credibility, and it is transparent (see Box 2.)

USES OF THE SOCIAL AUDIT

The social audit has a number of potential uses. These uses include the following.

1. It monitors social and ethical impact and performance of the organization and its impact on stakeholders.

2. It determines how well the organization is living up to the mission and values it espouses.

3. It provides a basis for shaping management strategy in a socially responsible and accountable way and to identify opportunities and potential problems before they arise.

4. It facilitates organizational learning on how to improve social performance.

5. It facilitates the strategic management of organizations, including concern for their influence and social impact on organizations and communities.

6. It informs the community, public, other organizations and institutions about the allocation of their resources invested in the organization.

7. It increases the organization's accountability to the groups it serves and on which it depends.

BENEFITS OF THE SOCIAL AUDIT

The social audit produces a number of potential benefits derived from its various uses. These benefits include the following.

1. It enhances organizational reputation. By demonstrating its social performance and its commitment to social objectives, the organization enhances its reputation among and gains political capital with stakeholders.

2. It alerts the board and management to stakeholder trends. Stakeholder trends present both opportunities and threats that must be addressed to enhance social (and financial) performance while avoiding brand damaging public relations crises.

3. It affects positive organizational change. Information on social performance allows management to take constructive action to improve it.

4. It increases accountability. The social audit entails more than simply assessing social performance. It entails as well a process for reporting on social performance to stakeholders and responding to their concerns. Much as the financial audit is a means to hold the organization accountable to its shareholders, the social audit is also a means to hold the organization accountable to its shareholders.

5. It assists in re-orienting and re-focusing priorities. Information on social performance is useful to help the organization manage any tension between financial and social objectives or alternatively tensions between competing social objectives.

6. It provides increased confidence in social areas. Social auditing offers a road map on how to move forward productively on social issues and for addressing/managing stakeholder concerns.

7. It improves financial performance. Social and financial objectives are not necessarily in tension but are frequently mutually supportive. The social audit process and the resulting social information develop the organization's capacity to manage diverse stakeholder needs and identify threats and

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Box 2 **| Characteristics of the Social Audit**

Multi-perspective: The social audit aims to reflect the views of all the stakeholders involved with or affected by the organization.

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

Comprehensive: The social audit aims to report on all material aspects of the organization's social performance.

Integrated: The social audit aims to produce social accounts on a regular basis such that the concept and practice become embedded in the culture of the organization.

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

Transparent: The social audit ensures that the audited accounts are disclosed to stakeholders and the wider community in the interests of transparency and accountability.

opportunities, while equipping the organization with the information to identify and tap into the synergies between financial and social considerations.

8. It permits stakeholders to have a say in the organization and its policies and behaviors.

9. It allows the organization to report on its achievements based on verified evidence rather than on anecdotes and unsubstantiated claims.

THE SAT METHODOLOGY

The SAT uses two separate but mutually supportive approaches: process auditing and social accounting.

Process Auditing

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

The process auditing approach used by the SAT involves an in-depth assessment of six internal processes considered critical to determining the MFI's social performance:

1. Mission statement and management leadership
2. Strategic planning
3. Customer service
4. Monitoring systems
5. Recruitment and training
6. Incentive systems

These six internal processes are common to all MFIs, thereby making possible comparisons across MFIs and to established standards or benchmarks. The above six internal processes do not constitute an exhaustive list of internal processes. Rather it was necessary to limit the scope of the social audit in order to keep it cost-effective, and the above six internal processes were judged to be the most important in terms of their impact on social performance.

In addition to the six internal processes, the SAT also assesses the MFI's performance in relation to its Corporate Social Responsibility (CSR). CSR is the predominant framework for understanding and assessing social performance in the mainstream financial sector. For the most part, social performance assessment in microfinance has focused on assessing actual social performance (impact) and, short of that, on assessing indicators (or proxies) for impact. CSR has played a very small role so far in this discussion.

The decision to use a process auditing approach stems from the methodological difficulty, high cost, and interpretation difficulties (e.g., What does it mean if client social outcomes are improving at one MFI in one country but worsening at another MFI in another country?) of measuring actual social outcomes. The assumption underlying the process audit is that the soundness of internal processes is a reasonably reliable proxy for actual social performance. Stated in other words, assessment

Box 3 | **Rationale for Including the Six Internal Processes and CSR in the SAT**

Mission, Communication and Management Leadership: The mission statement is an explicit expression of the MFI's purpose and values. MFIs with an explicit and clear mission statement will tend to be more effective in fulfilling their social mission. Not only should the MFI's mission be stated explicitly and clearly, it should also be communicated clearly and consistently reinforced down the hierarchical ladder. A mission statement that is not communicated or reinforced will exert little to no influence on organizational culture or performance. Management is primarily responsible for the clear articulation, communication, and reinforcement of the MFI's social mission. Active, committed, and consistent management leadership is necessary to transform social mission from mere words into institutional action.

Strategic Planning: Strategic planning is a process that includes, among other things, establishing organizational priorities, setting performance goals, establishing action plans, and devising criteria to assess fulfillment of performance goals. The strategic plan specifies the objectives the MFI will pursue during the coming year or years and the activities associated with those objectives. Notwithstanding an MFI's rhetorical commitment to its social mission, the inclusion, or non-inclusion, of social considerations in 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 reach its target market; 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 Systems: 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 activities 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: The incentive system influences 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.

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

of internal processes allows social auditors to estimate with a high degree of reliability the likelihood that the MFI fulfills its social mission now and over the long-term.

