CERISE

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Workgroup on Solidarity Socio-Economy
Solidarity Finance

Social Performance Indicators Initiative – Phase 2 (SPI2)

Audit of the Social Performance of Microfinance Institutions:

the Definition of a Tool

Report N°2

The Operational Guide to the Questionnaire

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Social Performance Indicators Initiative (SPI-2)

Operational guide to the questionnaire

Measuring social performance of microfinance institutions requires a careful understanding of the concepts and indicators used. This operational guide is designed as a companion manual to help MFIs and external reviewers wanting to complete the SPI questionnaire.

The first module offers a general framework for understanding the concept of social performance, the reasons why it can be important to assess that social performance and the objectives and design of the SPI questionnaire.

The second module presents in detail all the elements of the SPI questionnaire (different parts, dimensions of social performance and each and every indicator) to explain the rationale behind each question and to ease the process of filling out the questionnaire.

MODULE 1 – GENERAL FRAMEWORK

Definition of social performance

Why measure social performance?

Historically, microfinance has met with real success as a tool for the inclusion of those excluded from the classical banking system. At present it is thought that throughout the world 60 million families have access to microfinance services.

In order to respond to this desire for inclusiveness, the operational bases of microfinance institutions (MFIs) have been founded on social links and proximity to beneficiaries:
1) Solidarity and involvement: these mechanisms can be found in the workings of joint surety groups; in cooperative systems, each individual is a member and is involved in the management of the institution; in village banks the whole village is a stakeholder and is responsible for the correct operation of the fund for the good of the village, etc.
2) Services for the excluded: services have been designed for and adapted to the needs of an economically or socially marginalised population (small sums, regular repayments, targeting of activities carried out by poor households, direct contact with local credit agents, etc).
3) Services are based on proximity to the beneficiaries: geographical proximity through the development of rural agencies or "mobile banker" services where the banker travels to meet clients; social proximity seeking to reduce the barriers between clients and the institution (local agents, services that are suited to the cultural and religious context, etc); temporal proximity reflected in frequent contact between the institution and its clients via regular repayments or frequent training and discussion sessions. Proximity increases confidence, reduces information imbalances and minimises social barriers between clients and institution.

In the 1990s attempts to make MFIs sustainable focused attention on issues of financial and institutional viability. Financial analysis tools were thus adapted but MFIs' social performance was taken as read. The march towards financial autonomy, pushed to extremes by certain donors, contributed to turning numerous MFIs away from their social vocations.

Nowadays, many actors in the microfinance sector see finance as an effective tool which can be used to help humanity and society develop. For these actors, the way services are provided makes all the difference. Because it puts people and their social links at the centre of its work, this type of finance will work in harmony with its context and environment, and will seek to understand these in order better to serve them and improve them. Finance of this sort aims to impact on clients' social capital and their autonomy, which in turn will impact on the sustainability of the institution.
The main questions are: Who are the clients? Are the services provided adapted to their needs? Can the action of the MFI reinforce the clients' social and political capital? Does the MFI assume a social responsibility internally vis-à-vis its employees, and also vis-à-vis its clients and the community where it works?

Impact and social performance defined within the chain of MFIs' activities

Chain of MFIs' activities

Process
Action
Output

Outcome
Impact
Intention
Design
Principles
Economic and social performance
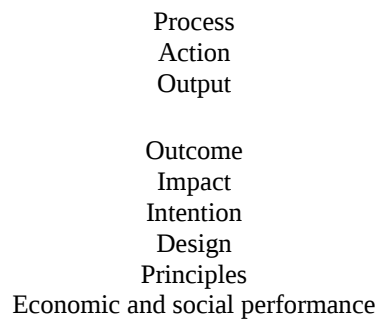
As with any other organisation, the chain of an MFI's activities goes from its intention, principles, design, to the process and action implemented, output obtained and finishes with the outcome and impact (direct impact on the beneficiaries and indirect or "wider" impact).

The global performance of the institution will be all the results obtained in terms of design, output and outcome.

Different options are chosen for measuring performance (from an easier to a more complicated process of evaluation):
- evaluating principles and intentions;
- analysing processes and evaluating actions;
- understanding the relations between principles and actions (verifying that the organisation gives itself the means to achieve its objectives without specifying in a prescriptive way what its social mission should be);
- measuring outcomes and impact.

Measuring impact and social performance

Table: Global performance of an MFI

		Social issues	Economic/financial issues
Global performance of the institution	**Performance monitoring (intentions and actions of the MFI)**	- Outreach to the poor and the excluded - Adaptation of services and products to the target clients - Improvement of clients' social and political capital - Social responsibility of the MFI **Auditing tool**	- Portfolio quality - Efficacy and productivity - Financial management - Profitability - Quality and diversity of the financial services offered - Etc. **Auditing tools**
	Impact assessment (outcome)	- Health improvement - Child education - Employment creation for the excluded population - Empowerment: position of individuals in their family and communities; social capital building - Etc. **Measure of impact**	- Change in income and expenditure - Change in assets and living standard - Employment creation at community level - Food security - Etc. **Measure of impact**

Source: Zeller et al, 2003, SPI – Phase 1, final report.

Measuring impact
Impact is a change affecting clients and non-clients attributable to MFI activities.
Due to the methodological difficulty of reaching valid and relevant conclusions about causal relationships between access to MFI services and results on the socioeconomic condition of clients and non-clients, impact assessment requires in-depth analysis and a complex survey protocol that MFIs cannot apply routinely.

Measuring social performance as an internal process of the organisation
In the SPI framework, due to the limits on measuring impact, social performance assessment is limited to the measurement of principles, actions and corrective measures implemented by the MFI to reach its social goals (SPI final report, Oct. 2003)
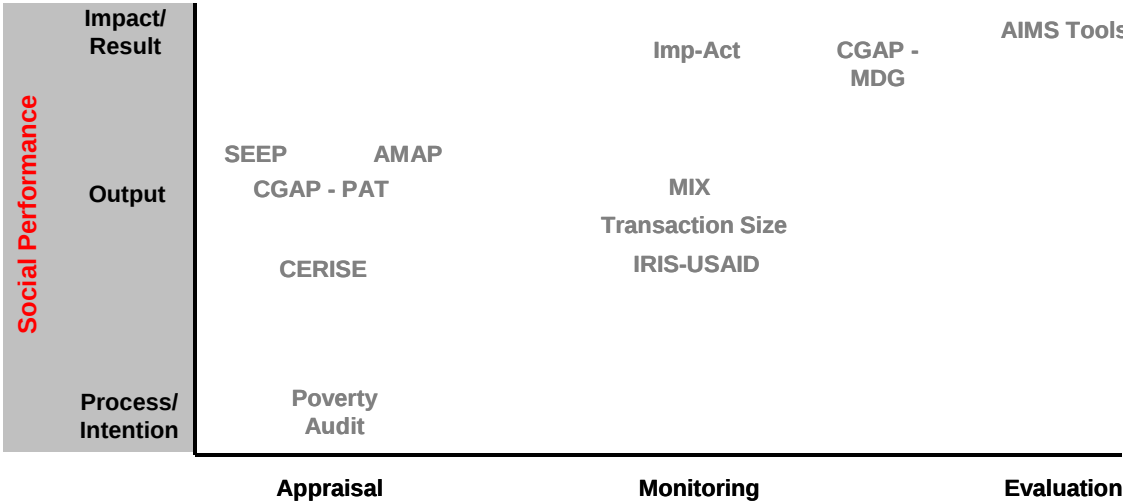
The SPI tool, focusing on performance monitoring and social assessment, should be seen as a new and different part of the array of tools that can give a clear idea of an MFI's role and impact:
It complements the tools measuring financial performance and as an auditing tool it could be applied regularly (every one or two years).

Over time, the audit of MFIs' social performance should be linked to the tools for impact analysis and to tools measuring the evolution of clients' status (see CGAP/Ford initiative) in order better to understand how the actions implemented by the MFI play a role in the situation of its clients.

The different level of social performance analysis (CGAP Frame)

Based on the MFI's chain of activities presented above, different initiatives for the measurement of social performance can be represented in relation to their focus on Process/Intention, Output and/or Impact and their objective of Appraisal, Monitoring and/or Evaluation.

Social Performance		Appraisal	Monitoring	Evaluation
Impact/ Result			Imp-Act	CGAP - MDG	AIMS Tools
Output		SEEP AMAP CGAP - PAT CERISE	MIX Transaction Size IRIS-USAID	
Process/ Intention		Poverty Audit		

Different concepts to be distinguished

<u>Social performance</u>
Social performance is effective translation of the social mission into practice.

The social mission of an MFI can rely on the following goals:
- Serving increasing number of poor and excluded people sustainably
- Improving the quality and appropriateness of financial services available to targeted clients
- Improving clients' social capital and social links
- Improving the social responsibility of the institution

=> The final social objectives of the MFI are to:
- Improve the lives of poor and excluded clients and their families
- Widen the range of opportunities for communities.

In the SPI framework, social performance is measured through principles, actions and corrective measures implemented by the MFI to reach its social goals.

Social performance assessment can be based on information available at the MFI's level to evaluate the internal process between principles and actions.

Impact and impact analysis
Impact is change affecting clients and non-clients attributable to MFI activities.
The measure of impact is a subset of performance.

Impact analysis or Impact assessment is aimed at evaluating the changes that occur in the lives of clients, their households, their enterprises.
"Wider" impact assessment evaluates changes that occur also in the lives of non-clients, changes in the local community (social links, functioning of markets, etc.) or even at the national level.
Impact analysis traces the effects of the MFI input on clients (or households or microenterprises) and is based on information collected at the client (or household or microenterprise) level.

Market studies / market surveys / market research
Market research is aimed at developing new products for the MFI.
Market research seeks to identify needs, tastes and general behavioral characteristics and is based on information collected at the individual or household level to understand the behavior and needs of current and potential consumers of products and services.

Impact assessment and market research share a fundamental objective: they both seek a better understanding of client/household behavior.

Objective and design of the SPI tool

The main characteristics of the SPI tool

The SPI-2 questionnaire evaluates the social performance of the MFI according to its social mission and objectives.

(1) The set of indicators has been defined as follows: assessment of the social "process" of the MFI : social performance is 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 is based on self-reporting by MFI management and/or loan

officers, information from official reports, and information compiled from the management information system;

(3) indicators that can be standardized in different socio-economic contexts and for different types of MFIs: MFIs and the organizations that support them want to learn more about their social performance, but they also aim at comparing their results with their peers;

(4) indicators easily verifiable by an external auditor: the questionnaire can be implemented internally to stimulate discussion, but the answers can also be easily verified by an external reviewer who can conduct a social audit of the MFI;

(5) indicators accepted by the MFIs: during the first phase, from the answers of 18 MFIs, indicators have been ranked according to their relevance and the ease of access to the information for the MFI. Discussion of the indicators also involved MFIs and practitioners in a working group on Solidarity Finance, funded by the foundation FPH[1]. During this second phase, the external reviews were aimed at discussing with the MFIs the usefulness, limits and risks of the tool. The virtual meeting (December 2004) and the final workshop (March 2005) at the end of the process were also an opportunity for the MFIs and other stakeholders to share their opinions about the tool.

(6) indicators for which the MFIs can be held directly accountable: MFIs can be directly involved in the definition of their social objectives and are directly accountable for their actions and for the corrective measures they implement. Social performance is the responsibility of the MFI; on the other hand, the impact of their actions may be influenced by many other factors which are out of their control.

The questionnaire is made up of three parts:
- The first part of the questionnaire clarifies the MFI's social mission and social strategy.
- The second part gives a more specific presentation of the indicators of social performance and goes into detail regarding the actions, output and corrective measures implemented by the MFI in order to reach its social objectives.
- The third part gives a brief presentation of the MFI's financial performance.

The social indicators (second part) are analysed in 4 dimensions:
1. Outreach to the poor and the excluded
2. Adaptation of services and products to target clients
3. Improving clients' social and political capital
4. Social responsibility of the MFI.

Not all MFIs are supposed to have a maximum score in all the four dimensions: some of them may prefer to focus on one or another depending on their structure, their history and the socioeconomic environment within which they operate.

_____

1 FPH : Foundation Charles Leopold Mayer pour le Progrès de l'Homme, 38 rue St Sabin, 75011 Paris. The Workgroup on a Solidarity Socio-Economy (WSSE) is a global network of debate among grassroots actors, researchers and committed people who collectively generate and promote proposals and strategies for socio-economic transformation. Workshops are the framework where debate takes place. They are the collective working tool from which proposals of socio-economic transformation emerge. A workshop is an international group of people who debate by means of an electronic forum and work meetings. It is open to anyone and diversity is actively encouraged as a way to make debate richer. One of the thematic workshop, Finsol, is on Solidarity Finance. http://www.socioeco.org/en/index.php.

