

Toward a Social Performance Bottom Line in Microfinance

Much of the passion behind microfinance is driven by its potential to help poor people better manage their financial resources, take on new economic opportunities, mitigate everyday risks, reduce vulnerability, and improve their living conditions. Yet the success of microfinance is often measured by the financial performance of institutions, not on how clients are faring, nor on how well institutions are meeting their social objectives. In fact, just a couple of years ago, there was significant opposition in the industry to introducing performance criteria to assess social achievements. The assumption was that high loan repayment rates proved that microfinance benefited the poor and that adding more performance indicators would be burdensome and would dilute the focus on financial sustainability the industry had struggled to achieve. Today, as the industry takes a harder look at its ability to serve very poor people, organizations are taking a second look at measuring social performance and developing guidelines and tools for reporting.

What Is Social Performance?

Social performance is the effective implementation of an institution's social mission into practice. This mission may include serving larger numbers of poor and excluded people; delivering high-quality and appropriate financial services; creating benefits for clients; and improving the social responsibility of an MFI.¹

Although development programs are traditionally evaluated on their end results and impact, the concept of social performance is not just about end impacts. It encompasses the entire process that leads up to, and determines, impact. Social performance starts with an organization's mission and includes analysis of its declared objectives, the effectiveness of its systems and services in meeting these objectives, and related outputs (for example, reaching larger numbers of very poor households), including any positive changes in the lives of clients. This expansive definition recognizes the diversity of institutions and their differing objectives.

The Social Performance Taskforce

The Social Performance Taskforce was created in March 2005, by CGAP, the Ford Foundation, and Argidius Foundation to create standardized tools to assess and report on social performance and to address the industry's opposition to social performance. The Taskforce created a common, coordinated, global platform to promote social performance in a way that would complement existing financial performance standards.

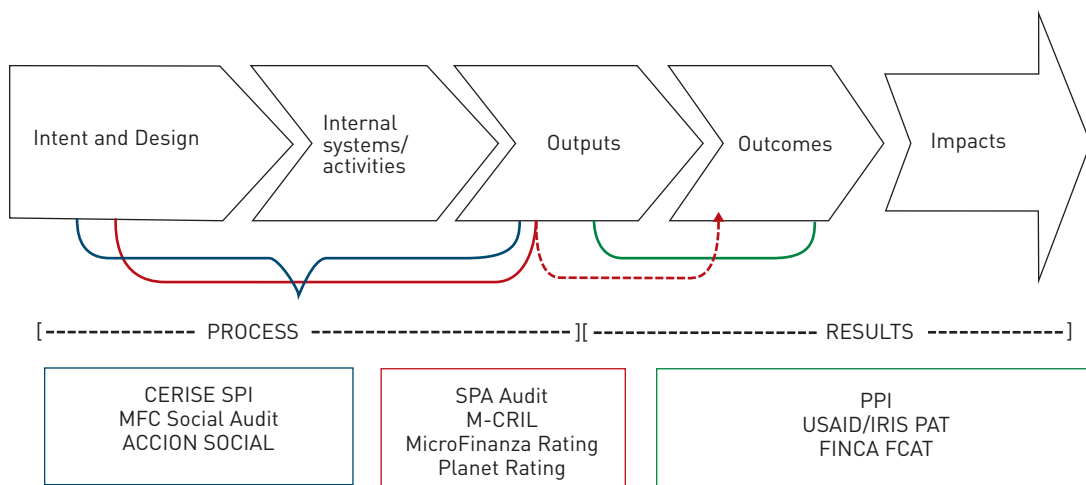
Today more than 150 organizations belong to the Taskforce, and collectively they have made significant progress. Taskforce members agreed on a common definition of social performance and a common framework that spells out its constituent elements. At its most recent meeting, the Taskforce decided on a common reporting format: a set of indicators institutions that claim to have a social mandate can use to report on their social performance.

The Common Reporting Format

The common reporting format for monitoring social performance is a small set of core indicators on which the Taskforce believes institutions should report. It includes three main areas: **intent** (whether institutions have a clearly defined social mission and social goals), **process** (whether institutions track achievements on their social objectives, and whether they treat staff and surrounding communities ethically), and **results** (whether institutions are reaching poorer and more marginalized populations, and whether clients are experiencing positive social and economic changes). The reporting format will be hosted on the MIX Market; institutions can choose to report on some or all of the indicators.

The indicators are designed to be simple and relatively easy to report. In most cases, institutions will already collect much of the information necessary to report on the intent and process indicators. Information for these indicators should be readily available through internal documents and procedures or through the tools mentioned below. However, reporting on the results indicators is more difficult because they require collecting client- or household-level data on living standards. To collect such data, MFIs can use survey tools, such as the IRIS Poverty Assessment Tools (developed by IRIS for USAID) or the Progress out of Poverty Index (developed by Mark Schreiner for CGAP, the Grameen Foundation, and the Ford Foundation).

¹ The Social Performance Taskforce adopted this definition in one of its first meetings.



Assessing Social Performance *Intent and Processes*

Assessment tools that focus on the intent and process aspects of social performance can help an MFI report on the intent and process indicators of the common reporting format. For example, CERISE,² which came out with the first social performance assessment tool, measures outreach to poorer clients, quality of services, social capital of clients, and social responsibility of institutions. These assessments are conducted through indirect measures, such as an analysis of internal systems and organizational process of institutions, rather than examining client-level conditions directly.

A few specialized rating agencies (M-CRIL, Microfinanza Rating, and Planet Rating) offer social performance ratings to complement the credit ratings they conventionally offer. These ratings primarily rely on information available at the institutional level to determine the likelihood of institutions achieving their social missions. M-CRIL is also prepared to do a comprehensive rating that encompasses all dimensions of social performance. A comprehensive rating includes a survey of clients to empirically determine their economic levels and, over time, the economic and social changes they experience.

Assessing Results: Client Economic Levels and Change

Developing rigorous tools to examine results (the economic levels of clients and changes they experience) has been hindered by the high cost of collecting rich client-level data and the complexity of proving impact causality (that improvements in client lives were a direct and exclusive result of microfinance services). But we now have two viable tools: the IRIS Poverty Assessment Tool and the Progress out of Poverty Index (PPI). Although neither proves causality, both the IRIS tool and PPI use national household survey data to create indicators that rigorously estimate client economic levels.

PPI is user friendly and consists of a set of 10 simple questions (pertaining to housing conditions, use of toilets, asset own-

ership, etc.). Responses are scored according to a point system that is previously calculated through rigorous econometric exercises. MFI staff use the scores to determine the percentage of their clients who live below the poverty line or on less than \$1 or \$2 a day. Tracking the same clients over time can provide estimates of changes in client conditions. Global comparisons of MFIs across countries can be made easily because they all report on common benchmarks of national poverty lines, or \$1 or \$2 a day.

Next Steps

If social benefits are central to the vision of microfinance, managing and monitoring social performance is an essential piece of microfinance practice. Progress made by the industry in developing tools and adopting a common reporting format speak to this commitment. Although each MFI will adopt a system that best suits its needs—one that enables it to serve its target clientele and helps it to achieve its mission—funders need to encourage social performance management and global reporting on social performance on the MIX Market. Funders also can offer technical assistance for social performance, purchase social ratings, and offer awards to encourage and recognize innovations in the field. Social performance measures are one way we, as an industry, can hold ourselves accountable to tax payers, funders, and most important, clients.

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For more information:

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The Social Performance Resource Center. http://microfinancegateway.org/resource_centers/socialperformance

² Comité d'Echange, de Réflexion et d'Information sur les Systèmes d'Épargne-Crédit