SOCIAL PERFORMANCE INDICATORS: AN OVERVIEW[1]

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I. INTRODUCTION

For the purposes of analysis, the economy could be depicted as comprising the REAL sector which consists of agents producing and distributing goods and services, and the FINANCIAL sector which consists of institutions facilitating the exchange of goods and services through a common medium called money. In the case of the alternative economy we generally know as "Solidarity Economy", is it not appropriate to call its financial system "SOLIDARITY FINANCE" or finance of solidarity?

An economy is defined by certain principles and core values that guide the behavior of agents and institutions. These principles and core values are then expressed or coded in terms of standards which concretely define society's aspirations for excellence in performance and satisfaction of needs. In this workshop, we shall assume that the standards of Solidarity Economy are well established and generally accepted.

Indicators are used to measure the extent to which the established standards (the coded principles and core values) of an economy are attained. The present workshop on indicators is a landmark initiative at the World Social Forum because it provokes the forum to address the question: "To what extent has solidarity economy realized the standards it has set for itself?" But since we are dealing with the other half of the economy, the financial sector, we shall confine the discussion of our workshop on this sector.

A further limitation of our discussion is that we confine our analysis on a specific segment of the financial sector – investment finance for the disadvantaged groups and the excluded. I believe the notion of Solidarity Finance is much broader than this – it should encompass the entire system governing the financial and capital markets that supports solidarity economy including an alternative central banking system, alternative monetary system, alternative financial instruments, alternative equity instruments and equities market, and so forth.

Having defined the context of my presentation, let me now introduce the seminal work on social performance indicators initiated by Cécile Lapenu (Cerise), Manfred Zeller (Goettingen University Germany) and Martin Greeley (International Developement Studies IDS-Imp-Act, UK), supported by the steering Committee: Syed Hashemi (C-Gap), Renée Chao-Beroff (CIDR/Cerise), Koenraad Verhagen (Argidius Foundation) and the Alliance Workgroup on Finance of Solidarity.

II. THE FOUR DIMENSIONS OF SOCIAL PERFORMANCE OF MICROFINANCE INSTITUTIONS (MFIS)

Accordingly, the social performance of MFIs can be described in terms of four dimensions, namely:

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1 Report on the Indicators Workshop of the Workgroup on Solidarity Socio-Economy (WSSE) conducted at the Fifth World Social Forum (WSF V) in Porto Alegre, Brazil in January 2005.

1. Outreach to the poor and the excluded

An alternative economy such as Solidarity Economy captures the imagination of people because the existing, mainstream economy alienates the vast majority of the people and excludes them from its benefits. One of the instruments to reach out to the poor and the excluded and henceforth bring them to the fold of Solidarity Economy is Solidarity Finance. Thus, a fundamental standard of Solidarity Finance is that it provides the poor and the excluded an alternative, easy access to finance. This, then, is the first dimension of the SPI indicator.

To measure the outreach dimension, it is broken down into five (5) observable and measurable features, and the questionnaire is structured such that questions can be answered mostly by 'yes' or 'no', i.e. the presence of absence of the given feature.

a) Mission of the MFI: Many MFIs were established purposively to reach out to the poor and the excluded. This social mission was their reason for being. But other financial institutions have also joined the microfinance bandwagon and added a social dimension to their outreach. Moreover, the drive towards financial sustainability, necessary as it is, has overshadowed the focus on social mission.

b) *Geographic and socio-economic focus*: The physical location of outreach is important because the poor and the excluded can be found usually in specific geographic areas.

c) *Targeting instrument*: Outreach is more precisely defined through a targeting mechanism. Without this mechanism, the outreach focus cannot be refined to zero in on the poor and the excluded.

d) *Size of transaction*: A characteristic feature of microfinance outreach is that it caters to the micro-savings, micro-credit, and micro-insurance needs of the target clients.

e) *Collateral:* Solidarity finance creates an alternative means of loan security that suits the cash flow patterns of the assetless poor and the disadvantaged. A major cause of exclusion from the mainstream financial system is the latter's real-estate based collateral system.

2. Adaptation of Services to Clients

The second dimension of social performance is adaptation of MFI services to clients. An alternative system of finance for the poor and the excluded deliberately adapts to the needs of its clients – the poor and the excluded. This dimension is more concretely observed and measured through the following features of its services:

a) *Range of services*: A socially sensitive MFI provides a broad range of financial services (savings, credit, insurance) to its clients.

b) *Quality of services*: Client satisfaction depends both on ease of access to services and the quality of services. Sustainability of the MFI is inextricably linked to client satisfaction.

c) *Non-financial services*: As enterprise operators, the poor and the excluded require information, knowledge, and skills for growth and development. They have very limited opportunities for accessing these services, unless the MFI deliberately makes these available to them.