Who can use the questionnaire?

<u>Internal use</u>: internally, the questionnaire can stimulate discussion among stakeholders so that they take stock of the social strategy and achievements of the MFI. It can be a useful step in developing a social performance culture that may have been forgotten as a result of the pressure for financial performance. The tool can be used to bring more transparency, and to trigger and streamline the process of self-evaluation.

<u>External use</u>: for external use, it can be implemented as an assessment tool to check the MFI's commitment to reaching its social goals.
At this stage, it cannot be used as a rating tool as the benchmarks have yet to be tested and accepted widely within the microfinance sector. The scores are currently used to summarize information and make some graphical representations, but it will be necessary to extend the tests and comparisons to develop a rating tool and a reporting format.

The SPI tool is not supposed to be a "compulsory" tool: purely commercial MFIs, MFIs that are not subsidized and do not receive "ethical" funds, MFIs that do not have social objectives as a priority can choose to follow only their financial performance.

<u>Unit of analysis</u>: in the questionnaire, the unit of analysis is called "the microfinance institution". It should be clarified, at the beginning of the process, at what level the questionnaire is applied.
Generally, it will be applied to the whole entity: central unit and branches (if they exist).
The question can be more complex:
- in the case of independent networks (microbanks, village associations, etc.): the unit of analysis should be large enough to lead to meaningful analysis;
- in the case of self-managed associations (Self-help groups, self-managed village banks) supported by technical staff belonging to other institutions: NGO, independent structure contracting technical support to the MFI, etc.

In this case, the "limits" of the MFI should be clarified before applying the questionnaire: What are the different organisational levels of the MFI? Who are the clients? Who are the employees working for the MFI? etc.

How can the questionnaire be used?

<u>Self-evaluation</u>: Social performance remains more subjective than financial performance. It is thus necessary to capture the details of MFIs' intentions and actions in order to reflect the reality of their social performance. An in-depth knowledge of the institution is necessary, which can justify self-evaluation (or an evaluation by a person who knows the institution very well).

<u>External review</u>: On the other hand, some differences can be observed between self-evaluation and the results of external reviews (field testing on 25 MFIs).

This comes from 1) differing interpretations of items of the questionnaire, 2) the tendency for the MFIs to overestimate their social score when they are very confident on their actions, 3) the tendency, also, to underestimate their actions when it comes to indicators usually not much taken into account (such as their relations with the local community) or where the information is not available.

This companion guide should aid understanding of the meaning of the indicators and of the hypothesis behind the questions, so that discrepancies between self-evaluation and external review can be reduced.
However, a two-stage process (self-evaluation, external review) will remain important to ensure real involvement of the MFIs and reliable results.

At this stage the questionnaire proposes a score for each of the indicators. It cannot been taken as a widely accepted benchmark in the microfinance sector but merely, for now, as a way to summarize and visualise the information for the MFI surveyed.

Nor can discussions on the results be limited to the final score (total score and score by dimension): each and every indicator need to be discussed, analysed and interpreted to understand the way the MFI builds its social strategy. What is the process implemented to reach the social goals? This process would need to be documented in a social reporting format in parallel with the scores by indicator.

When can the questionnaire be used?

Social objectives and social actions are not as volatile as financial results (where the repayment rate can drastically decrease in case of crisis for example). But the tool can be used regularly to monitor actions and progress. A two-year period between surveys could be a suitable interval.

The questionnaire can be also applied:
- when the MFI changes its general mission and objectives;
- when the MFI changes its governance structure in order to clarify its objectives with all the stakeholders involved;
- when social investors want to be involved in the MFI's financial structure to see what is already implemented and what the social objectives might be in the future.

The results from the SPI-2 questionnaire could be part of the MFI's annual report and could be discussed in annual meetings when the MFI shares its objectives with the various stakeholders.

MODULE 2 – USE OF THE SPI QUESTIONNAIRE

Guide for the Version SPI2.1 of the

Questionnaire for Microfinance Institutions (MFIs)

This module takes all three parts of the questionnaire and all the individual indicators to present in a systematic way the hypothesis behind the question, the concepts and the sources of information.

FIRST PART: THE MFI'S CONTEXT AND SOCIAL STRATEGY

> The first part of the SPI questionnaire is based on management discussions and declarations and will allow a better understanding of the strategy, logic and evolution of the MFI in terms of social objectives.
> It will help to set the social performance indicators – collected in the second part – in an historical, geographical and socioeconomic context and facilitate the interpretation of the second part.

In a social audit of an MFI's social performance, it is necessary to put the actions of the MFI in a wider frame of analysis:

1) the internal position vis-à-vis social strategy ;
2) the history, the network of relationships, the socioeconomic and cultural environment.

It is important to understand this wider frame in order to let the MFI justify its choice of strategy.

1. The MFI's history, values and social mission

Hypothesis
The internal position of the MFI vis-à-vis social strategy (history, share of values, clarity of social objectives, culture of social performance, etc.) will clarify the "state-of-advancement" of the MFI regarding its social strategy.

Source of information
Self-evaluation: internal discussion with management and staff

External review: Interview with management, some staff; can be checked from the MFI's charter, founding documents, business plan, annual reports, minutes of General Assembly, etc.

2. Social strategy of the MFI

Hypothesis
Depending on its history, on the stakeholders involved, and on the socioeconomic and cultural environment, the MFI will have opportunities or limitations in developing one or another social strategy.
It is necessary to understand the choices of the MFI and its framework of constraints to interpret the results of the second part on social performance indicators.

The analysis is done along the 4 dimensions of the second part in order to understand *why* the MFI attaches importance (or not) to each dimension in its social strategy.

Source of information
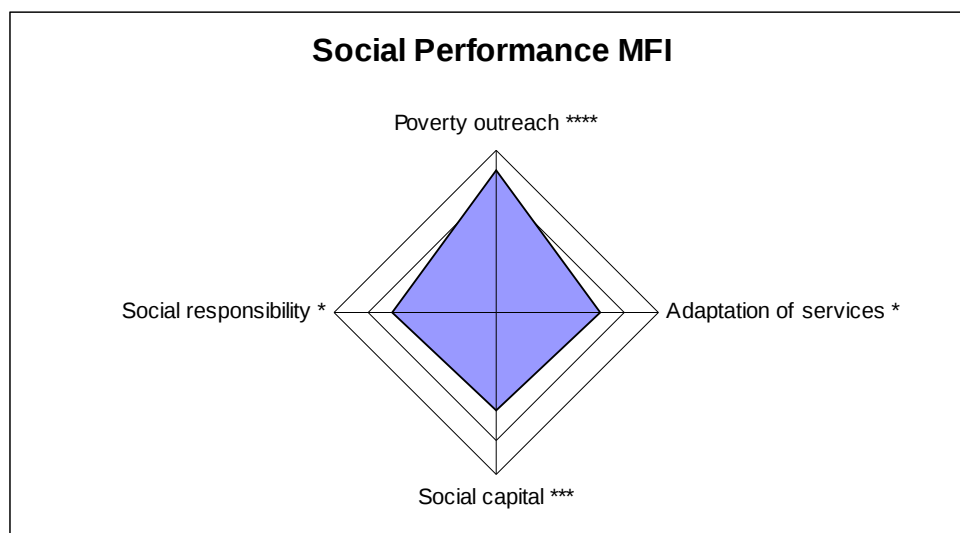Same as point 1.

3. The MFI's main social objectives

Hypothesis
The ranking of the dimensions will help interpret the results of the second part.

Example: is dimension 1 an important dimension in the strategy of the MFI? In this case, much attention will be given to the results of this dimension in the second part of the questionnaire. On the other hand, if dimension 1 is not a major focus of the MFI, a low score on this dimension will appear to be in line with the strategy explained in the first part, while a high score will show a positive "externality" of the strategy of the MFI on a minor social dimension.

Use of the information
The ranking of the 4 dimensions can be visualised at the end of the exercise to see which of the important or minor dimensions have high or low scores.

Social Performance MFI

Poverty outreach ****

Social responsibility *

Adaptation of services *

Social capital ***

In this example, the MFI has a high score on poverty outreach (ranked 4 stars), a lower score on social capital (ranked 3 stars), and a lower score also on Adaptation of services and social responsibility but only ranked 1 star.

The MFI seems to be reaching its objectives on poverty outreach but could implement further actions towards improving its clients' social capital.

Source of information

Declaration from MFI management

SECOND PART: SOCIAL PERFORMANCE INDICATORS

Dimension 1: Outreach to the poor and the excluded

Hypothesis behind dimension 1

MFIs 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 of offering financial services in a region where classical banking systems are absent, or to people rejected by the banks (but who are not necessarily poor or socially excluded). The first dimension checks if the MFI is intended for the poor and for the excluded. This does not necessarily mean that it is addressed only to the poor.

Generally, three main strategies can be observed to reach the poor and the excluded:
- Geographic targeting: location of branches or MFI in poor/isolated areas, areas where no other formal financial services are available;
- Individual targeting: screening out people who do not meet the requirements and/or selecting those who meet the criteria of poverty and/or exclusion;
- Methodological targeting or "pro-poor" methodology : design of the services to address the specific needs of the target population, with the idea that the non-target population do not ask for these types of services.

In dimension 1, the questionnaire checks which targeting strategy the MFI is following, how the MFI verifies the accuracy of the strategy and what the results of the strategy are in terms of outreach.

Concepts

Poverty: economic and financial poverty (low income) and lack of access to basic needs (health, food, housing, education, etc.)
Exclusion: the concept of exclusion is not necessarily the same as the concept of poverty. Some people excluded from a service or from a group are not necessarily poor.
Exclusion means lack of access and can be reflected socially (social exclusion, rupture of social links, gender relations), politically (lack of power, no participation in decision making), culturally (absence of basic community culture) and ethically (no standard or shared values, corruption, violence) (Dubois *et al.*, 2001).
In the case of microfinance, exclusion also means lack of access to financial services.
Here, the notion of exclusion is linked to specific risks and higher transaction costs for the MFI.

Debates on Dimension 1 (arising from the Virtual Forum held in December 2004 and the meetings held in March 2005)

This summary of the debates should allow participants who are filling in the questionnaire to understand the background to the debate, and thereby to place the situation, strategy and objectives of the MFI into their correct context.

1. The Terms of the Debate

Definition of poverty and exclusion

Notions of poverty and exclusion are complex and do not necessarily overlap.
Depending on contexts and objectives, they can differ considerably from one MFI to another.

Geographic targeting
The definition of a relevant area ("poor" urban and rural areas) often comes up against a lack of precise information. It ought to take account, in particular, of aspects of distance and population density which also condition MFIs' choices of where they set up.

Individual targeting
The question of "targeting" of populations in the questionnaire favours a normative approach to poverty (through economic or financial thresholds) rather than a more social conception (the more or less effective functioning of systems of solidarity, for example).
It can contradict the indicators of Dimension 3, which reward greater local involvement on the part of MFIs (since the development from participation to management often entails a process of eviction of those who are most deprived or most marginalized socially, people originating from elsewhere for example).

Justification for targeting the poor and/or excluded
How can effects resulting from the development of financial services be integrated? What is the most effective means of fighting against poverty? Without directly touching the poorest, the system can indeed have knock-on effects that affect them (increase in the area's prosperity, development of economic activities from which the poor can benefit, job creation, etc.), but it can also strengthen the bonds of economic domination (cf. the criticism of numerous co-operative systems of savings and credit as "the creation of usurers", for example).

Interpreting the results
How can the increasing numbers of poor people in an MFI's client portfolio be interpreted? Are the poor being targeted more, or have the clients become more impoverished?
This is a recurrent question in the analysis of an MFI's clientele, and can be analysed by distinguishing new clients in the client profile (those who have access before the financial services received have any impact).

2. Positioning the SPI Tool

The debate on the definition of poverty cannot be resolved in the questionnaire.
The questionnaire avoids being normative by proposing to the MFIs that they give details regarding the inherent criteria of exclusion or poverty they are using. At most, nationally available data may be used.
Nonetheless, the objective remains an attempt at standardization of the questionnaire, and so the indicators remain largely centred on the "basic" notion of poverty: economic and financial poverty and the lack of access to basic needs (health, food, housing, education, etc.). In view of the tool's objectives, it is important to translate qualitative notions (poverty and exclusion in particular) into quantitative indicators which will as a result be able to permit comparisons.