The decision to incorporate CSR principles into the SAT reflects two considerations: (1) internal and external forces over time are expected to push the microfinance sector to align its approach to social performance with triple bottom line (TBL) approaches in the mainstream financial sector where CSR (and specifically the GRI) is the dominant TBL framework and (2) CSR captures important dimensions of social performance that are important in understanding an MFI's overall social impact. (Box 3 provides a brief rationale for including each of these six internal processes and CSR in the social audit. The Discussion Guide found below offers a more in-depth rationale for each.)

Social Accounting

In addition to the process audit, the SAT includes a review and evaluation of the MFI's social accounts. Social accounts consist of any information related to the MFI's social performance. The process of reviewing and evaluating social accounts is referred to as social accounting.

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

Purposes, Method, and Approach of the SAT

Taking all of the above into account, Box 4 summarizes the purpose, method, and approach of the SAT.

Box 4 | **Purpose, Method, and Approach of the SAT**

End Purpose: Improve the social performance of microfinance institutions.

Method: The transparent disclosure of the MFI's social performance to its stakeholders that (1) is based on diverse stakeholders' perspectives, (2) increases the MFI's social accountability to its stakeholders, and (3) provides useful information regarding operational or policy options for aligning social performance with institutional mission.

Approach: Assesses the degree to which key internal processes promote fulfillment of the MFI's social mission, and assesses the credibility and materiality of an MFI's social accounts and their implications for the MFI's social performance.
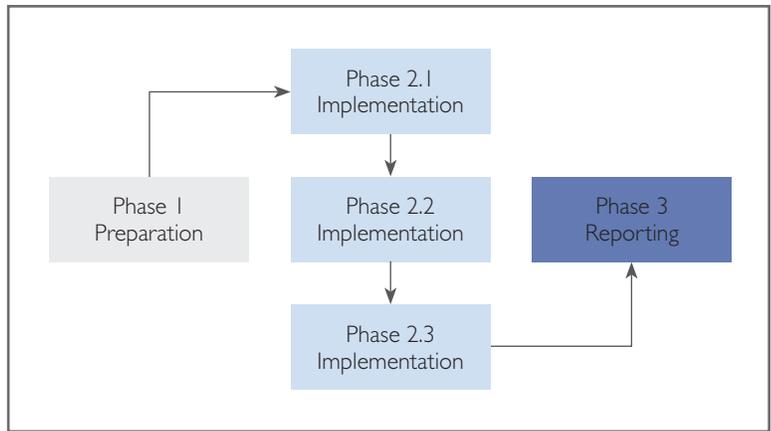
Figure 1. Three Phases of SAT Implementation

IMPLEMENTING THE SAT

The SAT has three distinct phases: Preparation Phase, Implementation Phase, and Reporting Phase (see Figure 1).

Preparation Phase

Prior to conducting the social audit, the social auditor will request the subject MFI to submit all information related to the MFI's social accounts. These include both internal and external documents in its possession. The auditor should also search for relevant public access documents. Information sought at this stage includes:

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

Much of the above information can be found in a few internal documents, such as the Operations Manual, Human Resource Manual, MIS Manual, or Strategic Plan. The social auditor will next review this information and make note of items that require clarification or follow-up during the social audit, including information gaps and surprising or notable items.

Implementation Phase

The Implementation Phase takes place in the field and has three parts. The first part consists of in-depth, semi-structured interviews with management

Box 5 | **The Social Audit Panel**

The social audit panel consists of approximately 5-8 stakeholders drawn from the ranks of the Board of Directors, senior management, field management, field staff, and other stakeholders specifically identified by the MFI. The panel is convened and led by a Panel Chair, usually the Managing Director, a member of the Board, or the Executive Director. Panel members might include, for example, the Managing Director, other Board member, the Executive Director, selected members of the senior management team, Regional Managers, and selected field staff.

In preparation for the panel meeting, the social auditor submits a draft social audit report to each panel member for review. The draft report includes (1) a description of all activities undertaken during the social audit, including a full list of persons consulted; (2) a description of social accounts examined together with an opinion of their credibility and materiality; (3) a summary of key audit findings; and (4) recommendations for addressing issues identified.

The panel meeting is expected to last from 2-3 hours. Its purpose is to review and discuss the draft report and determine next steps. The social audit panel is intended to provide a forum in which diverse perspectives representing different stakeholder groups can be brought into the open for joint consideration. The discussion will highlight areas of agreement and disagreement among stakeholders (and with findings in the draft report) and work toward developing a consensus for resolving disagreements and moving forward. Decisions resulting from this process are (presumably) granted greater legitimacy and support that would they be if they were handed down from above. It is the Panel Chair's responsibility to ensure that the discussion in open and that all participants contribute actively to it.

In particular, the following are expected outcomes from the social audit panel meeting:

* Identify key audit findings.
* Identify issues to be addressed from among audit findings.
* Prioritize issues to be addressed.
* Determine an action plan and timeline to address prioritized items.
* Suggest revisions to the social audit report and timeline for submitting the final report. (A member of the social audit team is assigned to take detailed minutes of the panel proceedings. The minutes form the basis for the revised report.)

(HQ and field), staff (HQ and field), Board members, and other stakeholders as appropriate. Some of the interviews may need to be conducted via phone or other means depending on the intended interviewee's availability.

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

In the third part of the Implementation Phase, the social audit team prepares a draft final report that it presents to a meeting of the social audit panel at the conclusion of the social audit (see Box 5). During this meeting, the social audit panel is given the opportunity to comment on and discuss the draft report. The meeting is also intended to give the social audit panel the opportunity to discuss the implications of the report for operations, policies, products, etc. and measures for addressing them.