3. Social Responsibility Towards the Clients

The third dimension is the social responsibility of the MFI towards its clients. Essentially, this dimension relates with the improvement of the social and political capital of clients. A major cause of social exclusion is the lack of social and political capital on the part of the people. An alternative system of finance needs to address this root problem. The following features allows evaluators to observe and measure this third dimension of social performance.

a) Transparency of MFI operations: Greater understanding of the alternative financial system will lift the poor and the excluded from ignorance about financial contracts. This requires adequate information about the financial terms and conditions. 'Information is power', it is said.

b) *Clients representatives*: An alternative financial system encourages participation of the clients in decisionmaking.

c) Empowerment of the clients: An alternative financial system strengthens social cohesion of the community, enhances the voice of the clients in public institutions, and increases the influence of the MFI on public policy.

4. Social Responsibility of the Institution Towards the Local Community

The fourth and last dimension of social performance is social responsibility of the institution, observable and measurable in terms of the following features:

a) Human resources policy: The MFI enhances its social responsibility to its employees by being fair to them, taking care of them, and providing them opportunities for professional growth.

b) *Social responsibility to the clients*: The MFI enhances its social responsibility to its clients by being sensitive to their needs, taking measures to understand their situation and language, and providing them the means to recover in times of collective disaster.

c) Social responsibility to the local community: The MFI enhances its social responsibility to the local community by understanding the people's culture and values, supporting community projects, and being sensitive to their situation and needs.

Constructing the Social Performance Index (SPI)

Each of the four dimensions were given a sub-total score of 25 points, or a grand total of 100 points for the highest score. The social performance of a MFI is gauged by its total score on all four dimensions. A MFI with SPI of 80 is said to be better in social performance compared to a MFI with SPI of 60.

III. DEVELOPING A PARTICIPATORY SOCIAL PERFORMANCE ASSESSMENT (PSPA)

A small experiment was made by the author to test the feasibility of a participatory approach to social performance assessment in lieu of the survey approach. The participatory approach gives the clients themselves the privilege of regularly evaluating the social performance of the MFI.

The author suggested that more such experiments should be encouraged.

IV. QUESTIONS FROM WSF V PARTICIPANTS & ANSWERS OF THE AUTHOR

WSF V Participants (WSF)*:* *What is the difference between microfinance and solidarity finance?*

Author (BQ): Microfinance is only one of the forms of solidarity finance, although it is the most successful and widespread the world over to date. Solidarity finance should include finance for alternative health system for the poor and the excluded, finance for alternative education system, finance for alternative housing, finance for alternative trade or fair trade, and so forth.

WSF: *There are indications that microfinance is not reaching the poorest. Are microfinance institutions abandoning their social mission?*

BQ: We have come full circle in our journey with microfinance. MFIs started as not-for-profit institutions with a predominant social mission and characteristically high administrative costs. But when donor funds began to pour into the sector, the issue of financial sustainability rose to the fore. In order to avail of more donor funds, MFIs have to give more focus on their financial sustainability. In not a few cases, this meant increasing the size of loans on existing clients, and expanding outreach not among the poorest but among the not-so-poor who could absorb larger loan sizes over a shorter time period. Hopefully, the SPI initiative will restore a balance between the social responsibility of MFIs and their financial sustainability. A relevant question to deal with is whether there is a systematic relationship between social responsibility and financial sustainability, or is a trade off inevitable, and at what cost?

WSF: *Is Solidarity Finance a means for building up Solidarity Economy, or is it a result of solidarity economy initiatives?*

BQ: Solidarity finance should be an integral part of the design of solidarity economy, which is based on solidarity and cooperation. In other words, as the alternative systems of production and distribution are being put together, the alternative system of finance which fuels the flow of goods and services in the alternative economy should also be set up. In reality, the practice of solidarity economy conspicuously lags behind ideas that shape the vision. It is extremely difficult, for instance, to pool physical assets such as land, houses, or to merge small enterprises in order to create a concrete base of solidarity economy. Money is easier to pool and conveniently divisible (you can divide 1 unit of currency to the nearest hundredth). As a result, solidarity and cooperation in financial mobilization often provides a least cost initiative towards building solidarity economy.

WSF: *Is there a way to distinguish solidarity finance from other forms of finance that also cater to the poor and the excluded?*

BQ: The relevant issue really is whether the financing program/ institution – whoever is running it - has a social mission and is socially responsible. In this regard, the SPI instrument is timely and highly useful. It is reasonable to view SPI as a potential introductory instrument that could usher in the more complicated process of classifying and labeling solidarity finance institutions. If it is at all possible, organizations participating in WSF may be requested to apply the SPI in order to evaluate the extent to which their financing programs are socially oriented and socially responsible. Perhaps, some organizations may only attain a SPI score of 30, others higher. But at least we can gauge the movement of organizations towards a more socially responsible finance to the poor and the excluded.