

Guidelines to Evaluate Social Performance

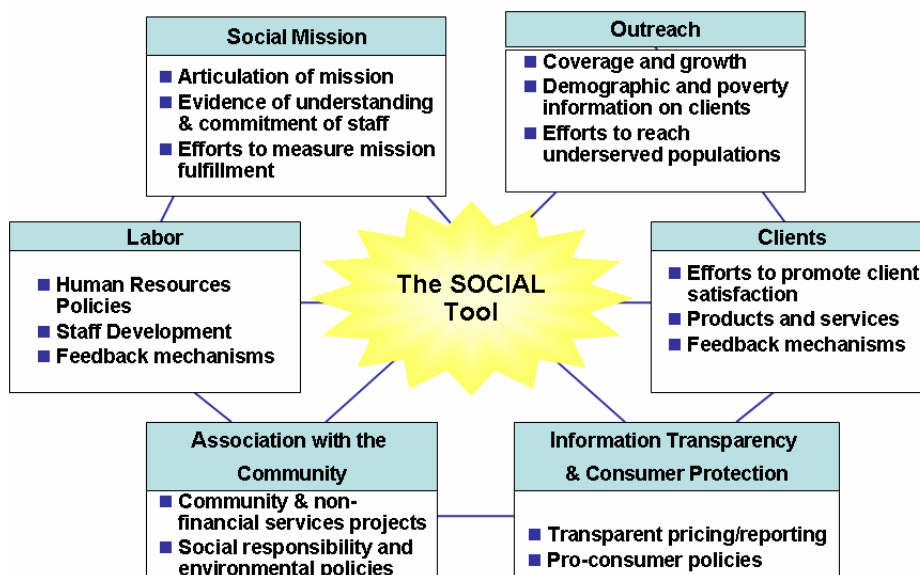
Social goals drive the strategies of many microfinance institutions, yet many of these institutions are judged primarily on their financial performance. Measuring and reporting on social performance is a key way for double bottom line institutions to define the social value they create, while holding themselves accountable for the goals articulated in their mission.

This *InSight* describes a framework that microfinance institutions can use to assess and report on their social performance. ACCION has applied this framework to analyze how six leading microfinance institutions adhere to these social performance criteria. The results of this application inform this *InSight*.

I. Defining Social Performance

The premise of this article is that every microfinance institution can and should measure its social performance. But what exactly is social performance? An industry-wide task force recently defined social performance as “the effective translation of an institution’s social mission into practice in line with accepted social values.” No widely adopted standards for social reporting in microfinance exist at this time. Many different tools exist to evaluate social performance, each with its own frameworks and level of detail.¹ All are valid—and each represents an attempt by its developing organization to come to terms with the difficult topic of social performance measurement.

Figure 1: Dimensions of Social Performance



¹See Hashemi, S. et al. “Beyond Good Intentions: Measuring Social Performance at Microfinance Institutions” CGAP Focus Note 41 for a description of microfinance-specific social performance tools.



In 2005, ACCION developed a reporting framework that covers six dimensions of social performance. This tool was named the SOCIAL which is an acronym for the principles of social performance that provide the foundation for this tool: **S**ocial Mission, **O**utreach, **C**lient Service, **I**nformation Transparency and Consumer Protection, **A**ssociation with the Community and **L**abor, as shown in Figure 1.

Why Measure Social Performance

A tradeoff between social and financial performance need not exist. “Social issues are not so much tangential to the business of business as fundamental to it,” Ian Davis, current Managing Director of McKinsey and Company² recently wrote. Those who ignore the social bottom line not risk their own reputation and miss potential opportunities. Addressing social issues can help institutions to create both economic and social value.

Microfinance institutions have different reasons to evaluate social performance, depending on their institution type and maturity. Those reasons include:

- Providing information on how the microfinance institution is perceived by clients, staff and the community to stakeholders, such as socially responsible investors or donors
- Improving organizational performance, by highlighting strengths and weaknesses in different areas of social performance;
- Mitigating risk—particularly political risk of greater regulatory control—by demonstrating transparency and voluntarily disclosing a broader set of information to stakeholders
- Differentiating their brand from other financial institutions

For **investors**, who are making a decision about becoming financially involved with an MFI, reasons to measure social performance include:³

- Monitoring how well an MFI investee is fulfilling its mission;
- Evaluating investment opportunities;
- Reporting to shareholders
- Improving governance, in the cases of where investors serve as Directors of the institution
- Disseminating information for lobbying or in marketing investment opportunities to prospective shareholders.

The collaboration of both microfinance institutions and social investors is needed to make social performance successful.

II. How ACCION’s Social Performance Tool Was Developed

ACCION’s framework draws from a variety of existing initiatives from various disciplines: some to measure social performance, some specific to microfinance and other “mainstream” initiatives that are being applied to businesses across all sectors. Table 1 describes how indicators from these frameworks were used to create a specialized microfinance evaluation tool.

² Davis, Ian. “The Biggest Contract,” *The Economist*. May 26, 2005

³ Reddy, R. “Social Performance Practices of Equity Investors in Microfinance.” Unpublished report for the Council of Microfinance Equity Funds. May 2005.