The social auditor is expected to play an active role in helping members of the panel highlight, prioritize, and plan measures to address issues identified in the social audit.

Reporting Phase

At the conclusion of panel meeting, the social auditor prepares the final audit report. In addition to the items 1-4 listed in Box 5, the final audit report will include a summary of the panel meeting discussion and resulting action plans. On completion, the auditor sends the final report and action plan to the Panel Chair for final approval. (The Panel Chair may decide to send the report to other panel members for final review and comment.)

THE SOCIAL AUDITOR

The social auditor is responsible for carrying out the social audit, either alone or with other social auditors as part of a social audit team. See Box 6 for a description of the characteristics of a social auditor.

Persons possessing the above characteristics may be internal or external to the MFI. Internally, the MFI could create a social auditor position or a social audit unit or add social auditing to the existing responsibilities of the internal auditor or internal audit unit. External options could include a microfinance network offering social audits to member MFIs, using a team of trained social auditors as one of the services to network members; or hiring an independent social auditor that contracts with MFIs.

The SAT Handbook does not recommend one alternative over another. The end objectives are the widespread adoption and use of the social audit, whichever method or combination of methods is used.

Box 6 **| Characteristics of the Social Auditor**

Unbiased and Independent: The social auditor should have no stake in the outcome of the audit and should be totally independent of management.

Expertise in Social Auditing: The social auditor should be someone who specializes in conducting social audits with the appropriate training and experience.

Inquisitiveness Coupled with a Healthy Skepticism: Social auditing is more art than science. It requires someone unwilling to accept things at face value and capable of digging down deeper to uncover what lies below the surface.

Ability to Understand Programs in their Wider Social Context: Social performance must be understood within the context of a diverse stakeholders and a diverse set of perceptions, values, objectives, etc. An effective social auditor must be both willing and able to consider a variety of sources and perspectives to paint a more comprehensive portrait of social performance.

Content of the Discussion Guide

The remainder of the SAT Handbook is a Discussion Guide offered to help users prepare for and implement the SAT. The Discussion Guide provides suggestions for gathering the information necessary to assess the six internal processes and the MFI's corporate social responsibility. The Discuss Guide is divided into seven sections, one each for the six internal processes and one for CSR. Each section includes an in-depth rationale for including the item in the SAT and a discussion guide table.

By engaging in discussions with multiple stakeholders at multiple levels, the social auditor will be able to piece together an accurate picture of what is happening in the MFI and the prospects that the MFI will fulfill its social mission.

Discussion Guide for Conducting a Social Audit

The first column of each discussion guide table identifies the information that the social auditor wants to request from the respondent. The second column frames request as a question. There is any number of ways to frame the questions, the questions found in column two are therefore offered as examples only. Column three provides a brief rationale for the information sought, and it provides additional suggestions for getting at the information. Of course, the issues and questions included in the Discussion Guide are intended as a guide only; the social auditor is free to add to or subtract from them as he or she sees fit.

It is expected that before conducting any interviews, the social auditor thoroughly review the documents submitted during the Preparation Phase. These documents will aid in guiding the discussions in terms of, for example, which questions to ask and where to probe for further information. The social auditor is further expected to refer to the information in these documents as necessary during the interview and to use the information therein as a check for the information given by interview respondents.

The reader will note that many of issues covered in the Discussion Guide ask for the respondent's subjective perceptions of conditions, policies, behaviors, etc. at the MFI. Such subjective perceptions are to be viewed skeptically. This does not mean that the social auditor should disbelieve them, but rather that the social auditor should seek confirmatory information from other sources. The social auditor arrives at "truth" in the social audit through the process of triangulation. By engaging in discussions with multiple stakeholders at multiple levels, the social auditor will be able to piece together a reasonably accurate picture of what is happening in the MFI and the prospects that the MFI will fulfill its social mission both at present and over the long-term.

Probing Questions

The third column in the Discussion Guide table refers frequently to the need to probe further to uncover information. In this light, it is essential that the social auditor develop and practice the art of the probing question. Probing questions are, in essence, follow-up questions that ask for additional information, request the person expand on what he or she has said, or ask the person to go deeper.

Using probing questions can be helpful in increasing understanding, since most people need to be encouraged to go beyond what they have said to help someone

understand their deeper feelings, and opinions. In all cases, the social auditor should probe to get the respondent to provide specific examples of policies, actions, statements, etc. that demonstrate the point he or she is trying to make.

There are three broad types of probing questions:

1. Rational probes request reasons using short questions such as "why," "how," "when," who, or how often."

2. Clarifier probes are used to qualify or expand on information provided in a previous response using questions such as "what was the result," "who else was involved," "what happened next," "how did others respond," and so forth.

3. Verifying probes check on the honesty/veracity of a statement using questions such as "do you have documents to back this up," "would others agree with you," "who else would know about this," and so forth.

When trying to dig deeper, there are a number of probing techniques one can use, as summarized in Box 7.

Social Audit Participants

The social auditor will want to interview, at a minimum, the Executive Director of the MFI, all other members of the senior management team (e.g. Operations Manager, Finance Manager, Human Resource Manager, and MIS Manager), administrative support staff to the Executive Director and senior management team, selected Board members, selected Regional Managers, and selected field staff. The social auditor may also interview other stakeholders, such as clients (either individually or in groups), donors, or investors, as deemed appropriate. Certain persons may not be available in country during the social audit (Board members, for example, may reside in separate countries), in which case it will be appropriate to conduct phone interviews.

