

Social Performance Indicators Initiative – Phase 2

Audit of the social performance of microfinance institutions: the definition of a tool

1. CONTEXT OF THE STUDY

Historically, microfinance has been developed to reach the population excluded from the classical financial system. In many countries in the developing world, projects and institutions have been successful: increased outreach, diversified products for the target population, high repayment rate, etc. In the 90s, efforts have been concentrated towards financial and institutional sustainability of the microfinance institutions (MFIs). Tools to evaluate financial performances have been developed, but the social performances were taken for granted. However, nowadays, donors and social investors ask the MFIs to justify the fundings : Who are the clients reached ? How to combine social and financial objectives? How to avoid mission drift? etc.

Some MFIs also have the intuition that reinforcing social performances can lead, on the mid run, to strengthen financial sustainability.

As a result, there is an increasing demand from donors, social investors, and from the MFI themselves to measure social performances.

Different initiatives have flourished, aimed at measuring either social impact of the MFIs or defining a tool for auditing social performance.

The Social Performance Indicators Initiative belongs to this second category.

2. SUMMARY OF THE FIRST PHASE

The Social Performance Indicators Initiative was launched in June 2002 at a meeting in Amsterdam convened by Dr. Koenraad Verhagen (Argidius Foundation) and Dr. Syed Hashemi (CGAP). The first phase was supported by the Argidius Foundation.

The SPI was guided by a steering committee formed by Dr. Syed Hashemi, Dr. Renée Chao Beroff (CIDR/CERISE, France), and Dr. Koenraad Verhagen. The research team was formed by Prof. Dr. Manfred Zeller (Team leader – Institute of Rural Development, Göttingen University, Germany), Dr. Martin Greeley (Institute of Development Studies, Manchester UK) and Dr. Cécile Lapenu (CERISE, Paris, France).

During the first phase of SPI, the objectives were to :

- (1) Develop a conceptual framework for defining social performance in the MFI sector, i.e. what are the dimensions and elements of social performance to be measured?
- (2) Suggest a set of operational indicators designed to measure the different dimensions and elements of social performance of MFIs. The matrix of indicators could be used regularly by the MFIs to monitor their activities internally and to report to donors or to peers.

Social performances have been defined along four main dimensions:

1. ***Outreach to the Poor and Excluded: Mission and Targeting Strategies.*** MFI have generally been developed to reach a population excluded from the classical financial system. MFIs can have the objective of reaching socially excluded populations or the poor, or simply to offer financial services in a region where classical banking systems are absent. The depth of outreach of the MFI can be measured to evaluate its focus on the economically and socially excluded population.
2. ***Adaptation of the services and products to the target clients.*** It is not enough to decide to reach a target population. The MFI must learn about the target population and work on the design of its financial services so that they can fit with the needs and the constraints of the clients. “Pro-poor” services are too often standardized. Social performance indicators can analyse the process leading to service definition and the extent to which the MFI knows about its clients’ needs.
3. ***Improving social and political capital of clients.*** For the MFI, trust between the MFI and the clients can reduce the transaction costs and improve repayment rates. It thus can foster collective action and reduce free-riding, opportunistic behavior, and reduce risks. For the clients, strengthening their social and political capital can enhance their social organization (collective action, information sharing, political lobbying, etc.). Social performance indicators should measure the degree of transparency, the effort of the MFI towards giving voice to its clients within the organisation and beyond (community, local government, national government, etc.).
4. ***Social responsibility of MFI.*** Social awareness is a necessary pre-requisite for socially responsible corporate behavior. Social responsibility requires an adaptation of the MFI corporate culture to their cultural and socio-economic context, an adequate human resource policy, credit guarantees adapted to the local conditions, and balanced relationships between staff and clients (in particular in MFIs where there are elected clients who participate in decision making).

The set of indicators has been defined with the following characteristics:

- (1) assessment of the social “process” of the MFI : social performances are measured through the principles, the actions and the corrective measures implemented by the MFI to reach its social objectives;
- (2) simple indicators based on information available at the MFI’s level : most of the information are based on the self-reporting by MFI management and/or loan officers, information from the official reports, and information compiled from the management information system;
- (3) indicators easily verifiable by an external auditor : the questionnaire can be implemented internally to arouse discussion, but the answers can also be easily verifiable by an external reviewer who can conduct a social audit of the MFI;
- (4) indicators accepted by the MFIs: a large number of potential indicators has been submitted to a panel of MFI. From the answers of 18 of them, the indicators have been ranked according to their relevance and the facility to access the information for the MFI (see SPI-report N°2 and SPI-report N°3).

Discussion of the indicators also involved MFIs and practitioners in a working group on Finance of Solidarity (Finsol), led by the foundation FPH¹.

At the end of the first phase, a questionnaire has been designed with a list of indicators for the 4 dimensions (see SPI-report N°4 and annex 1).