The strategy of targeting the poor will not necessarily nor in every context resolve the problems of poverty, nor is it necessarily the strategy chosen by the MFI.
The SPI approach does not aim to insist that the clientele of an MFI should be 100% constituted from the poorest of the poor.
The first part, on the social strategy of the MFI, should illuminate its positioning, with particular regard to its choices of either selecting the poor or of an "inclusive" approach (no targeting, but a response to the combined needs of the intervention area).

With regard to strategy, Dimension 1 points out the 3 major strategies that MFIs have at their disposal for targeting the poor (geographic targeting, individual targeting, or targeting through services adapted to the poor), while leaving it to MFIs to clarify which criteria they take as their basis.

With regard to the evaluation of results, Dimension 1 makes use of the indicators generally used in the microfinance sector and uses them to ask questions of MFIs that aim to target the poor: intervention in rural areas, the role of women, percentage of clients under the national poverty threshold or earning less than 1 or 2 dollars per day, etc.

The indicators of dimension 1

Targeting actions

Geographic targeting (4 points)

1.1 Does the MFI select areas in which to operate based on poverty and/or exclusion criteria? Which ones?

Local intervention but the MFI is based in poor areas compared to the national average

Intervention in remote rural areas

Intervention in poor urban areas

Other, specify: _____

0=for less than 5% of the current portfolio of clients

1=for less than 50% of the current portfolio of clients

2= for more than 50% of the current portfolio of clients

Score   0   1   2

If answer is 1 or 2, what are the indicators the MFI takes into account to consider a geographic area as "poor" or "excluded"?

Hypothesis 1.1
Geographic targeting needs a clear definition of the criteria that the MFI wants to take into account to select the zones of intervention.
This question is based on the MFI's *intention*.

Source of information
Declaration from MFI management
Example of indicators: national classification of poor areas, absence of other financial institutions, dwelling, migration zone, post-conflict, etc.

1.2 How does the MFI ensure that the areas of intervention are indeed poor areas or areas with excluded population?

0=nothing is done

1=informal verification

2=formal surveys on conditions of poverty and exclusion in the areas

Score   0   1   2

If answer is 1 or 2, specify mode of verification: _____

Hypothesis 1.2
Effective geographic targeting needs verification of the reality of the criteria.

Modalities
Informal verification: discussion with local key resource persons, observation by the loan officer or other MFI staff, indirect information at national level, etc.
Formal surveys: formal surveys conducted by the MFI or by other institution(s) specialized in the issue of poverty (national statistics centre, universities, etc.).

Source of information
Declaration from MFI management.
External reviewer can look at surveys, publications, national classification of geographical areas in terms of poverty, etc.

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Individual targeting (5 points)

1.3 Does the MFI use any of the following targeting devices for improving the depth of its poverty outreach?
- indicators based on objective client conditions (illiteracy, farm size, housing index, assets, etc.);
- participatory wealth ranking (information given by the community itself), etc.

The information should be used to screen out the "rich" or to select the "poor" for loan application.

Percentage of current new clients selected with targeting device: _____
- 0= for less than 5% of current new clients
- 1= for less than 50% of current new clients
- 2= for more than 50% of current new clients
- 3= for more than 90% of current new clients

Score   0   1   2 3

If answer is 1 to 3, specify the targeting device: _____

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Hypothesis 1.3

The use of targeting devices facilitates the accurate selection of the target population.

Concept

<u>Targeting device</u>: the targeting device collects information (visual information, quantitative surveys, qualitative interviews) before a new client is accepted. This information is used to screen out the "non-poor" or to select the "poor" for loan application.

Examples of targeting devices

- indicators based on objective client conditions: family structure (number of children, number of working adults, etc.) illiteracy, housing index (home size and condition, electricity, sanitation, water service, etc.), ownership of specific assets (productive assets or consumption assets such as major consumer appliances, vehicles, etc.) ; liabilities (savings, jewellery); farm size, landless farmer, etc. ;
- estimated family income;
- participatory wealth ranking: in this method, members of a community rank themselves based on their own concepts of wealth and poverty;
- Etc.

Source of information

Declaration from MFI management + MIS for the percentage
The external reviewer can check the nature and the use of the targeting device.

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1.4 How does the MFI ensure quality control in the use of the tool?
- 0=nothing is done
- 1= accuracy of the tool regarding socioeconomic context and reliability of its application informally verified
- 2= accuracy and reliability verified through formal cross-checking of the information

Score   0   1   2

If answer is 1 or 2, specify mode of verification: _____

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Hypothesis 1.4

Effective individual targeting needs verification of the tool's quality and control of its application.

Modalities

1= accuracy of the tool regarding socioeconomic context and reliability of its application informally verified (in the last 2 years)

2= accuracy and reliability verified through formal cross-checking of the information (in the last 2 years)

<u>Accuracy</u>: do the selection criteria discriminate between the poor and the rich? Are the criteria reliable in identifying the "excluded"? Is there a risk that eligible people may be screened out and a non-target population selected?

<u>Reliability</u> of its application: is the targeting device applied for all the new clients who should be concerned? Are the loan officers trained to apply it? Can the loan officer pre-determine some results without really applying the tool?

<u>Formal cross-checking</u>: surveys of clients selected and clients rejected to verify that there is no error in the selection process.

Source of information
Declaration from MFI management

Pro-poor methodology (9 points)

Collateral

1.5 Does the MFI agree to provide loans secured only by "social" collateral?

    solidarity among groups,

    recommendation by trusted third party,

    physical guarantees which have very low commercial value but are important for the borrowers

    Other, specify: _____

Percentage of outstanding loans (in number): _____

  0 = For less than 5% of the outstanding loans

  1 = For less than 50 % of the loans

  2 = For more than 50 % of the loans

  3 = For more than 90% of the loans

Score 0   1 2 3

Hypothesis 1.5

"Social" collateral 1) reduces barriers to entry for the poor and excluded and 2) can create a relation of proximity between the MFI and the client due to a different approach compared to a commercial bank.

Social collateral includes all types of collateral that a commercial bank would generally not accept: solidarity among groups, recommendation by a trusted third party, physical guarantees that have very low commercial value but are important for the borrowers, etc.

If legal physical guarantees are required for the loan, it is no longer considered to be a loan secured by social collateral.

If the MFI requires <u>savings</u>, there are different options:

- compulsory savings before receiving a loan is not counted as social collateral as it can be assimilated to a physical guarantee, unless the amount required is symbolic (less than 10% of the loan).

- savings deducted from the loan is not a barrier to entry, but it can increase the cost of the loan. It can be counted as "social" collateral if the amount taken is more symbolic than really a physical guarantee (less than 10% of the loan). Of course this form of forced savings can be questioned: it does not really give an incentive to save or contribute to the development of a saving habit, but in terms of guarantees it does not limit access to loans for the poor.

Source of information
Declaration from MFI management + MIS for the percentage

<u>Outstanding loans</u>: to show the situation at the time of the survey. When the information on outstanding loans is not available, the information on the number of loans disbursed during the last 12 months or last financial year can be taken into account (specify the nature of the information).
<u>In number</u>: to show the extent of "unsecured" loans.

Specific approaches for the poor or the excluded

1.6 Does the MFI develop specific policies or methodologies (except for social collateral) to reach remote areas, and/or to facilitate access for an excluded population or poor clients?
  Specific services to remote areas
  Ceiling on loans for part of the portfolio
  Other, specify: _____
Percentage of outstanding loans (in number): _____
  0 = For less than 5% of the outstanding loans
  1 = For less than 50% of the loans
  2 = For more than 50 % of the loans

Score 0   1 2

If answer is 1 or 2, specify the policy/methodology: _____

Hypothesis 1.6
An MFI may want to develop specific approaches to reduce transaction costs (economies of scale, share of costs with the clients, involvement of clients in the process, etc.) and to extend depth of outreach (remote areas, very poor population, etc.)

Source of information
Declaration from MFI management + MIS for the percentage

<u>Outstanding loans</u>: to show the situation at the time of the survey. When the information on outstanding loans is not available, the information on the number of loans disbursed during the last 12 months or last financial year can be taken into account (specify the nature of the information)
<u>In number</u>: to show the extent of specific loans.

Transaction size of loans
1.7 Over the last 12 months, what is the distribution of loan size (loans disbursed – at individual level) (in % of per capita GDP)?
50% GDP per capita (in local currency): _____ Gini index: _____
For MFI in countries where the Gini index is less than 50:
 0 = less than 30% of loans are less than 50 percent of GDP p.c.
 1 = more than 30% of loans are less than 50 percent of GDP p.c.
 2 = more than 60% of loans are less than 50 percent of GDP p.c.
For MFI in countries where the Gini index is more than 50:
 0 = less than 30% of loans are less than 30 percent of GDP p.c.
 1 = more than 30% of loans are less than 30 percent of GDP p.c.
 2 = more than 60% of loans are less than 30 percent of GDP p.c.
Total number of loans disbursed over the year:_____
Nb of loans below 50%[30%] of GDP/C: _____ % of total nb: _____

Score 0 1 2

Hypothesis 1.7

Poor people do not necessarily need small loans, but to facilitate access for poor people and people with low repayment capacity, the MFI should be sure to have at least part of its portfolio distributed as small loans (below 50% of GDP per capita).

Concept

Per capita GDP does not seem to be an ideal benchmark for comparison but there are few alternative choices to standardize and to simplify the questionnaire.
For countries where the inequalities are significant, reaching the poor means that the MFI needs to provide even smaller loans. So an indicator of inequality can be used.
[To be completed]
Two types of information are nationally available regarding GDP:
GDP per capita and GDP corrected for purchase power parity (PPP). This last figure is an adjustment made for international comparison, so that the GDP is expressed in international prices, or in terms of what can be bought with it in this virtual international market. As credits are given in a local setting, local prices and purchase power must be considered. So it is certainly necessary to use a GDP concept that IS NOT corrected for PPP.
The Gini index measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. A Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality.

Source of information

GDP/capita; Gini Index: World Development Indicators – The World Bank Group
If the Gini index is not accessible, the calculation for this indicator is made with a hypothetical Gini Index of more than 50, in order not to penalize arbitrarily the MFI.

See sources of information on GDP/capita and Gini Index by country in appendix 1.

Data on transaction size should be available in the MIS of the MFI.

Potential sources of problems:

Lack of information:
- loans to groups recorded in the MIS as only one loan. Averages may be used: with 20 members in a group for a collective loan of 1000 USD the average loan is 50 USD per individual.
- different classification by amount of loans in the MIS (ex: 500/1000/1500 USD while 50% of GDP/cap is 800 USD); trends can be given from the MFI's classification. Some MIS may be able to recalculate the data with the GDP/cap figures.
- no classification of loans by amount in the MIS: it means that the MIS may be rather weak.

Bias in the information:
- small loans disbursed for 2 to 3 months (commercial loans) three or four times for the same client may artificially reduce the number of small loans

---

1.8 What is the size of the minimum installment amount, for loans with monthly repayments?

0 = more than 1 percent of GDP p.c.
1 = less or equal to 1 percent of GDP p.c.
   Size in local currency: _____ % of GDP p.c.: _____

                           Score   0   1

Hypothesis 1.8

For poor people, the size of the loan is not enough to be sure that they can have easy access to loans. In order to take into account the liquidity constraints of its clients, the MFI should ensure that small installments can be used.

Example: It is not the same thing to borrow 600 USD for 3 months with a monthly repayment of 200 USD as to borrow 600 USD for one year with a monthly repayment of 50 USD. The second option is better for people with liquidity constraints.

Source of information

The information is based on the monthly repayment. Some adjustments may be necessary:
- for MFIs that only have weekly repayment: (minimum size of weekly repayment x4)
- for MFIs that only have annual repayment: (minimum size of annual repayment / 12), etc.

Of course, it does not mean exactly the same thing for the client to repay 100 USD every month instead of repaying 25 USD every week – this second option may be more appropriate for the clients with liquidity constraints – and the adjustment will be used as a proxy only if no monthly repayment is available in the surveyed MFI. Monthly repayment is one of the services most frequently offered by MFIs, however.

The minimum size should be a relatively frequent service (at least 5% of the new clients can repay with this amount).