The Discussion Guide does not specify which questions should be asked of which persons. Rather it is expected that most questions will be asked of a number of interviewees at different organizational levels. The questions may have to be adjusted to reflect the position, background, and level of knowledge of the interviewee, but there are few questions, if any, that are targeted to a single respondent. It is up to the auditor's discretion to match the questions to the respondent, and it is likely that this will be different for each social audit.

MISSION STATEMENT AND MANAGEMENT LEADERSHIP

Rationale

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

Box 7 | **Examples of Probing Techniques**

Clarification: When respondents are vague or have not given enough information, seek to further understand them by asking for clarification. For example:

*   What exactly did you mean by [XXX]?
*   What, specifically, will you do next week?
*   Could you tell me more about [XXX]?

Purpose: Sometimes respondents say things where their purpose is not clear. Ask them to justify the statement, or dig for underlying causes. For example:

*   Why did you say that?
*   What were you thinking about when you said [XXX]?

Relevance: If respondents are going off topic, check whether their responses are relevant to the main purpose of inquiry. For example:

*   Is that relevant to the main question?
*   How is this related to what I asked?

Completeness and accuracy: Sometimes people make genuine errors, or they withhold, intentionally or otherwise, pertinent information. Check whether the respondent is giving a full and accurate account by probing for more detail and checking it against other information. For example:

*   Is that all? Is there anything you have left out?
*   How do you know that is true?
*   How does that compare with what you said before?

Repetition: One of the most effective ways of getting more detail is simply by asking the same question again, either using the same words as before or by rephrasing the question. For example:

*   What happened next? . . . And what followed after that?

Another method is to repeat what the respondent said (a so-called "echo question"), perhaps with emphasis on the area where more detail is wanted. For example:

*   You say the incentive system has been ineffective?

Examples: When respondents talk about something vaguely, it often helps to ask for specific examples. For example:

*   Sorry, I do not understand. Could you help by giving an example?
*   Could you give me an example of when you did [XXX]?
*   Tell me more about a time when you ____.

Extension: When respondents have not provide enough information about something, ask them to say more. For example:

*   Could you tell me more about that, please?
*   And what happened after that?

Evaluation: To discover both how judgmental respondents are and how they evaluate, use evaluative questions. For example:

*   How good would you say it is?
*   How do you know it is worthless?
*   What are the pros and cons of this situation?

Emotional: To assess how respondents feel about something or to otherwise assess emotional state, ask them directly how they feel. For example:

*   And how did you feel about that?

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. A large body of empirical research on organizational change shows that senior management is perhaps the single most important determinant of institutional culture. The relevant research findings make it plain that management is primarily responsible for (1) communicating a clear and consistent message, (2) defining clearly what this means in terms of behavior by organizational members, (3) linking these behaviors to specific outcomes, (4) prioritizing critical areas for change, and (5) connecting rhetoric to practice by behaving visibly in a manner consistent with organizational mission.

The USAID social audit tool uses the MFI's own social mission as the criterion against which to assess its social performance. Given this, a critical first step in the social audit is to arrive at a clear and distinct description of the social mission that can be used as a performance baseline. This can be more complicated than it appears.

To begin with, the MFI may or may not have a specific social mission. Often the MFI will have only a general mission statement from which a social mission can be inferred. In some cases, however, a social mission may not be inferred from the general mission statement. For example, the mission statement may say something generic like "To provide high-quality and sustainable financial services." Or the social mission might be so broad or utopian that it does not lend itself to operationalization. An example of the former might be "To improve the economic and social well-being of society," whereas an (admittedly extreme) example of the latter might be "To create a world in which everybody can live in peace and harmony."

In addition to a Mission Statement, MFIs may also have a formal Vision Statement and/or Values Statement. In these cases, the Vision and Value Statements can offer a better understanding of the MFI's social mission. Vision and Value Statements can also often yield standards that can be put into practice against which to compare organizational performance.

In any case, it is up to the social auditor to determine specific social mission of the MFI. (If the MFI does not have a social mission, it is not a candidate for a social audit.) A formal mission statement—even if it is clear, distinct, and operationalizable—will not provide the level of understanding necessary to conduct the social audit. Thus, a first task in the social audit is to meet with senior management to clarify or determine the MFI's social mission, vision, and values. In subsequent interviews with MFI other managers, directors and, staff, the auditor will assess how effective management has been in communicating and reinforcing the social mission and the degree to which staff understand and have internalized it.