3. OBJECTIVES AND ORGANIZATION OF THE SECOND PHASE

The questionnaire will be tested with MFIs in this second phase in order to finalize the auditing tool. The objectives are to check the accessibility, availability and reliability of the information provided, to define the questions precisely and to test the capacity of the tool to distinguish between different types of MFIs and different approaches to clients, in terms of social performances.

31. Field testing

The questionnaire has to be tested with a sample of diversified MFIs: different geographic contexts, different institutional structures, and different types of supporting partners should be represented. 15 participating MFIs will be selected.

The questionnaire should be introduced to the participating MFI by a resource person who knows the MFI and who is aware of the objectives of the SPI.

The management of the MFI will be responsible for filling up the questionnaire.

32. External support to validate the tool

In order to analyse the quality of the tool, external reviewers will visit the participating MFIs once the questionnaires have been filled up.

The external review will give the opportunity to discuss :

- the design of the questionnaire : time necessary to fill up the questionnaire, persons/tools mobilised, difficulties to provide the requested information (missing data, complex data, confidential data, etc.), difficulties to understand the questions (questions badly expressed, confusing questions, etc.);
- the interest of the tool : global relevance of the questionnaire, relevance of the indicators and dimensions, interest for the MFI (internal and vis-à-vis external stakeholders such as donors or peers), lessons learned from the MFI's own experience in terms of social performances, etc.
- the weighting of the indicators and dimensions: a useful rating system is one that is broadly accepted by practitioners as well as by external evaluators. Thus, the descriptive and comparative function of the tool being designed must be emphasized in this second phase of the SPI project. Discussion will be based on the proposed weighting of the questionnaire. Setting standards or benchmarks (which implies evaluation) is a possibility for the distant future (a third phase?) once measurement of social performance is widely known, applied and recognized in the MFI industry.

33. Exchanges with micro finance stakeholders

The issues of social performance indicators arouse interest and questions among the micro finance community. During the testing phase, CERISE will collect as much as possible the

1 FPH : Foundation Charles Leopold Mayer pour le Progrès de l'Homme, 38 rue St Sabin, 75011 Paris.

opinion and comments of different type of actors: donors, central banks, researchers, MFI's partners, etc.

The final objective of this type of initiative is to reach a consensus on the use of the tool provided so it is important to have the different stakeholders involved in the discussion.

34. Virtual meeting

After the completion of the testing phase, a virtual meeting will be moderated by CERISE and FPH and open to the partners of the initiatives (CERISE, SDC, FPH, MFIs, external reviewers, advisory committee) and all other persons or institutions interested. The virtual meeting will give the opportunity to all to express their interest, comments, critics on the methodology, on the results and for the future use of the tool.

4. EXPECTED RESULTS

The final result of this second phase will be a simple tool aimed at auditing the social performance of the institution.

Field testing, external review and comments from the micro finance community will help design a clear, simple and relevant questionnaire and detail the sources of information used to fill it up.

The tool will be made of (1) the questionnaire, along the 4 dimensions of social performances and (2) a companion manual documenting the source of information (MIS, declaration from management, reports), the way to verify the validity of the data, and some indication for the use of the tool, (3) the results and analysis for the participating MFIs in appendix.

An intermediary report will be provided after the completion of the external reviews. It will be the basis of discussion for the virtual meeting.

5. THE DIFFERENT STAKEHOLDERS OF THE SECOND PHASE

51. The MFIs

The main part of the second phase consists on the field testing with partners MFIs.

There will be two groups of MFIs:

- The "core" sample of 15 MFIs, partners of CERISE, partners of the SDC or members of Finsol working group. This core sample will be visited by an external reviewer.
- A second group of interested MFIs that will fill up the questionnaire, provide comments on the tool, results and methodology but that will not be visited by an external reviewer. This second group of MFIs gives the opportunity to involve a large number of MFIs in the testing phase without increasing the costs of the project.

What is expected from the MFIs?

- To fill up the questionnaire
- To comment on the methodology, interest and limits of the tool
- For the 15 MFIs from the core sample, to work with the external reviewer for an in-depth discussion on the tool (sources of information, costs implications, constraints,

results in terms of social performances, etc.)

- The MFIs will be invited to participate at the virtual meeting

What is expected from the facilitators?

The facilitators take the opportunity of a visit to the MFI :

- To introduce the questionnaire to the MFI management
- To provide all informations and contacts in order to explain the objectives and the agenda of the project and to clarify any question
- To receive the commitment of the MFI to participate in the testing of the tool.

There is no specific cost for the participation of the facilitators.