1.9 What is the minimum amount to open a savings account and make regular deposits (in % of GDP per capita)
 0 = more than 1 percent of GDP p.c.
 1 = less or equal to 1 percent of GDP p.c./no minimum amount
            Minimum amount in local currency: _____ % of GDP p.c.: _____   Score   0   1

Hypothesis 1.9
To foster the mobilisation of savings, people with low financial capacities should have the opportunity to make small deposits on a regular basis.

Some MFIs may not have any rule on the minimum amount and accept any amount. In this case, the score is 1.

TOTAL SCORE FOR THIS SECTION ON TARGETING

The total amount of points available in this section on targeting action is 18, but the ceiling is fixed to 15 (see the table at the end of the guide to visualize the scores by dimension and sub-dimension). This takes account of the various strategies an MFI can implement to reach the poor or the excluded, but it considers that it is not necessary to use all these strategies to reach the maximum score (of 15) on targeting.

RESULTS OF THE TARGETING STRATEGY

Geographic outreach of the target clients (5 points)

1.10 Does the MFI provide loans to areas that are poor in comparison to the national standard?
   In rural areas: remote rural areas, poor infrastructure (roads, markets, transport), lack of access to public services (electricity, water, health, education, etc.), mainly food-related agriculture, risky agriculture (rain-fed, prone to climatic risks), etc.
   In urban areas: poor dwelling, lack of access to public services, high unemployment rate, areas of settlement for migrants, etc.
     Percentage of outstanding loans (in number): _____
     0 = do not know/ less than 10 % of the loans
     1 = less than 50 % of the loans
     2 = more than 50 %
                                                                                  Score   0   1   2
If answer is 1 or 2, source of information/evaluation: _____

Hypothesis 1.10
Effective geographic targeting needs knowledge of the characteristics of the areas.

Source of information
Information may come from national data that distinguish administrative areas by level of wealth. If this type of information is not available, an MFI focusing on geographic targeting may have objective criteria such as those cited in the indicator to classify the areas of intervention by sector or by smaller areas of intervention:

- In rural areas: remote rural areas, poor infrastructure (roads, markets, transport), lack of access to public services (electricity, water, health, education, etc.), mainly food-related agriculture, risky agriculture (rain-fed, prone to climatic risks), etc.
- In urban areas: poor dwelling, lack of access to public services, high unemployment rate, areas of settlement for migrants, etc.

The MIS may give the number of outstanding loans by branch or other sub-division.

Both boxes (☐) may be checked by an MFI working both in poor rural and poor urban areas.

<u>Outstanding loans</u>: to show the situation at the time of the survey. When the information on outstanding loans is not available, the information on the number of loans disbursed during the last 12 months or last financial year can be taken into account (specify the nature of the information)
<u>In number</u>: to show the extent of loans in poor areas.

1.11 Does the MFI provide loans in rural areas (where *food crop* agriculture and agricultural activities are the main sources of income)?
    Percentage of outstanding loans (in number): _____
    0= do not know/ less than 10% of the loans
    1= less than 50% of the loans
    2= more than 50%

                                         Score 0   1   2

If answer is 1 or 2, source of information/evaluation: _____

Hypothesis 1.11
Rural areas – in particular rural areas where food crop agriculture and agricultural activities related to food crops are the main sources of income – are the most deprived areas in terms of financial services. Rural loans are needed by the populations. Rural areas dominated by cash crops are generally less excluded from access to financial services.

Source of information

The official definition of urban and rural areas does not refer to comparable settlement population sizes and may greatly depend on the country. However, in developing countries rural areas (fewer than 5000 inhabitants) are typically sparsely settled and employment is mainly in agriculture, whereas towns (more than 20000 inhabitants) are densely settled and employment is 85-95% non-agricultural. Intermediate conditions correspond to peri-urban and secondary towns (from Lipton and Ravaillon, 1995).

<u>Outstanding loans</u>: to show the situation at the time of the survey. When the information on outstanding loans is not available, the information on the number of loans disbursed during the last 12 months or last financial year can be taken into account (specify the nature of the information)
<u>In number</u>: to show the extent of loans in rural areas.

> **1.12** What is the percentage of branches located in areas where there is no other MFI or bank branches? (Other MFI or bank branches at least 50 km or more than 2 hours away)
> Number of branches: _____ Percentage of branches:_____
> Percentage of the portfolio of clients: _____
>   0= No branch or less than 5%;
>   1= Less than 30 % of the branches
>   2= More than 30% of the branches
>
> Score   0   1   2

Hypothesis 1.12

Intervention in areas where no other formal financial services are available is an important strategy to reach people excluded from the financial system.

Concept

Average distance / time : the notion of decentralisation is translated here into data on the distance or time necessary to go from the MFI's branches to other bank branches. Depending on country, region and state of local infrastructure, comparisons can be difficult.

The distance in kilometers can be used when private cars or very regular services of public transportation are available. Time necessary for a client to reach the bank branch can be used when distances are relatively close (less than 50 km) but most households do not have a car and have to go to the bank by public transport or on foot. How long does it take on average for a client to reach the city ?

(see also indicator 2.8)

Source of information

Knowledge from the MFI management.

The percentage of the portfolio of clients is not taken into account in the score but can give qualitative information on these sectors' weight. However, taking the percentage of clients to give the score may underestimate the MFI's efforts to reach remote areas (one can imagine that the MFI would have fewer clients in these remote branches).

An external reviewer can compare the location of the branches with national data that may be available on the location of commercial banks, cooperatives and other MFIs.

> Individual outreach (5 points)
>
> **1.13** What is the percentage of female borrowers?
> Percentage of outstanding loans (in number): _____
>   0=does not know/less than 10%
>   1=less than 50% of the loans
>   2=more than 50% of the loans
>
> Score   0   1   2

Hypothesis 1.13

Women are generally more excluded from access to financial services. Their access to loans may have more direct impact on the welfare of the family compared to access by men. However, specific targeting of women may also have implications for the MFI in terms of social responsibilities (see questions 4.7 and 4.8).

Source of information

Management Information System.

<u>Outstanding loans</u>: to show the situation at the time of the survey. When the information on outstanding loans is not available, the information on the number of loans disbursed during the last 12 months or last financial year can be taken into account (specify the nature of the information)

<u>In number</u>: to show the extent of women clients reached (large loans may blur the results if the calculation is done in volume).

1.14 How does the MFI classify clients in terms of individual targeting?

    Workers with unsecured status (no assets and uncertainty of daily employment e.g. casual labourers, landless tenants, etc), entrepreneurs who are starting up their activity.

    Farmers

    Vulnerable social or ethnic groups

    Illiterate people

    Other targeting criteria, specify: _____

    Please provide the % of current clients using this classification: _____

    0=does not know/ less than 10%

    1=less than 30% of the loans

    2=more than 30% of the loans

                                                           Score 0   1   2

If answer is 1 or 2, source of information (data of less than 2 years):_____

Hypothesis 1.14

Effective individual targeting needs knowledge of the characteristics of the clients. This part deals with "exclusion" and "vulnerability" (for example, lack of access to a stable source of income, lack of potential putting people in situations of vulnerability) and not specifically with poverty (see indicator 1.15).

Source of information

MIS or recent studies on target groups.

Different boxes can be checked: the MFI may have various selection criteria and can accumulate the percentage of loans disbursed to each category. However, one person who satisfies different criteria should only be counted once.

1.15 What is the percentage of clients who are among the "very poor," defined as those who either live on less than a dollar a day or who are in the bottom half below the country's poverty line?

    0= does not know / less than 20% of the clients;

    1= more than 20% of the clients

If answer is 1, source of information (data of less than 2 years): _____

Hypothesis 1.15

Effective targeting of the poor needs knowledge of the level of poverty of the population reached compared to national standards.

Source of information

MIS or recent studies on poverty of the clients.

<u>Clients</u>: here the clients can be both borrowers and savers.

Dimension 2: Adaptation of services and products to the target population

Hypothesis behind dimension 2

It is not enough to decide to reach a target population. Microfinance services are too often standardized: small loans, weekly repayment, group solidarity, etc. The MFI must learn about the target population and work on designing its financial services so that they fit clients' various needs and constraints.

Social performance indicators can analyse the process leading to service definition and the extent to which the MFI knows about its clients' needs.

Debates on Dimension 2 (arising from the Virtual Forum held in December 2004 and the meetings held in March 2005)

This summary of the debates should allow participants who are filling in the questionnaire to understand the background to the debate, and thereby to place the MFI's situation, strategy and objectives into their correct context.

1. The Terms of the Debate

Diversity of services
An MFI can choose a limited range of products to keep its services transparent and cost efficient, so that the poor can be served in a viable way, which becomes harder when offering a wide, complex range of products.

How is the quality of financial services to be assessed?
The notion of quality of services is difficult to grasp and to standardize. It is also important that there be discussion, either within the MFI or between the MFI and stakeholders directly involved in operating the questionnaire, of the process used to adapt and improve its services.

Relative roles of savings and credit
According to some participants in microfinance, MFIs which cannot mobilize savings (because of regulatory constraints) or which prefer to concentrate on certain services should not be penalized. According to others, savings services are just as important as access to loans, so there should be an equal number of points for savings and for loans.

Debates on certain indicators
- The question of interest rates

Everyone recognizes the importance of transparency for interest rates, but how should it be translated, and how far should one go in explaining the level at which rates are set? Some feel that it is important to make the effective level of interest rates on loans absolutely transparent, whilst others believe that the raw information should be accompanied by training or information for clients, employees, etc., so that everyone understands what is at stake.
Beyond the level of interest rates, how are productivity gains to be shared?
The lowering of rates, for example, is sometimes a strategic device, before profit-sharing and community investment are even discussed. In such cases it would be necessary to be able to monitor the evolution of interest rate levels diachronically.

- The place of non-financial services

Some appear to have been surprised at the integration of non-financial services in the raft of indicators, after numerous years in which MFIs have been advised to offer non-financial services.

- The question of client drop-out

Client drop-out is a sensitive issue, representing as it does a cost for the MFI, but a meaning must be given to this question. Indeed, it is important to know the reasons for the drop-out. A client has no need to be tied to an institution "for life": whilst the drop-out may be negative for the MFI, it can nonetheless be positive for a client who no longer needs to borrow or who has gained access to banking services.

2. Positioning the SPI Tool

Quality and adaptation of services depend on an innovative range of services which are local, rapid and transparent, and a pro-active strategy which aims to integrate access to non-financial services with access to financial services for a stronger social impact.

The indicators are simple and standardized, and so, by necessity, slightly reductive with regard to the notion of quality for each MFI. That does not prevent more detailed analysis, either through internal discussion or in the course of an audit, of the totality of the process followed for adapting services and limiting drop-out by clients who may have become unhappy about services.

Equally, MFIs cannot necessarily offer all services (because of problems of cost, management, skills, image, etc.) but the pro-active and open strategy of the MFI and its partnerships with other organizations are taken into account.

Indicators of dimension 2

Range of services (9 points)
2.1 How many different types of loan product does the MFI provide?
  0 = only one or two
  1 = more than two

Score   0   1

Hypothesis 2.1

The diversity of loan products facilitates the adaptation of the MFI to its clients' needs.
Diversity of loans can answer to the different needs of the microentrepreneurs: investment, working capital, cash management, but also to the needs of the family.
Diversity of loans may also allow for cross-subsidization with different interest rates depending on the purpose and clients of the loans.

Concept

<u>Differences between types of loans products</u>: at least 3 elements differ among the following: purpose, minimum and maximum amount, duration, type of guarantee, interest rate, schedule of repayment
The loans must be provided to at least 5% of the clients.

Type of loan	Purpose	Min-Max Amount	Duration	Guarantee	Interest rate	Schedule of repayment
Type 1						
Type 2						
Type 3						
Type 4						

Different products can be offered in different geographic areas to adapt the services to the specific characteristics of the areas of intervention.
An MFI may propose three different products in three different localities. Each client has only access to one type of loan, but the hypothesis is that each loan is adapted to the locality and so the MFI has diversified and adapted its supply and provides 3 types of loan.

Source of information
Declaration from MFI management + description of the MFI's loan products

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2.2 Does the MFI provide social/emergency loans?

  0   = No

  1   = Yes

<div align="right">Score 0   1</div>

Hypothesis 2.2
Social or emergency loans are an important service for vulnerable groups, helping them face difficult and unexpected situations.

Concept
<u>Social or emergency loans</u>: short term (less than 3 months), very rapid disbursement (1 or 2 days), no specific purpose asked for the loan, or officially allowed for consumption, social purpose, any emergency, etc.