Discussion Guide for Mission Statement and Management Leadership

Objective	Sample Questions	Justification and Suggestions
Determine the level of awareness and support for the social mission.	Please recite or paraphrase the mission social mission.	Shows how effectively the social mission has been communicated.
	What does the social mission mean to you?	Can compare responses to see if there exists common understanding of what the mission statement means.
	Do you agree with the social mission?	Shows level of acceptance of mission, vision, or value statement. The respondent is likely to express agreement. Follow-up with probing questions to try to determine the respondent's true feelings and perceptions.
	How is the social mission applied in practice?	If the social mission has operational force, the respondent should be able to cite specific examples of how it is applied in practice.
Determine the extent to which senior management and Board members have exerted leadership in the area of social performance.	How is management communicating and reinforcing the social mission?	The social mission will have operational force to the extent management effectively communicates and reinforces it. The respondent should discuss not only what, but also how, when, and to whom.
	How does senior management behave in a manner consistent with the social mission?	The effectiveness of management's communication and reinforcement of the social mission depends to a large degree on the extent to which staff perceives management's behavior to be consistent with it. This can be ascertained, for example, by asking respondents directly whether and how senior management behaves consistently with the social mission. Other evidence can be found in how senior managers treat staff and clients, what they do or say in informal settings, the manner and extent to which they interact with staff and are open to feedback, the manner in which they communicate important messages to staff, the extent to which policy changes and announcements reflect sympathy or understanding of target clients, etc. It may require persistent probing to get past respondents' understandable hesitance to giving honest opinions on senior managers or to get senior managers to honestly assess their own performance.
Determine the extent to which management's efforts to communicate and reinforce the social mission is effective.	How effective have been management's efforts to communicate and reinforce the social mission?	There is no guarantee that even an active and committed effort to communicate and reinforce the social mission will be effective. If management's efforts have been effective, the respondent should be able to cite specific examples. It may require persistent probing to get past respondents' understandable hesitance to giving honest opinions on senior managers or to get senior managers to honestly assess their own performance.
Determine whether and the extent to which field managers and field staff have internalized (adopted) the social mission.	What importance does the social have in the motivating your behavior and that of other persons in your organization?	An important indicator of the effectiveness of the communication and reinforcement activities is the extent to which behavior of MFI management and staff is influenced by the social mission. It will be helpful to discuss the various factors that motivate staff behavior and their relative importance. Examples include financial incentives, portfolio growth, portfolio quality, social or peer pressure, internalization of organizational mission, and so forth.

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

RECRUITMENT AND TRAINING

Rationale

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 and training are also an integral part of the socialization process (e.g., the transmission of shared values) that must take place in order to create an organizational culture supportive of social mission fulfillment.

The MFI's promotion policy falls under this category. Like recruitment and training, promotion offers the MFI the opportunity to reinforce and engrain the social mission, and related values, in organizational culture. Who the MFI promotes or hires into management positions (including headquarters and field positions) sends a message to other management and staff.

Generally, the recruitment and promotion process affords the MFI the opportunity to screen for candidates who possess the personal outlook and values consistent with the MFI's social mission and who are committed to it. Hiring or promoting the "wrong" persons (e.g., weak or non-existent commitment to social mission) can prove detrimental to creating an organizational culture supportive of social mission. It can prove disastrous if the wrong person is promoted to senior management. Conversely, hiring or promoting the "right" persons (e.g., strong commitment to social mission) can be instrumental to creating a supportive organizational culture.

The MFI's commitment to its social mission is also reflected in the type and content of training it offers both new hires and existing staff. Training is important not only for developing the desired skill set but also for inculcating the desired values and attitudes. Giving due weight to social mission during the new hire training gets new hires off on the right foot and lays the foundation on which successive efforts to communicate and reinforce social mission can build upon. It is easier to transmit the desired values and attitudes at this stage than it is later once the staff member has internalized a different set of values and attitudes.

Ongoing training plays an equally important role in reinforcing the desired values and attitudes, and associated behaviors, and in correcting noted deviations. In addition, to noting the extent the MFI integrates social considerations into its training activities, the auditor will also want to make note of the content of the training and the degree of emphasis social performance is given.

This is not to suggest that social performance should dominate all training activities, or necessarily that all training should integrate social performance into the curriculum. It does suggest, however, that, where feasible, social performance should be integrated into the MFI's training process and be given reasonably prominent standing. If it is not, staff will pick up on this omission; whereas if it is, staff will pick up on its inclusion. The former is ultimately detrimental to social mission fulfillment; the latter is ultimately beneficial.

Discussion Guide for Recruitment and Training

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

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INCENTIVE SYSTEMS

Rationale

Incentive systems do as much or more than anything to influence attitudes, values, and behavior within the MFI. It is axiomatic that people respond to material 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.

Installing a supportive incentive system is a relatively unambiguous statement of managerial values that connects rhetoric to practice. Incentive systems in turn both reflect and affect shared values and behavioral norms within an organization. In the first sense, it goes to the old adage "you measure what you value." This may sound like a cliché, but it is true nonetheless. In the second sense, the incentive system strongly influences value acquisition internalization, which in turn shapes behavioral norms. A supportive incentive system might, for example, base management and employee compensation on outreach indicators, drop out rates, portfolio distribution (e.g., the percentage of loans made to particular target clients), or to indices of customer satisfaction. It might also reward employees with cash or in-kind bonuses for customer-oriented suggestions that are implemented by the MFI.

The social auditor is concerned first with the design and implementation of the incentive system. Often, there will be separate incentive systems for field staff and management and a separate incentive system for different management levels. The auditor is next concerned with how the incentive system provides or fails to provide the desired behavioral incentives. In general, the auditor is looking to identify the incentives (regardless of source) to which staff and management respond, the relative strength of those incentives, what types of behavior they encourage, and the degree to which this behavior is supportive, or not supportive, of the MFI's social mission.

Discussion Guide for Incentive Systems

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

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MONITORING SYSTEMS

Rationale

Performance monitoring tells the MFI whether it is on the right track. To use an analogy, if social impact is the end destination of microfinance, the monitoring system is akin to a road map that tells the MFI whether it is on the right road or whether it has been diverted on a side road, and if the latter, how to get back on the right road. In this context, performance 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.

Social performance monitoring usually implies integration into some kind of MIS, but it need not, although successful integration into the MIS is generally considered "best practice" in performance monitoring. Performance monitoring may also include periodic customer satisfaction surveys or focus group discussions, exit surveys, market studies, or other methods of formal client feedback.