Partners from FPH, SDC and CERISE

	MFI	Facilitator	External review
1	Mexico, Coopératives d'épargne et de crédit - AMUCSS	Isabel Cruz, Emmanuelle Bouquet (Finsol)	Emmanuelle Bouquet (Finsol)
2	Mali, Caisses villageoises d'épargne et de crédit autogérées	Renée Chao Beroff (CERISE, Finsol)	Cécile Lapenu (CERISE, Finsol)
3	Mali, Institutions de crédit solidaire	Renée Chao Beroff (CERISE, Finsol)	Cécile Lapenu (CERISE, Finsol)
4	Ethiopia, Buusaa Gonofaa	Teshome Yohannes (Finsol, Director of BG), M-A Sinou (CERISE)	M-A Sinou (CERISE)
5	Cambodia, EMT	Pierre Daubert (CERISE)	Pierre Daubert or Cécile Lapenu
6	Madagascar, Vola Mahaso.(Follow up by)	Charlot Razakharivelo (Finsol, director of VM)	M-A Sinou (CERISE)
7	Guinea, Crédit rural de Guinée	François Doligez (CERISE)	François Doligez (CERISE)
8	Pakistan, KASH Foundation	Roshaneh Zafar (Finsol, director of KF)	external consultant
9	Bolivia, Pro Mujer	Carmen Velasco (Finsol, director of PM) / external consultant	external consultant
10	Bolivia, one other partner from Finrural	Reynaldo Marconi (Finsol)	external consultant
11	Albania, IMI	Ruth Egger	external consultant
12	Tchad, UCEC	Yves Fournier (Finsol, CERISE)	Cécile Lapenu (CERISE, Finsol)
13	France, ADIE/ FFA	Benoit Granger (Finsol)	Cécile Lapenu (CERISE, Finsol)
14	Spain, Un sol mundo	Oriol Asina (Finsol)	Cécile Lapenu (CERISE, Finsol)
15	Philippines/Thailand/Cambodia(*)	Ben Quinones (Finsol)	Cécile Lapenu (CERISE, Finsol)

(*) choice of one of the cases for the external review, but the questionnaire will be filled up for the 3 cases.

Other potential cases, not necessarily included in the “core” sample (with external review) but which can give some informations:

- Belgium micro finance platform partners : ASHI Philippines, Maquita Equador, Proempresa Peru, FDL Nicaragua
- Netherland Micro finance Forum Partners : Sanasaa Sri Lanka
- Luxembourg micro finance Round Table partners : Kafo Jiginew Mali or RCPB Burkina-Faso
- USAID : Kate McKee proposed some Opportunity International partners (involved also with SEEP and CGAP on the MDG social performance measures)

52. The external reviewers

The external reviewers are members of CERISE and/or members of Finsol (in-depth knowledge on the SPI initiative). In some cases, due to very tight time constraints of the participating MFIs, an external consultant may be involved during all the process (introduction of the questionnaire, looking for the information and filling up the questionnaire, discussion with the management of the institutions).

Cécile Lapenu will coordinate the work of the external reviewers and write the intermediary and final report.

What is expected from the external reviewers?

- To visit the core sample of the 15 MFIs
- To interview the management of the MFIs
- To verify with them the accuracy of the information provided
- To discuss the results all together to finalise the reports
- To participate at the virtual meeting

53. The advisory committee

SDC (Hans Ruedi Pfeiffer)

FPH (Morgane Iserte)

CERISE members

Argidius Foundation (Koenraad Verhagen)

University of Goettingen (Manfred Zeller)

What is expected from the advisory committee?

For the donors (SDC and FPH)

- close collaboration with the implementing institution (CERISE)

For all the members

- comments on the intermediary report
- participation at the virtual meeting

There may have some specific costs for the advisory committee, in particular for Manfred Zeller, involved as a researcher in the first phase of the initiative and who will provide in-depth comments on the intermediary report and active participation at the virtual meeting as a resource person who followed the advancement of the initiative.

54. The coordinating institution

CERISE, involved in the first phase of SPI will implement the project and be the coordinating institution for the current second phase.

What is expected from CERISE?

- Overall coordination
- Link with the participating MFIs and the other stakeholders interested in testing or commenting the tool
- External review
- Intermediary and final report
- Moderation of the virtual meeting

6. TIME FRAME

Month 1: Tool sent to MFI through key persons (May)

Months 2-3: Tool filled up by MFIs (June- July)

Months 4-5: External review (August – September)

End of month 5: Intermediary report

Month 6: virtual meeting (October)

Months 7-8: synthesis (November - December)

The tool can be finalized for the end of 2004.

Months	1	2	3	4	5	6	7	8
	May	June	July	August	Sept.	Oct.	Nov.	Dec.
Facilitator	Intro							
MFI		Fill up question.		Receive ext. rev.		VM		
Ext. reviewer				Visit MFI		VM		
Adv. committee						VM		
CERISE	Link w/ MFI & stakeh.			Visit MFI/ interm. rep.		VM	Final report	