2.3 Does the MFI provide loan products specifically tailored to clients' social needs?

  Housing

  Education

  Loans above 12 months

  Other, specify: _____

  0   = No specific loan products

  1   = One specific loan product

  2   = More than one specific loan products for social needs

---

Hypothesis 2.3
MFIs often provide loans for up to one year and with no specific adaptation to answer to the social needs of the clients. Clients may benefit from access to well-defined loan services facilitating improvements to dwellings, access to new houses, access to eduction for children, preparation of social events, etc. Also, clients may need a longer loan duration to invest in their microentreprises, increase their capacities and secure their sources of income or even change the scale of their revenues.

The loans must be provided to at least 5% of the clients

2.4 What is the flexibility of repayment for the clients?

  0   = one pattern for all the loans

  1   = the MFI proposes different formula

  2   = the schedule is decided with the clients when receiving the loan

<div align="right">Score 0   1   2</div>

Hypothesis 2.4
In order to have the ability to adapt the loan to their liquidity constraints, clients should have some flexibility in the selection of a repayment schedule.

Source of information
Declaration from MFI management + description of loan products

2.5 What is the importance of voluntary savings products within the MFI?

0 = No voluntary savings products (or it concerns less than 5% of the clients of the MFI or only 5% of the volume of the outstanding loans)
1 = Voluntary savings services provided by the MFI (or through another financial institution)

Score   0   1

Hypothesis 2.5

Voluntary savings constitute an important service for microfinance clients. The savings component should not be neglected or limited to compulsory savings.
Some non-regulated MFIs may not be able to collect savings, but they may have opportunities to work with regulated financial institutions in order to offer access to savings services for their clients.
Compulsory savings have a different status and are not taken into account here: they are often seen by the clients as a constraints (and so have no "educative" effect to provide incentives to save); they cannot be used by the clients when and how they want; they often remain at the minimum level required by the MFI.

Source of information
Declaration from MFI management + description of the MFI's savings products

---

2.6 Does the MFI provide voluntary savings specifically tailored to clients' social needs?
   Housing
   Education
   Retirement
   Health
   Other, specify: _____
0 = No specific savings products
1 = Specific savings products provided by the MFI (or through another financial institution)

Score   0   1

If answer is 1, specify conditions: _____

Hypothesis 2.6

Incentives to save can be much greater if the purpose of saving is clear and corresponds to some of the clients' needs.
Specific needs can be addressed better through savings schemes than through loans.

Source of information
Declaration from MFI management + description of the MFI's savings products

2.7 Does the MFI provide innovative financial services accessible to more than 5% of its clients (directly or through links with other specialist organizations)?

  insurance products (except death insurance for loans, see below): which ones? _____ (health, life,
 livestock, etc.)
  money transfer
  payment by check
  other, specify: _____
  0   = No
  1   = Yes

<div align="right">Score 0   1</div>

Hypothesis 2.7
Innovative financial products can address important needs of clients that have still not been met.
They demonstrate the MFI's will to remain active and to listen to its clients' needs.

Source of information
Declaration from MFI management + description of innovative products

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Quality of services (11 points)

Decentralisation
2.8 What is the average distance of the main branches from the capital or major cities?

Name of branch	Distance / time to capital or major regional city

Total number of branches: Average distance:
  0 = less than 50 km or less than 2 hours
  1 = more than 50 km or more than 2 hours

<div align="right">Score 0   1</div>

Hypothesis 2.8
In order to reach people excluded from the financial system and to develop a local service, MFIs may have to extend their branches out of the cities.

Concept
Average distance / time : the notion of decentralisation is translated here into data on the distance or time necessary to go from the MFI's branches to the local main city. Depending on country, region and the state of local infrastructure, comparisons can be difficult.
The distance in kilometers can be used when private cars or very regular services of public transportation are available. Time necessary for a client to reach the city can be used when distances are relatively close (less than 50 km) but most households do not have car and have to go to the city by public transport or on foot. How long does it take on average for a client to reach the city ?
(See also indicator 1.12)

Source of information
Declaration from MFI management.

2.9 Are loan officers leaving the MFI's premises to visit their clients for regular financial transactions? (loan application, loan disbursement, repayment, collection of savings, not including visits relating to repayment problems)

  0   = For less than 5 % of the clients
  1   = For less than 50% of the clients
  2   = For more than 50% of the clients

<div align="right">Score 0   1   2</div>

Hypothesis 2.9
In order to facilitate client access to services (by reducing social barriers, facilitating access to information, easing procedures), direct contact and efforts by the MFI to provide a service of proximity need to be developed, in particular through decentralisation of client services.

Source of information
Declaration from MFI management.
Verification by external review of the rhythm and objectives of the visits.

Rapidity of the service
2.10 What has been, on average, the time between the application for the first loan and the disbursement of the loan, for new clients over the last 12 months? (Including training, unexpected delays due to constraints such as liquidity shortages, lack of availability of loan officers, etc.)
  0 = more than 2 weeks
  1 = less than 2 weeks

<div align="right">Score 0   1</div>

Hypothesis 2.10
For many clients, rapid disbursement of loans is a valuable service allowing them to seize opportunities, to fit with the business calendar or to cope with an emergency.

Concept
First loan: information collected only on the first loan for a client can give more homogeneity among the MFIs (information on all the loans would require analysis of loan type and this could not be standardized).

Source of information
Declaration from MFI management
Verification by external review of the process from loan application to disbursement.
Some bias in the results may come from the difference between the theoretical process and the actual implementation: delays may come from a delay in the transmission of the loan application by the loan officers, in limitations faced by the MFI in disbursing loans owing to liquidity constraints, etc.

Transparency of services

2.11 Do clients receive written statements of each of their financial transactions, and in particular, does the loan statement show the difference between the amount of the principal and the amount of the interest to be paid plus the costs of the loan (in order to give clear information to borrowers with the schedule for repayment)?

  0 = No written statements / no information on cost of the loan
  1 = The client knows, for each repayment, the capital and interests to be paid and the date of repayment

Score 0   1

Hypothesis 2.11

Transparency requires access for clients to information related to the status of their financial transactions. Illiterate people can often understand figures in documents if they are simple, or they can ask a trusted person for information.

Because the real cost of a loan is a very complex variable, it is important that the MFI be totally transparent with its clients so that the client can know the exact cost and that he/she can compare it with other financial institutions.

Source of information

Declaration from MFI management.
The external review can check the documents to see how information on principal and interests are provided to the clients.

2.12 Does the MFI have a specific policy to facilitate access to financial services (other than decentralisation)?

  Specific opening hours to adapt to local conditions (market days, late or early opening, etc.)
  Simplicity and easy understanding of application forms and procedures
  Reducing opportunity costs for the clients (time spent by the client)
  Other, specify: _____
0 = No, no specific services to facilitate access
1 = Yes, specific policies discussed / tailored within the MFI to facilitate access

Score 0   1

Hypothesis 2.12

Quality of an MFI's services derives in particular from decentralisation, and visits by loan officers (proximity with the beneficiaries) – indicators 2.8/2.9; from rapidity of access to loans – indicator 2.10; from transparency – indicator 2.11; but also, in a more general sense, from the general policy implemented specifically to facilitate access to financial services for the potential clients. The choice of policy will depend on the context of the MFI and its history.

Source of information

Declaration from MFI management.

Adaptation to clients' needs

2.13 Over the last 24 months, did the MFI conduct market surveys to improve the quality of services to clients?

  0 = never

  1 = informal discussions with some clients / formal analysis of the information collected for the loan applications

  2 = formal surveys of clients *and* non-clients with analysis of the results and execution plan / formal and regular participation of clients in consultation proceedings

<div align="right">Score 0 1 2</div>

If answer is 1 or 2, specify (in particular, number of surveys): _____

Hypothesis 2.13

It is important to know what clients need and what services could be offered to non-clients belonging to the MFI's target population. Informal discussion or analysis of the loan application can be one of the first sources of information. A further step in the knowledge of clients' needs is formal surveys of clients *and* non-clients or the direct involvement of clients in product development.

With client involvement, information about their evolving needs is constantly available, which helps avoid routine and mission drift.

Concept

Market studies / market surveys / market research

Market research is aimed at developing new products for the MFI.

Market research seeks to identify needs, tastes and general behavioral characteristics and is based on information collected at the individual or household level to understand the behavior and needs of current and potential consumers of products and services : analysis of clients' and potential clients' needs in order to adapt financial services; analysis of household budgets; study of client satisfaction, etc.

Source of information

Declaration from MFI management

External review can check the results of the market surveys.

Drop-outs and/or inactive clients

2.14 Does the MFI know the various reasons why clients dropped out or are inactive?

  0 = no study or not a clear idea of the reasons for departure

  1 = reasons for departure have been analysed through formal survey on drop-out and inactive clients (or less than 5% of departure)

<div align="right">Score 0 1</div>

2.15 What is the percentage of client drop-out or inactive clients over the last 12 months

[number of drop-outs over the average number of clients over the last 12 months/financial year]

  0 = More than 30%

  1 = 15-30%

  2 = Less than 15%

<div align="right">Score 0 1 2</div>

Hypothesis 2.14/ 2.15

A high level of drop-out or inactive clients generally reflects dissatisfaction. There is of course a "natural" percentage of clients who will decide to quit the MFI because they do not

need its services anymore, or they have access to a formal bank which provides other types of services, or they have moved, etc. It is important for the MFI to know the reasons for departure or absence of transaction and to evaluate more or less the percentage of clients who left because they are disappointed with the services provided by the MFI or because access to financial services has worsened their socio-economic situation.

Concept
Drop-outs and/or inactive clients: No transaction on credit and savings for more than one year or last financial year.

The definition of "drop-outs" may vary from one institution to another.
For example, one institution counts as drop-outs any client/group who do not come back for a new loan after the closing of the previous one (after only one installment period) while it can be the case that clients wait for a few months before asking for a subsequent loan. In this case, drop-out rate will be over-estimated.
In some cooperatives, drop-outs may only be counted when they withdraw their share from the cooperative. In this case, it would be very important also to count inactive clients (who keep their share in the cooperative but do not use the services available).

Source of information
Declaration from MFI management. Sometimes the information may be available in the MIS.

Non-financial services accessible to the clients (5 points)
2.16 Does the MFI have a specific and proactive strategy to associate non-financial services with financial services for clients (directly or with partnerships)?
  0   = No
  1   = Yes
<div align="right">Score   0   1</div>

Does the MFI ensure that the clients can access the following non-financial services (within the same organization or thanks to formal partnership and cooperation with other local organization):

2.17 Non-financial services related to financial management (business training, management of family budget, etc.)
  0   =   No
  1   =   for some clients (or for all but on a compulsory basis)
  2   =   for all clients of a voluntary basis
<div align="right">Score   0   1   2</div>

2.18 Non-financial services related to social needs (literacy training, health services, access to social workers, gender sensitization, etc.)
  0   =   No
  1   =   for some clients (or for all but on a compulsory basis)
  2   =   for all clients on a voluntary basis
<div align="right">Score   0   1   2</div>

Hypothesis 2.16-2.18
Non-financial services can improve the effectiveness of the financial services provided to clients: they can give more capacity for the client to use loans or savings in a more effective way. If an MFI offers loans to start-up businesses or vulnerable clients and if they are not assisted in their procedures, they may later have little chance of succeeding alone. Therefore,

it may be necessary to offer them non-financial services complementing the financial ones, both services being linked and consistent with one another.
Social services may reduce vulnerability of the clients and may increase their potential. These services need not necessarily be provided directly by the MFI; it may be too costly and not within its technical and organisational capacities. However, the MFI can ensure that its clients have access to services which are adapted to foster the impact of the financial services.

Source of information
Declaration from MFI management.

Dimension 3: Improving clients' social and political capital

Concept

<u>Social capital</u> can be defined as people's capacity to cooperate and to act together, using or creating the necessary social links to move towards sustainable goals that are shared and based on solidarity. Therefore, social capital refers not only to the sum of individual capacities, but to a collective capital that belongs to the group and allows it to ensure its cohesion, its continuity and its actions. It is the result of the interaction between the individuals' shared values and the institutions and structures created to approach these values (Finsol Core Group, January 2001).

<u>Social links</u> represent clients' social relationships: links with family, neighbours, co-workers, local/regional/national economic and social organizations, local/regional/national authorities, etc.

<u>Political capital</u> can be defined as the capacity of the people to influence decision making at local or national level in order to have public policies oriented in their favour.

Hypothesis behind dimension 3

Trust between the MFI and its clients can reduce transaction costs and improve repayment rates. It can thus foster collective action and reduce free-riding, opportunistic behaviour and risks.