The value of performance monitoring is clearly seen and understood in the context of financial performance. Quarterly financial statements, for example, are a ubiquitous tool of financial performance monitoring. The rationale behind financial performance monitoring—assessing financial performance in relation to financial performance goals—is non-controversial. The rational behind social performance monitoring is the same. The context is different, but no less valid.

The comparison between financial monitoring and social monitoring, however, breaks down a bit in that methods for monitoring social performance are relatively undeveloped. There is no consensus on how to define social performance, let alone measure it. While work on developing cost-effective tools to measure social performance is making good progress, they are still a ways from broad acceptance and implementation. This is particularly true if the objective is to integrate social performance monitoring into the MIS.

A number of MFIs have experimented with MIS-based social assessment systems, but relatively few have implemented them successfully. The auditor should note the extent to which the MFI has tried different approaches to monitor social performance, the success of the efforts, and the implications for the future, for example, is the MFI burnt out, or is it on the verge of successful implementation?.

Efforts to develop social assessment systems in the microfinance sector have tended to focus on measurement of social performance at the client level. It is possible, however, for MFIs to measure and monitor social performance in other, cost effective ways. For example, if the MFI's social mission is to "Improve the Economic Well-Being of Poor Entrepreneurs," the MFI can monitor compliance with this mission by tracking and reporting the distribution of the loan portfolio. If the MFI is targeting certain loan products to this market, or if the market exists in identified geographic areas, the MFI can track changes in the relative distribution between the targeted loan product and other loan products (it is also

Discussion Guide for Monitoring Systems

Objective	Sample Questions	Justification and Suggestions
Review the information collection and reporting systems with the MIS Director/ Department and other relevant members of the senior management team.	Describe the information systems used by the MFI to track financial and social performance.	IThe MFI may have more than one information system. In particular, it may be collecting information related to the social mission in a separate information system. For this reason, it is important to identify which information systems exist and which contain information that is pertinent to social performance. Identify all information in the MIS that is relevant to social performance. Note that the MFI may use routine financial or portfolio information to measure social performance (depending on how it defines its social mission). Probe to determine how the social performance information captured measures fulfillment of the social mission and make note of any deficiencies. The materiality of the MFI's social accounts is measured by whether they cover all important dimensions of social performance as determined by the MFI's social mission.
Determine the methodology for collecting and reporting information related to social performance.	How is the social performance data captured?	The credibility of social performance data depends to a large extent on the methodology used to collect and report it. Probe to find out whether those tasked with data collection receive appropriate training and the extent to which the data collection process is monitored for quality assurance. Probe also to determine whether systems are in place to ensure the accuracy of data entry and safeguard the data from unauthorized entry or revision.
Determine how the MFI analyzes information on social performance.	What analysis do you perform on the social performance data?	Data on social performance is of little use if is not analyzed. Ascertain the different methods used to analyze the social performance data and who is doing the analysis. If the MFI is doing more sophisticated analysis, probe to determine whether the technical skills of the data analyst matches the types of analysis performed. MFIs can collect more social performance information than they are capable of managing or analyzing. Probe to determine whether all social performance information is being analyzed, and if it is not, what the cause of the backlog is.
Determine what social performance information the MFI is currently reporting and how it is reporting this information.	What reports do you produce on social performance, what do they include, and to whom are they disseminated?	Data on social performance that is not reported is likewise of little use. Request copies of all reports that include information on social performance and review the reports for content. It is common for MFIs to collect social performance information that it does not report. Probe to determine whether all social performance information is being reported, and if it is not, what the cause of the backlog is. Field offices may be collecting useful information on social performance that is not reported to HQ. When in the field, ask to review the information system and probe to find out whether and how all relevant information on social performance is being reported to HQ. At the same time, probe to determine whether field managers receive reports or updates on the MFI's social performance based on information collected in the management information system.
Determine whether and how the MFI is using social information.	How are you using information on social performance to monitor compliance with the social mission?	Ultimately, the goal of collecting information on social performance is to use the information for improving social performance. Probe to determine the extent to which Board members, senior managers, and field managers are using information on social performance to make decisions or set policies in areas such as governance, strategy, policies, products, bonuses, promotions, etc.

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of interest whether the MFI is providing incentives to loan officers to make this type of loan) and changes in the geographic distribution of the loan portfolio.

There are a variety of ways in which the MFI might feasibly monitor compliance with its social mission. It is the auditor's responsibility to identify these possibilities and discuss them with MFI management, in addition to reviewing and assessing the actual methods the MFI is using to monitor social performance.

The social auditor will assess, to his or her ability, the quality of the monitoring system and the value of the information it produces. He or she will also seek to determine whether and to what extent the MFI uses information from the monitoring system in planning or decision making. If the MFI is not attempting to monitor social performance, the auditor needs to understand why not.

STRATEGIC PLANNING

Rationale

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 (or should specify) 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.

The social auditor is interested in the relative weight given to social performance in all internal documents related to institutional strategy. He or she will also consider in the number and types of strategic planning exercises undertaken by the MFI, their content, and the relative weight they give to social performance. It is not necessary that all strategic planning activities include discussion of social mission and performance or that social performance assumes a prominent role in all such activities, but it is necessary that social performance be given 'due' weight.

Discussion Guide for Strategic Planning

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

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CUSTOMER SERVICE

Rationale

Regardless of an MFI's social mission, its social impact will be greater, all else equal, the better the quality of its customer service. Customer service is defined in the context of the social audit as the set of activities related to the assessment and serving of customer needs and the quality of actual service delivery. This definition includes all manner of market research; the process by which MFIs conceives, designs, pilot tests, and implements products and services; the methods by which the MFI encourages and measures customer service; and specific measures of customer service, such as the client desertion rate or customer satisfaction.

Of interest to the auditor is whether and the extent to which the MFI attempts to assess customers' needs and wants; whether and the extent to which this information is incorporated in the design of its products, services, and organizational policies; the emphasis the MFI places on customer service quality; and the level of its customer service quality (e.g., do loan officers treat customers with respect, is service timely, does the MFI respect customer's value of time?).

Customer service was not one of the internal processes evaluated in the initial social audit design. During field tests of the social rating, however, this topic came up repeatedly in different contexts, and it became evident that it was relevant to understanding the MFI's social performance. Rather than attempt to integrate issues related to customer service in other sections of the audit, it was deemed preferable to create a separate section for it.

CORPORATE SOCIAL RESPONSIBILITY

Rationale

To date, the microfinance sector has carved out a unique approach to social performance. One of the ways it is unique is in the terminology it uses to talk about social performance. Outside of the sector, social performance is most often associated with the phrase and framework of corporate social responsibility (CSR), a term that is used interchangeably with other terms such as corporate responsibility, corporate citizenship, social enterprise, sustainability, sustainable development, triple bottom line, or corporate ethics. Generally, CSR refers to a company's obligation to be accountable to all of its stakeholders in all its operations and activities with the aim of achieving sustainable development not only in the economic dimension but also in the social and environmental dimensions. (Sustainable development refers to meeting today's needs without compromising the ability of future generations to meet their needs as well.)

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

Discussion Guide for Customer Service

Objective	Sample Questions	Justification and Suggestions
Determine whether the MFI has a clearly identified target market or markets.	Who are your primary target clients and how do you identify and reach them?	The MFI should have a clearly defined target market. To reach this market, it should also have in place procedures to identify and reach them.
Determine the product mix offered by the MFI.	Describe the products and services offered by your MFI.	The product mix is an important element of customer service, and it is indicative of the extent to which the MFI is striving to meet the needs of its target clients. The product mix includes the number and types of loan, savings, other financial products, and non-financial products.
Determine how the products and services were developed.	Describe the process by which each of the products was developed.	The question is intended to determine the extent to which the products were developed in response to the identified needs and wants of the target clients. Probe to determine, for example, whether the MFI conducted market research (and if so what kind and what if found) and pilot-tested the product prior to its introduction. This includes market research conducted by the MFI itself or by external researchers. Market research includes activities such as focus group discussions, exit interviews, client satisfaction surveys, impact studies, MIS data mining, suggestion boxes, and methods for recording customer complaints.
Determine whether the MFI carries out regular or periodic market research.	Describe all market research activities your MFI has carried out over the past year.	Market research is an essential process to generate market information related to customers' needs, wants, perceptions, experiences, etc. Probe to determine whether the market research activities are routine or periodic (how often they are carried out), who carries them out, and what is learned from market research activities. If the MFI has not carried out market research, probe to determine why not.
Determine whether and how the MFI uses market information.	How have you used the information acquired through market research activities?	The value of market information is expressed in how it is used. Probe to determine all ways in which market information has been used, for example, in areas such as product innovation, changes to terms and conditions, changes to operational policies, etc. Also of interest is how the MFI responds to customer complaints.
Determine whether the MFI offers training in customer service to its management and staff.	Do you receive (offer) training in customer satisfaction?	There are many areas in which management and staff can improve performance related to customer satisfaction. Training and constant reinforcement are need to embed these practices and behaviors in MFI operations. Probe to identify training activities, whether they include training (or messages) in customer satisfaction, and what the training (or messages) entails. Probe further to determine how effective this training has been.
Determine whether customer satisfaction criteria figure in the performance incentive system?	How are management and staff rewarded for excellent performance in customer satisfaction?	Rewarding excellence in customer performance is an effective way to embed pro-customer practices and behaviors into MFI operations. This question may also be covered during the discussion on the MFI's performance incentive system.

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Notwithstanding, it is probably reasonable to expect the microfinance sector to converge on the commercial financial sector over time. As microfinance moves progressively into the mainstream of financial services and continues to adopt commercial business models, it will come under increasing pressure to harmonize its operations and systems with that found in the commercial financial sector. The increased role of private investors in funding microfinance will also apply pressure to converge, particularly to the extent private investors already use or are familiar with the CSR framework and tools.

There are two basic approaches to CSR that auditors will want to consider: a negative approach and a positive approach. In the negative approach, the MFI aims to do minimal harm in terms of negative economic impacts, labor conditions, corruption, human rights abuses, and environmental degradation. It calls for compliance with internationally accepted norms, guidelines, and standards and control of social and environmental risks, liabilities, and negative impacts. The auditor will seek to determine which norms, guidelines, and standards apply to the MFI and the extent to which the MFI is in compliance.

In the positive approach to CSR, the MFI aims to do 'good' in terms of creating new value for stakeholders. It is achieved through pro-active activities, such as strategic philanthropy and community investment or through progressive treatment of its employees and clients. The social auditor will seek to determine what positive activities the MFI has undertaken with relation to its key stakeholders, including the community and employees.

In all cases, the auditor will request and review the MFI's CSR policy (or other policies related to CSR, including HR documents) and review the policies and their implementation with the management and board.

CSR covers a wide range of issues. The GRI, for example, includes dozens of performance indicators, including general indicators for all organizations and indicators designed specifically for financial institutions. It is not possible within the context of the social audit to conduct a comprehensive assessment of the MFI's social responsibility, but it is possible to achieve a reasonably broad yet detailed overview of its performance in this area.