For clients, strengthening their social and political capital can enhance their social organization (collective action, information sharing, political lobbying, etc.). Self-confidence can also help them to engage in sustainable and profitable activities.

Social performance indicators should measure the degree of trust and solidarity and the MFI's efforts towards bringing clients together and giving them strength and responsibilities within the organisation and beyond (community, local government, national government, etc.) with a view to helping them alleviate their economic and social constraints as much as possible.

Debates on Dimension 3 (arising from the Virtual Forum held in December 2004 and the meetings held in March 2005)

This summary of the debates should allow participants who are filling in the questionnaire to understand the background to the debate, and thereby to place the MFI's situation, strategy and objectives into their correct context.

1. The Terms of the Debate

The place of clients / beneficiaries within an MFI
In essence, the debate on Dimension 3 concerns the role which can be allocated to clients within an MFI. Who participates? Is there not a risk of favouring a local elite? Do the beneficiaries have a real capacity for taking part in decision-making?
How and why do clients participate? Is there not a risk of involving in decision-making participants who have no direct interests at stake (no savings, for example) and who could act in opposition to the interests of the MFI?
Under what conditions can clients be involved? How can it be possible for MFIs operating in remote contexts (what costs for clients?), when the social structures are highly unbalanced (what risks of eviction?), when the legal framework does not permit such participation, etc?

Indicators of dimension 3

Trust and Information sharing (**6 points**)

3.1 Do clients have access to the MFI's financial statements?
  0   = No
  1   = Upon request
  2   = Through publication and/or a presentation meeting

Score 0   1   2

If answer if 2, specify the strategy: _____

Hypothesis 3.1
Trust is based on transparency and clear relationships between the clients and the MFI. One of the signs of transparency is open access to the MFI's accounts.

Source of information
Declaration from MFI management.
Verification by external review of the format and diffusion of financial statements.

3.2 Does the MFI provide opportunities for discussion in case of conflicts / claims / complaints between the client and an employee of the MFI?
0=the loan officer or cashier is the client's only interlocutor
1= if need be, the client can see a manager
2= there is a specific procedure or person in charge of dealing with conflicts.

Score 0   1 2

Hypothesis 3.2
The loan officer may be the unique contact for the client and in this case the client has no opportunity to discuss or complain about procedures, services or conflicts.

The loan officer may have different interests to the clients, and a third party may be needed on occasion to defend the clients' (or loan officer's) interests (cases of systematic allocation of new loans, for example, when there is pressure on the loan officer to disburse loans).
Trust, information sharing and conflict resolution options will build clients' self-confidence.

Source of information
Declaration from MFI management.
Verification by external review: what is the procedure? Who is (are) the key person(s) in charge of dealing with conflicts?

3.3 What is the percentage of growth (or decline) over the last 12 months in the volume (or number) of voluntary savings collected?

  0 = Decline (or no savings services)
  1 = Stable or less than 5% increase
  2 = More than 5% increase (or volume of savings superior to the volume of outstanding loans)

Score 0   1   2

Hypothesis 3.3
Voluntary savings mobilization is a sign of clients' trust in the MFI.

Source of information
Management Information System.

Clients' representatives and participation in decision-making (11 points)

3.4 Can the MFI's clients participate in any of the following proceedings?

  0   = No
  1   = Yes

a) Proceedings for decision making at the clients' level (e.g. self-managed group)   Score 0   1
Are the representatives elected?   Score 0   1

b) Proceedings for control and decision-making at MFI level   Score 0   1
Are the representatives elected?   Score 0   1

Hypothesis 3.4
There are different levels of client participation within an MFI.
The first level concerns participation in the definition of the services provided by the MFI and this has been seen in question 2.13.
The second level (3.4 a) concerns participation in decision-making at client level (groups of clients): who will receive a loan? How do clients decide to facilitate repayment? How is repayment organised? etc.
At this level, the MFI gives some responsibility to its clients, reflecting its trust in them. It leads to capacity-building at client level; it also helps the MFI reduce costs and develop services in poor or remote areas, thus extending the frontier of microfinance availability. However, participation at client level may also lead to exclusion of some parts of the population and this requires particular vigilance on the part of the MFI (see questions 4.7 and 4.8).

The third level (3.4 b) concerns the participation of clients in decision making and control at MFI level. This concerns client involvement in the governance structure (through cooperative

or other forms of participation: association of clients, representative(s) for clients, etc.). Involvement in governance can increase clients' feelings of ownership and responsibility; it also builds capacity at client level. The MFI's strategy should then match clients' objectives. Clients' representatives making decisions in the governance structure can be seen in cooperatives but also in private companies (clients as shareholders) and in self-managed associations (e.g. some forms of village banks) => Question 34b and the next ones are not limited to cooperative models.

However, client involvement requires compatibility with other forms of local social organizations (democratic rules, transparency, etc.). It may also be difficult in de-structured societies (ex.: post-conflict areas) or societies where people do not trust each other.

Source of information
Declaration from MFI management. Verification of the procedures by external review.

3.5 Is there an effective system of rotation for participating clients?
    0=No; 1=Yes   Score 0   1

Hypothesis 3.5
Either at the client level (in link with 3.4a) or at the MFI level (in link with 3.4b), if a democratic system of election is implemented, it should ensure that democratic rules are respected: secrecy of voting, transparency of candidate selection procedures, regular rotation, departure of defaulting representatives, etc.

Source of information
Declaration from MFI management.
Verification by external review through discussion with the stakeholders: turnover of elected clients, reasons for stability or rapid turnover.

3.6 What is the percentage of women among client representatives? (Compared to % of women among all clients)

  0   = No women representative
  1   = Few women representatives
  2   = About the same proportion as female clients

                                      Score 0   1   2

Hypothesis 3.6
In order to respect gender equality, women should be represented in proceedings (3.4a and 3.4b) in about the same proportion as female clients.

Source of information
Declaration from MFI management. Lists of elected clients and/or membership of the various proceedings.

3.7 Is there a system of training for representatives / elected clients to help them fulfil their mission in these proceedings?

  0   = No
  1   = Yes, on an irregular basis
  2   = Yes, on a regular basis, planned in the strategy and related to the rotation of representatives
                                      Score 0   1   2

Hypothesis 3.7

The active involvement of clients (at the client level – 3.4a – or at the MFI level – 3.4b) requires specific qualifications and a good understanding of roles and responsibilities in order to take on the role. This requires specific training for participating clients. The MFI should provide training and information in order to fulfil clients' capacities and not merely "instrumentalize" their participation (clients are expected to take charge of part of the management) for the purpose of reducing its own transaction costs.

Source of information

Declaration from MFI management.
Verification by external review: nature and regularity of the training.

3.8 Are these proceedings effective?

Have they already influenced decisions or provoked changes? Do the representatives in these proceedings fulfil their role (no intervention necessary from external actors: staff, director, etc.)?

 0   = No (they do not exist, they are more symbolic than really active, they do not fulfil their role correctly)

 1   = They fulfil their role most of the time but may lack some skills (time, training, information, etc.); proceedings are mostly informal.

 2   = Yes, they fulfil their role

Score   0   1   2

If answer is 1 or 2, specify their main role and actions: _____

Hypothesis 3.8

The effectiveness of participation proceedings (at client level – 3.4a – or at MFI level – 3.4b) is a subjective element. However, within the MFI, management can make the difference between the application of rules, which may lead only to symbolic or theoretical participation, and the real involvement of clients in the process, reflecting their commitment and their interest in supporting and being part of the MFI's destiny.

Source of information

Declaration from MFI management.
Verification by external review through discussion with the stakeholders: turnover of elected clients, capacities to fulfil their role; check on the minutes of the various meetings (rate of involvement, discussions, etc.), etc.

Empowerment (8 points)

3.9 Have the MFI's operations sought to strengthen the social capital of the clients it serves

(through careful group formation, collective action, cooperation towards common goals, relationships with other programmes, facilitation of access to previously inaccessible services, etc.)?

0 = No
1 = Indirect, minor objective
2 = Direct, major objective

Score   0   1   2

If answer is 1 or 2, describe: _____

Concept

Empowerment reflects better access to decision-making, to responsibility, to resources, to self-esteem and the feeling of belonging to a group and being able to count on this group to develop economic opportunities and to increase people's potential.

Hypothesis 3.9

Social links and social capital offer a social safety net for individuals and their families in precarious and uncertain economic contexts. They offer an opportunity mutually to insure risks and to increase individual capacity to face crises. They therefore reduce the vulnerability of individuals and groups.

MFIs can "only" provide financial services, but this access can also be a starting point in empowering clients and an MFI can try to expand the economic empowerment of its clients to a social empowerment by expanding their network of social relationships.

Fostering social capital can be done with different methodologies and does not necessarily presuppose working with groups: careful group formation but also collective action, cooperation towards common goals, relationships with other programmes, facilitation of access to services previously not accessible, etc. The methodologies should improve people's capacity to cooperate and to come together to achieve common goals.

However, social links can also have some drawbacks: autocratic relationships, dependence, conflicts of interest, etc. Social links within a group should not lead to a fragmentation of the original bonds of a community into groups that act independently and may create more exclusion. The MFI needs to measure the advances in social cohesion, in cooperation and in teamwork between clients and in the community.

Source of information

Declaration from MFI management.
Verification by external review through detailed discussion of the strategy regarding this issue.

3.10 Does the MFI facilitate the creation of local management or leadership skills? (training for team building, representation, etc.; valuing of local management skills, etc.)
0 = No
1 = Yes, on an irregular basis
2 = Yes, on a regular basis, planned in the strategy

Score 0   1   2

Hypothesis 3.10

Management or leadership skills will give clients the strength to participate in decision-making and to take responsibility for easing economic or social constraints at the individual level or for collective action.

Source of information

Declaration from MFI management.
Verification by external review: nature and regularity of training, mode of local recruitment, etc.

3.11 Have the actions of the MFI and the relationships created between clients, and between clients and local socioeconomic stakeholders, created a network / space for discussion to share and resolve some of the clients' problems beyond access to financial services?
 Access to public services (health, education, electricity, etc.)
 Access to public goods (natural resources, pasture, etc)
 Legal problems
 Security in the community
 Other, specify: _____
0= No / 1= Anecdotical evidence / 1= Yes regularly

Hypothesis 3.11

The MFI's form of organization can facilitate the resolution of problems beyond access to financial services. Regular exchanges among clients from the same community, or between clients and local authorities, may increase transparency, mutual understanding, and opportunities for resolving conflicts or problems.

Source of information

Declaration from MFI management.
Verification by external review: nature and mode of problem resolution beyond access to financial services.

3.12 Have the MFI's operations sought to increase its clients' influence in local or national government (the MFI individually or through the participation in MFIs' networks)?
0= No
1= Indirect, minor objective
2= Direct, major objective

Score   0   1   2

If score 1 or 2, describe (in particular participation in networks: which one(s)? objective?):
_____

Hypothesis 3.12

The MFI (or networks in which the MFI participates) can represent a leading organization that is listened to by local or national government.
Networks: The MFIs in a country may be competitors, but in order to facilitate the development of the microfinance sector (lobbying, representation of the sector, discussion on the regulatory and legal framework, etc.), they may find some advantages in working together through identified networks.

Due to its proximity to its clients, the MFI may know their situation and needs.
The MFI (and networks) can take advantage of their position, their economic and institutional weight, their reputation, to participate in the shaping of the national public policy of microfinance (to the benefit of their clients and their activities). The MFI can also facilitate the transmission of its clients' social or economic needs to decision makers in order to shape national public policy in other important fields such as health, infrastructure, education, rural environment or agriculture.

Links with government can also have some drawbacks: some leaders can use their relationships for personal objectives and not for the profit of the clients.

Source of information

Declaration from MFI management.
Verification by external review: in-depth discussion of strategy.
Does the MFI really convey its clients' needs or MFIs' or managers' needs?

Dimension 4: Social Responsibility of the institution

Hypothesis behind dimension 4

Social awareness is a necessary prerequisite for socially responsible corporate behaviour. Social responsibility requires a suitable human resources policy, adaptation of the MFI's corporate culture to its cultural and socioeconomic context, social responsibility towards its clients and towards the community where it operates (credit guarantees suited to local conditions, balanced relationships between staff and clients, in particular in MFIs where there are elected clients who participate in decision making, etc.).