Discussion Guide for Corporate Socal Responsibility

Objective	Sample Questions	Justification and Suggestions
Determine whether the MFI has a formal, written CSR policy.	Do you have a formal, written corporate social responsibility policy?	A formal, written CSR policy significantly increases the likelihood that the MFI actively implements CSR policies. If yes, probe to determine what the policy includes and how the policy is implemented. If no, probe to determine why not.
Determine what cash or in-kind contributions the MFI has made to the local communities in which it works.	Over the last year, what cash or in-kind contributions did you make to the local communities in which you work?	Cash and in-kind contributions are a measure of the MFI's commitment to forging relationships with the communities where it works. Determine the precise amount of cash contributions. Probing will likely be required to determine an estimate of the cash equivalent of in-kind contributions.
Determine whether the MFI has a formal, written code of employee conduct.	Do you have a formal, written code of conduct governing management and staff relationships with clients and with each other?	A formal, written code of conduct is an important element of an employee conduct policy. The MFI may not have a single code of conduct but instead have a number of separate policies governing management, staff, and client relationships. Determine in particular what the MFI's policies are regarding sexual harassment. Probe to determine whether and how the code of conduct is implemented.
Determine whether the MFI has a policy that grant clients access to management.	Do you have a formal policy that grants clients access to management to express concerns, complaints, and so forth?	Client feedback is an important way in which management can keep tabs on what is happening in the field. Client feedback is, for example, important in rooting out malfeasance or inappropriate behavior by field management or staff. If yes, probe to determine what this policy is, how it is implemented, what feedback has been received, and what actions management has taken in response to it.
Determine whether the MFI has a formal process for staff to air concerns or grievances to management.	Do you have a formal process for staff to air concerns or grievances?	Staff feedback is an important way in which management can keep tabs on what is happening in the MFI. Staff feedback is, for example, important for uncovering instances of malfeasance or violations of codes of conduct by management or staff or for keeping a finger on the pulse of staff satisfaction and sources of dissatisfaction.
Determine the rate of staff turnover.	What has been the rate of staff turnover over the last year?	Turnover is an indicator of staff satisfaction, which reflects in turn factors such as working conditions and management-employee relationships. Determine whether the rate of staff turnover is perceived as low, normal, or high. If high, probe to determine what factors explain it and what management is doing to address it.
Determine whether the MFI offers employees social benefits exceeding those mandated by law.	What social benefits do you offer employees that are not mandated by law?	Formal laws mandate the "minimum" expected social benefits. A measure of social responsibility is whether the MFI go beyond the minimum mandated benefits. It is also a measure of the MFI's commitment to employees. Probe to determine why the MFI elected to offer these benefits or why it chooses not to offer additional benefits.
Determine what legal or regulatory standards apply to the MFI and what it is doing to address them.	Are you subject to any formal legal or regulatory standards?	Adherence to legal and regulatory standards is a minimum expectation of social responsible behavior. Legal and regulatory standards include, for example, environmental standards, product standards, usury laws, disability laws, and so forth. Probe to determine the MFI's compliance performance; note any deviations, fines, judgments, etc., and ascertain what is being done to address them.

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For More Information

On the following page are suggested materials to help the reader understand better the concept and practice of social auditing. The online resources lay out the rationale social auditing and approach to social auditing developed by USAID. The reader will note the following: The USAID social auditing tool is based on the tool also developed by USAID under AMAP; and the USAID approach to social rating has evolved over time, and it is expected to continue to evolve pending further development and field testing.

The USAID social rating tool was developed to meet the unique environment of the microfinance industry. Several organizations outside of microfinance have also been working on developing social auditing tools.

Suggested Resources

online Resources

1. microNOTE #12, Evaluating MFIs' Social Performance: A Measurement Tool, by Gary Woller: www.microlinks.org/ev_en.php?ID=9940_201&ID2=DO_TOPIC

2. microNOTE #20, Pilot Test of a New Social Rating Tool, by Gary Woller: www.microlinks.org/ev_en.php?ID=13675_201&ID2=DO_TOPIC

3. microREPORT # 35, Evaluating MFIs' Social Performance: A Measurement Tool, by Gary Woller: www.microlinks.org/ev_en.php?ID=9940_201&ID2=DO_TOPIC

4. microREPORT # 51, Pilot Test of the New Social Performance Tool, by Gary Woller: www.microlinks.org/ev_en.php?ID=13561_201&ID2=DO_TOPIC

5. Note from Albania: Measuring Social Outreach, by Gary Woller: www.microlinks.org/ev_en.php?ID=8930_201&ID2=DO_TOPIC

Other organizations

The USAID social rating tool was developed to meet the unique environment of the microfinance industry. Several organizations outside of microfinance have also been working on developing social auditing tools. The links that follow below take the reader to some of the more prominent organizations working in this area. There are a large number of other resources available on the Web under the topics of social auditing; social accounting; sustainability reporting; social and ethical accounting; social and ethical accounting, auditing, and reporting (SEAAR); corporate social responsibility; and social and ethical performance.

6. Global Reporting Initiative: www.globalreporting.org

7. Social Audit Network: www.socialauditnetwork.org.uk/PAGE1.htm

8. InterPraxis: www.interpraxis.com/social_audit_resources.htm

9. Raise: www.raise-networks.org.uk/socialaudit/

10. Social Accountability: www.socialaccountability.net/index.htm

11. Accountability: www.accountability21.net/