Debates on Dimension 4 (arising from the Virtual Forum held in December 2004 and the meetings held in March 2005)

This summary of the debates should allow participants who are filling in the questionnaire to understand the background to the debate, and thereby to place the MFI's situation, strategy and objectives into their correct context.

1. The Terms of the Debate

Salary and training policies
Whilst the sub-dimension on human resources policies was generally felt to be particularly relevant, despite being relatively new, there was broad discussion of the issue of salary and training policies: To what can one compare the wages within an MFI, in order to determine whether they are adequate? How can an MFI's investment in training be evaluated? How can one be assured that investment in training is not limited to certain directors?
Finally, the questions retained in the latest version of the questionnaire are more concerned with the transparency of the MFI's internal policies (such as its salary table and training plan).

The role of an MFI for its clients and within the community
Here, in Dimension 4, the essence of the debate concerns the role which can be allocated to an MFI vis-à-vis its clients and within the community in which it operates: How far does the MFI's role extend within its community?
What boundaries are there between respect for local culture and the evolution of values? What is the role of an MFI in making values evolve towards "universal" principles of transparency, democracy, equality, etc? What is the role of an MFI with regard to investment in public property?

2. Positioning the SPI Tool
The human resources dimension, which is relatively classic in evaluating corporate social responsibility, remains fairly new for MFIs. Nonetheless, participants are conscious of the importance of keeping their employees and of maintaining confidence within the organization.
It remains difficult to compare wage and training policies with those of other exterior organizations, and the indicators in the new version of the questionnaire are more concerned with the clarity and transparency of internal policies: the salary table and the training plan.

Concerning the role of the MFI vis-à-vis its clients and the community, the general drift is towards adaptation but also the role of the MFI in the development of local values: what value can an MFI bring to its clients and to the community in which its operates?
Even if certain MFIs choose not to invest directly in the community, this sub-dimension remains important for the SPI questionnaire as another "plus point" for certain MFIs which seek to reinforce the local community by supporting the development (via loans or gifts) of local public property, or through the consolidation of social links through active participation at local socio-cultural events.

Indicators of dimension 4

Human resources policy (8 points)

Income
4.1 Does the MFI have a salary table, given to each employee, which has a salary defined for each job description and which is updated regularly?
0= No
1= Yes

<div align="right">Score 0 1</div>

Hypothesis 4.1

The question of human resources policy is not always taken into account in the microfinance sector. The focus on clients and financial sustainability may have overshadowed the role of employees in the realisation of the MFI's objectives. Their commitment to serving the target population is sometimes considered as an acceptance of low salaries and difficult work.
The existence of a salary table demonstrates the MFI's commitment to a well thought through HR policy; it gives an insight into follow up (salary increase, difference in salary between manager and loan officer, etc.). The actual transmission of the salary table to each employee is a basic indicator of the operationality of HR management.

Source of information
Declaration from MFI management and Human Resource department. Management Information System. Payslip. Salary Table.

Training
4.2 Does the MFI have an annual training plan for staff which accords with different job descriptions? 0= No 1= Yes

<div align="right">Score 0 1</div>

4.3 How many days of training are provided for each type of employee (loan officer at branch level, back office at different levels – local, regional, central, etc, senior management). (Provided by the MFI or by other training institute, paid by the MFI or subsidized)?

Type of employees	Total nb of empl. by type	Total nb of days of training over last 12 mo.

0= less than 50% of the staff is concerned
1= more than 50% of the staff is concerned with at least 2 days on average by staff

<div align="right">Score 0 1</div>

Hypothesis 4.2 / 4.3
Training of employees is important both for their qualification and suitability for their role and responsibilities and for their motivation and involvement in the MFI.

It will be informative to look at the training plan as it will demonstrate if the different jobs within the MFI have a clear job description and allocated skills and qualifications. The training plan will inform whether staff have the tools to get these skills or build on these skills.

Because training can be expensive or focused on the top management, few employees may benefit from most of the investment in training.

So it is important also to take into account the number of days of training by type of employee to gain an idea of the distribution among staff.

Source of information

Declaration from MFI management. Information and discussion with department responsible for training.

Verification at different levels of the MFI: central unit but also local branches.

4.4 Can the employees participate in decision-making?
0 = No
1 = Through specific and regular information and meetings between staff and senior management
2= Through an elected consultative body or through participation in governance

Score   0   1   2

Hypothesis 4.4

Through their participation in decision making, employees are heavily involved and identify with the institution, which can increase motivation.

However, this requires training efforts and a clear strategy to avoid mission drift (with employees interests overtaking the social mission of the institution). Internal conflicts risk creating bottlenecks in the decision-making process.

Modalities

1) Specific and regular information and meetings can be an informal method of involvement that can be effective. Transmission of information is a first step in associating the staff. But proposals by employees may not be systematically taken into account and changes in management can lead to a change in the decision-making power of the staff.

2) Participation through an elected consultative body or in the structure of governance is a more formal way of taking account of employees' positions.

Source of information

Declaration from MFI management.

Verification at the various levels of the MFI's structure: central unit but also local branches.

4.5 Does the MFI provide some type of health coverage for its employees (in addition to the national health coverage system) ?
0   = No
1   = Yes

Score   0   1

Hypothesis 4.5

Health coverage for employees can be a good incentive and also provides security for the employee and his or her family, reducing vulnerability and the risk of facing income shocks.

Health coverage may be provided in collaboration with an insurance company. To be a genuine incentive and a "plus" for the MFI, it should exist over and above the minimum legal national health coverage system.

Source of information
Declaration from MFI management.

4.6 How many employees have left the MFI during the last 24 months, as a percentage of the average number of employees (voluntary departure, dismissal, end of contract, etc.)?
0= more than 15 %
1= less than 15 %
2= less than 5%

Score   0   1   2

Hypothesis 4.6
Employee turnover is an indicator of the satisfaction of employees within the institution and reflects the relationship between the institution and its staff.
Voluntary departure may be due to other more interesting opportunities, but in this case, the MFI should think about ways of keeping its staff via good incentives (which should not only be financial).
If employees are fired, it means that there may be some weakness in the MFI's procedures and control and that there is a lack of trust and respect between the MFI and its staff. Departure due to the end of contract may mean that the MFI does not offer stable contracts to its employees.

Source of information
Declaration from MFI management and Human Resource department.
Verification at the various levels of the MFI's structure: central unit but also local branches.

Social responsibility towards the clients (9 points)

4.7 Has the MFI ever conducted studies to assess the social and economic impact of the services it provides (In particular for MFI with client involvement, studies on the selection process, pressure on repayment, etc., for MFI with high percentage of women, impact on the social links within the family, pressure on women, etc.)?
0= not done in the last 2/3 years
1= interviews/focus group discussion with clients; qualitative information collected with loan application
2= impact study conducted on a sample of clients and leading to a formal analysis of the results

Score   0   1   2

Hypothesis 4.7
An MFI's engagement with social issues means that it is not only providing financial services but is also ensuring that these services have a positive economic and social impact on its clients.
Involvement of clients in the selection process, disbursement of loans, repayment, etc. can be particularly useful in empowering clients, and adapting services to their needs, but it can also be useful to the MFI simply in reducing costs.
The important role of women in the MFI (large proportion of borrowers) also has implications for the MFI in terms of social responsibility: women can be forced by their husbands to apply for a loan without getting the use of it; men can be excluded from access to loans because no

other financial institutions provide loans in the area, which may lead to conflicts between men and women; access to loans for women may increase the economic pressure on them (time constraints, financial constraints, etc.).

The impact its financial services have on social links and collective action must be understood if the MFI is to implement corrective measures where there are problems.

Modalities

The impact assessment can be conducted informally, or through qualitative information collected with the clients but without this information being formally used.

A degree of formalization and a systematic analysis of results followed by development of an action plan may increase the effectiveness of information collection.

Source of information

Declaration from MFI management. Discussion with the department responsible for the studies.

Verification by external review: check the studies.

4.8 Has the MFI ever had to change its products and services due to negative impact on social cohesion or client welfare (in particular its loan collecting strategy)? (Except for indebtedness – see below)

0= not studied / studied but no changes made so far

1= studied and no problems recorded / changes made after identification of the problem

Score   0   1

If answer is 1, describe: _____

Hypothesis 4.8

Relying on social links, or simply providing financial services to a target population, is not without effect on the local social and economic organization. For example, the loan collecting strategy relies on different forms of pressure the institution can apply to clients who do not pay back. Some forms of pressure may harm clients and definitively break some social links. The MFI should be aware of its impact and be ready to change procedures in case of negative impact.

Source of information

Declaration from MFI management.

4.9. Does the MFI study the level of indebtedness of its clients and take measures against over-indebtedness?

0= not studied

1= Studied but no changes made so far

2= Studied and no problems recorded/ Measures taken after identification of over-indebtedness

Score   0   1 2

If answer is 2, describe measures: _____

Hypothesis 4.9

Especially in areas of high competition among financial organizations, cases of over-indebtedness can be frequent. Even with only one MFI, an inaccurate evaluation of clients' needs and capacities to repay can lead to households becoming over-indebted.

Care on this point is important: the decline in repayment rate may only be a belated sign of clients having problems (groups may repay for a defaulting client before revealing that a household is in crisis, a client may enter a vicious circle of debt before defaulting with the MFI, etc.).

Source of information
Declaration from MFI management. Discussion with the department responsible for the studies. Verification by external review: check the studies.

4.10. Does the MFI have a writen/explicit code of conduct regarding its action towards clients?
 Policy to limit excessive interest rates
 Policy to limit pressure for higher loans than absorption capacity
 Policy to ensure clients rights on collateral collection
 Policy to foster savings instead of loans in some situations to develop a savings culture
 Other, specify: _____
0 = no specific code of conduct
1 = writen / explicit / collectively defined and applied code of conduct

Score   0   1

If answer is 1, specify the measures: _____

Hypothesis 4.10
To be socially responsible vis-à-vis its clients, the MFI can benefit from an explicit code of conduct regarding (in particular) the most sensitive aspects of the provision of financial services: level of interest rates, pressure of loans, collateral collection, promotion of savings as a less costly and less risky safety net compared to loans, etc.

Source of information
Declaration from MFI management. Texts on code of conduct.
Several boxes representing different policies implemented by the MFI can be selected.

4.11 Does the MFI provide some type of insurance that frees the family from the burden of debt in case of death of the borrower?
  0   = No or only for some loans
  1   = For more than 75% of the outstanding loans (in number)
Percentage of outstanding loans (in number): _____

Score   0   1

Hypothesis 4.11
If this is a costly service, it is aimed solely at the profit of the MFI. However, this type of insurance, or writing off loans, can also avoid harming the client's family in case of distress.

Source of information
Declaration from MFI management.

Social responsibility towards the local community (8 points)
Respect for local culture
4.12 Does the MFI verify that its actions are in harmony with local culture and values?
(Socio-anthropological studies, discussions in the community or with local authorities, local loan officers who can speak the local language and know the local culture, etc.)?
0= no specific action over the last 2 years
1= information has been collected on an informal basis
2= information has been collected formally through meetings with key persons of the community

Score 0   1   2

If answer is 1 or 2, which kind of information? _____

4.13 Does the MFI have an action that can positively change the local culture? (to enhance women empowerment, democratic decision-making, transparency, to fight against corruption, etc.)
0 = no specific action over the last 2 years
1 = specific actions of the MFI are aimed at promoting particular values

Score 0 0   0 1

If answer is 1 , which kind of action/values? _____

Hypothesis 4.12/4.13

4.12 – Harmony with local culture and values is a token of social sustainability for the MFI. It also ensures that clients and the community are not disturbed by the MFI's activities, helps reduce the risk of negative impact on social links within the community, and avoids the MFI being seen as an external object.

4.13 – Of course, not all "local culture" is necessarily integrated in the values of the MFI, and some evolution/adaptation can be desirable so that the actions of the MFI assist local values in becoming more democratic, transparent and egalitarian. For example, empowerment of women or democratic decision making are not always rooted in the local culture, but can be fostered by the actions of the MFI (and other organizations).

Source of information

Declaration from MFI management.

Type of activities financed by the MFI
4.14 Does the MFI have a specific policy regarding activities financed by individual loans that have "high social value" for the local community?
 Local start-up businesses in order to finance risky but innovative activities
 Activities that have a positive social impact (on the environment, job creation, health, dwellings, local skill building, etc.)
 Other, specify (especially which activities are excluded):
_____
Percentage of outstanding loans (in number): _____
0 = For less than 5% of the portfolio
1 = For less than 50% of the portfolio
2 = For more than 50% of the portfolio

Score 0   1   2

Hypothesis 4.14

The MFI may feel a social responsibility to finance (for all or part of its portfolio) activities that have high social value (local start-up businesses in order to finance risky but innovative activities; activities that have a positive social impact on the environment, job creation, health, dwellings, local skill building, etc.) or to reject loan applications for activities that can have negative social consequences (migration of local skills, activities that may abuse people, predatory activities on the environment, etc.).

In this case, financial services provided are not considered to be just any type of services and the MFI has a proactive strategy in choosing which activities to finance.

Source of information
Declaration from MFI management. Management Information System.
<u>Outstanding loans</u>: to show the situation at the time of the survey. When the information on outstanding loans is not available, information on the number of loans disbursed during the last 12 months or last financial year can be taken into account (specify the nature of the information)
<u>In number</u>: to show the extent of loans given to specific activities.

Where activities are excluded, the number of loans rejected because of non-compliance with the MFI's policy should be evaluated.

Community investment
4.15 How often has the MFI assisted the local community through financial support (grants or collective loans) for community projects (schools, hospitals, religious premises, contribution to local traditions, support/sponsoring of local cultural events, sport, etc.) or active participation in local social activities (through promotion by the MFI and/or participation of the staff)
0= never in the last 2 years
1= on an irregular basis (and less than 1% of the loans or less than 5% of the annual profit / occasional participation of staff)
2= on a regular basis, in the rules of the MFI (more than 1% of the loans or more than 5% of the annual profit/ high and regular participation of staff)

Score   0   1   2

If scores 1, 2 or 3, describe investments: _____

Hypothesis 4.15
The MFI may feel social responsibility for and a social link with the local community. In this case, the MFI may decide :
-   to support community projects (through grants or loans) to foster local economic and social development or
-   to participate in and promote local social events to be counted as part of the community and to participate in fostering social links

<u>Community projects</u>: building or improvement of schools, hospitals, market places, religious premises; contribution to local traditions, support/sponsoring of local cultural events, sport;
<u>Local social events</u>: participation of staff and MFI management as representatives of the MFI in cultural or religious events ; promotion of those events through advertisement by the MFI, etc.

Source of information
Declaration from MFI management. Management Information System.

Solidarity within the MFI
4.16 Has the MFI implemented a system of solidarity between the different branches of the institution (with new branches, with branches operating in difficult environments, etc.) or between the different loan products (cross-subsidization)?
1 = No
2 = Some degree of solidarity, but informal mechanisms
3 = Yes, through formal strategy (funds, difference in interest rates, etc.)
Score 0   1 2
If answer if 1, explain the strategy: _____

Hypothesis 4.16

In order to develop a network and have opportunities to extend branches into difficult environments or to reach "costly" clients (those involving high transaction costs due to remoteness, small transactions, high cost of supervision, etc.), the MFI may take advantage of a stable part of its activities to finance or support riskier or more costly activities (through cross-subsidization, solidarity funds, profit-sharing, etc.). This solidarity among branches or products can help the MFI foster the economic development of remote communities or risky activities.

Sources of information

Declaration from MFI management: List and principles of solidarity funds, level and justification of interest rates for loan products, etc.

4.17 Does the MFI adopt special measures/have special funds in case of collective disaster?
0 = No
1 = Measures are taken on a case by case basis
2 = Funds or reserves are available in case of collective disaster
Score 0   1 2
If answer is 1 or 2, specify the measures: _____

Hypothesis 4.17

It may be difficult to face collective disaster both for clients and for the MFI. The MFI can help its clients in case of difficulties by identifying risks, adopting special measures and providing special funds.

Source of information

Declaration from MFI management: List and principles of solidarity funds / collective insurance.

THIRD PART: FINANCIAL AND INSTITUTIONAL SUSTAINABILITY

This part will help to relate social performance elements with those of financial and institutional sustainability.

MFIs should submit their financial results and statement of accounts.

The MFIs that are participating in MIX (Microfinance Information eXchange, www.themix.org) can supply the data requested by this organisation.
The others can look at the framework proposed by MIX to complete their financial data.

In order to find the correlations between social performance and financial performance, it will be important to use, as far as possible, the same aggregates for both sets of indicators when the information is available in the MIS.

For example:
1 - The portfolio at risk can be allocated according to clients' socioeconomic typology (there is a link between a risky portfolio and the geographical and socioeconomic focus). This indicator could make it possible to find out for which type of clients the MFI has problems with risk management.

2 - Extent to which expenses are covered by products allocated according to the area where the MFI is carrying out its activities (richer economically, more disadvantaged, etc.).

REPORTING THE INFORMATION

Scoring

The SPI tool is aimed at measuring principles, actions, corrective measures; some elements of outcome/output (such as % of poor people, women, etc.) are included to verify the knowledge of the MFI about its actions and output.
In the aggregation by sub-dimension, the results are grouped by main strategies.

Dimension 1 is divided into :
- SD1.1= Geographic targeting (geographic strategy + geographic outreach);
- SD1.2= Individual targeting (individual strategy + Individual outreach);
- SD1.3= Methodological targeting ("Pro-poor" methodology).

	DIMENSIONS	Score	SUB-DIMENSIONS		
			SD1.1: Geographic targeting	SD1.2: Individual targeting	SD1.3: Methodological targeting
D1	**Dimension 1:**				
	Targeting Action (Max 15 out of 18 points)	15			
1.1	Geographic targeting	2	2		
1.2	Verification	2	2		
1.3	Individual targeting	3		3	
1.4	Verification – Quality control	2		2	
1.5	Pro-poor meth - collateral	3			3
1.6	Pro-poor meth - specific approach	2			2
1.7	Size of loans	2			2
1.8	Size of instalment	1			1
1.9	Size of minimum deposit	1			1
	Results of targeting action	10			
1.10	Geog targeting: poor areas	2	2		
1.11	Geog targeting: rural areas	2	2		
1.12	Geog targeting: areas w/out fin services	1	1		
1.13	Individual targeting: women	2		2	
1.14	Individual targeting: specific group	2		2	

1.15	Individual targeting: poor people	1		1	
	TOTAL DIMENSION 1	**max 25**	**9**	**10**	**9**

Dimension 2 is divided into:
- SD2.1: Range of financial services (loans and savings products)
- SD2.2: Quality of services (rapidity, transparency, accessibility, market surveys, drop-outs)
- SD2.3: "Services Plus" (innovative products, decentralisation, non-financial services)

		Score	SD2.1: Range of financial services	SD2.2: Quality of services	SD2.3: "Services Plus"
D2	**Dimension 2**				
	Range of services	9			
2.1	Nb type of loans	2	2		
2.2	Social/emergency loans	1	1		
2.3	Loans more than 12 months	1	1		
2.4	Flexibility repayment	2	2		
2.5	Voluntary savings	1	1		
2.6	Specific vol. savings	1	1		
2.7	Innovative financial products	1			1
	Quality of services	11			
2.8	Aver. distance branch/city	1			1
2.9	Visit to the clients	2			2
2.10	Rapidity disbursement	1		1	
2.11	Transparency	1		1	
2.12	Accessibility to fin. services	1		1	
2.13	Market surveys	2		2	
2.14	Drop-outs survey	1		1	
2.15	% of drop-out clients	2		2	
	Non financial services	5			
2.16	Pro-active strategy	1			1
2.17	Business Services	2			2
2.18	Social Services	2			2
	TOTAL DIMENSION 2	**25**	**8**	**8**	**9**

Dimension 3 is divided into:
- SD 3.1: Trust and information (access to information, savings, effective participation)
- SD 3.2: Clients' participation (level of participation, democratic system, training)
- SD 3.3: Empowerment

| D3	Dimension 3: Improvement of social and political capital of the clients		SD3.1: Trust and Information	SD3.2: Clients' participation	SD3.3: Empowerment
	Trust and information sharing	6			
3.1	Access to financial statements	2	2		
3.2	Claim/complaint	2	2		
3.3	% growth of savings	2	2		
	Client representatives	11			
3.4a	Decision at client's level	2		2	
3.4b	Decision/control at MFI level	2		2	
3.5	System of rotation	1		1	
3.6	% women	2		2	
3.7	Training	2		2	
3.8	Effective instances?	2	2		
	Empowerment	*8*			
3.9	Strengthening social capital	2			2
3.10	Local capacities	2			2
3.11	Beyond financial issues	2			2
3.13	Voice with the government	2			2
	TOTAL DIMENSION 3	**25**	**8**	**9**	**8**

Dimension 4 is divided into:
- SD4.1: Human resources policy
- SD4.2: Social responsibility towards clients
- SD4.3: Social responsibility towards the community

| D4	Dimension 4: Social responsibility of the institution	Score	SD4.1: HRP	SD4.2: Social responsibility towards clients	SD4.3: Social responsibility towards community
	Human resources policy	8			
4.1	Income	1	1		
4.2/ 4.3	Training	2	2		
4.4	Decision making	2	2		
4.5	Health insurance	1	1		
4.6	Departure of staff	2	2		
	Social responsibility towards clients	8			
4.7	Impact studies	2		2	
4.8	Change of products	1		1	
4.9	Study on over-indebtedness	2		2	
4.10	Foster savings	1		1	
4.11	Death insurance	2		2	
	Social responsibility towards community	9			
4.14	Compatibility with local culture and values	2			2
4.15	Type of individual activities financed	2			2
4.16	Local collective investment	2			2
4.13	Solidarity between branches	2			2
4.17	Measures for collective disaster	1			1
	TOTAL DIMENSION 4	**25**	**8**	**8**	**9**

Graphical representation

The results of the questionnaire can be entered in an Excel file, which allows them to be presented graphically:

1. By Dimension
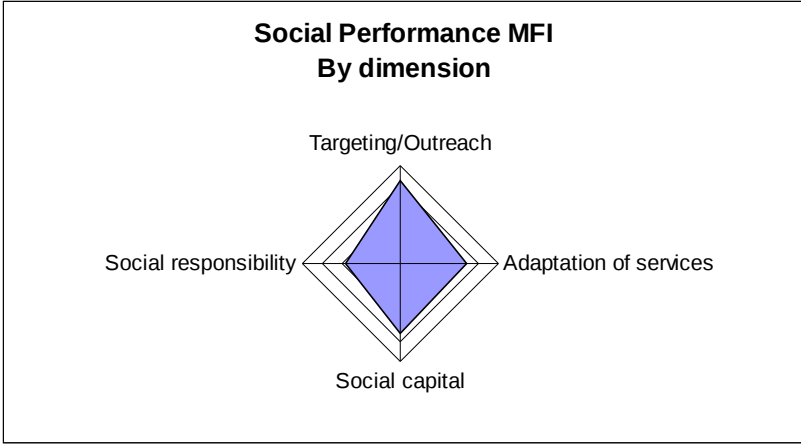
**Social Performance MFI
By dimension**

2. By Sub-dimension

**Social Performance MFI
By sub-dimension**
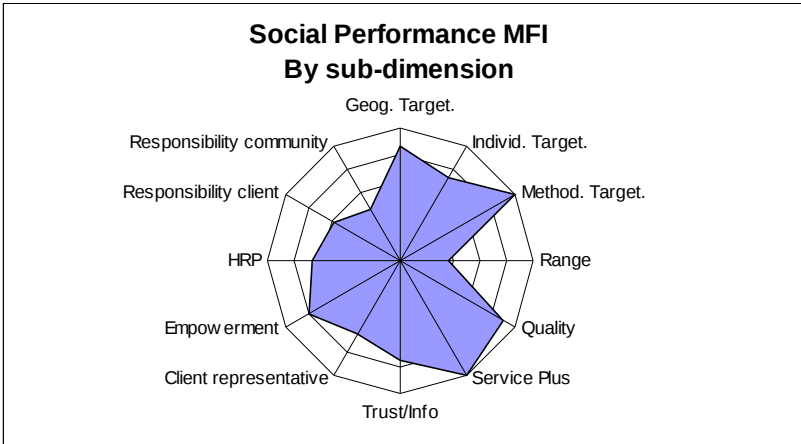
Analysis of the results can be carried out via discussion with MFI management and other interested stakeholders:

Has the MFI achieved its social objectives in terms of principles, action and corrective measures?

Which are the dimensions/sub-dimensions where the MFI is complying with its strategy?

Which are the dimensions/ sub-dimensions where more effort needs to be made?

What are the links to financial performance? Etc.

APPENDIX 1 – Information on GDP / Capita and Gini Index by country (in USD)
SEE on CERISE's website for updated information (http://www.cerise-microfinance.org)