Table 1: Sources for ACCION’s Social Performance Tool

Institution	Source	Indicators
ACCION International	Poverty assessment ⁴	Outreach
ACCION International	CAMEL financial performance diagnostic ⁵	Labor
ACCION Network/ Microfinance Network	Pro-consumer pledge	Information transparency and Clients
CERISE	Social performance indicators project ⁶	Clients and Outreach
Global Reporting Initiative (GRI)	Sustainability reporting tool ⁷	Social Mission, Association with the Community, Labor

ACCION also used survey data on social performance practices and preferences of social investors in microfinance to design this tool. These social investors expressed a desire for a metrics for social performance that were: meaningful, easy to understand, relatively inexpensive to collect, widely accepted by stakeholders in microfinance, broadly applicable to industries other than microfinance, yet specific enough to aid microfinance institutions in making better decisions.⁸

Finally, ACCION gathered input from its staff working in areas related to each of these dimensions and from the institutions where the social performance tool was tested. Starting in 2005, ACCION tested its social performance audit tool at six institutions. ASA-GV, India (2007), BanGente, Venezuela (2006), CREDIFE, Ecuador (2005), Fundacion Paraguaya, Paraguay (2006), Mibanco, Peru (2006), and Uganda Microfinance Limited, Uganda (2007), each of which were provided with a detailed assessment report and recommendations to improve their social performance. Two ACCION staff conducted the social audit at each institution. Indicators that were chosen for inclusion in this paper were considered practical and obtainable at most, if not all, of institutions.

Unlike some existing social performance tools, this social performance framework focuses on indicators involving processes and outreach indicators and does not purport to measure the change over time that results from being a participant in a microfinance institution, a.k.a impact. Rigorous studies of impact require an external unbiased party (typically a research institution) to conduct the research and are too costly to be regular ongoing monitoring tools.⁹ Thus, this tool confines itself to processes of the microfinance institution and data on the current status of clients. However, it is assumed that an institution that has positive social performance will have a positive impact on client well-being over time. Institutions should complement their information on social

⁴ Reddy, R and K. Horn Welch. (2006) Measuring Poverty at Microfinance Institutions: Lessons from the ACCION Network. *ACCION Monograph 16*. Boston, MA.

⁵ ACCION International, ACCION Camel Technical Note, 2003.

⁶ Zeller, M. C. Lapenu and M. Greely, “Social performance indicators: A summary report (2003) <http://www.cerise-microfinance.org/publication/pdf/impact/SPI-summary.pdf>

⁷ www.globalreporting.org

⁸ Reddy, R. “Social Performance Practices of Equity Investors in Microfinance.” Unpublished report for the Council of Microfinance Equity Funds. May 2005.

⁹ For further information on methodological issues measuring impact, i.e. changes that can be attributed to participation in a microfinance program, read Karlan, D. and N. Goldberg. “The Impact of Microfinance: A Review of Methodological Issues” August 2006

performance information with information on client impact obtained through deeper studies, from time to time.

Social Audits and Social Scorecards

Although this tool was initially developed as one to be used by evaluators assessing a microfinance institution, few institutions have the resources to commission external evaluations. In this article, ACCION presents a simplified reporting tool that MFIs can use for self-evaluation of their social performance. Two outputs are possible, presented in Table 2 below.

Table 2: Recommended Social Performance Outputs

	Description	Level Of Effort to Formulate Report	Suggested Frequency
Social Audit Report	A self-evaluation conducted by an MFI that provides details of an MFI’s social performance activities by area and is available for public dissemination.	At least 4 person days, depending on data available	Annual
Social Scorecard	A 1-page compilation of key indicators that is frequently updated and used by a MFI’s senior management, Board of Directors and other key stakeholders to inform management decision making.	1 to 2 days	Quarterly or Monthly

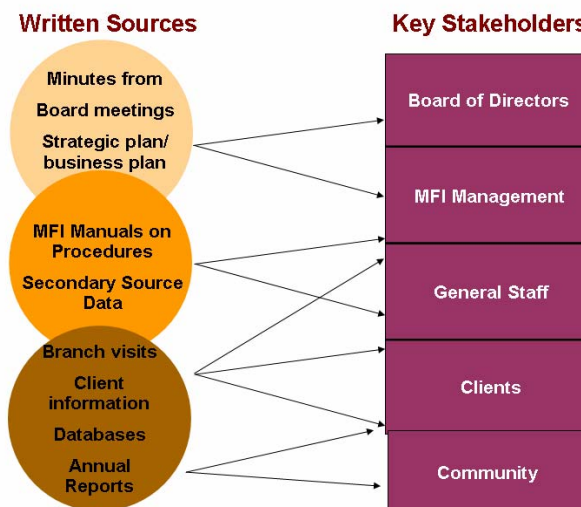
A sample social audit report, using examples from six MFIs that have undergone a successful social audit, is described in this *InSight*. This is a voluntary disclosure framework that organizations can tailor to their own mission and adopt incrementally as their information gathering capacity increases. The indicators used in this assessment are intended to be broadly relevant to all organizations regardless of size, institution type, or geographic region.

An illustration of a social scorecard is included in this report. The process of creating a social scorecard is discussed at the end of this report.

Information Collection

Social performance reports elicit information from a microfinance institution’s key stakeholders: its management, its staff, its clients and the general community where the microfinance institution operates. Documentation on the institution’s processes and actions and conversations with those who interact with the microfinance institution validates information about an institution’s direction, processes and target clientele. The major information sources used in social performance reports are shown in Figure 2.

Figure 2: Information Used in Social Performance Reports



For example, minutes of meetings from the Board of Directors and an institution’s strategic plan provide information on the management and direction of the microfinance institution, while microfinance manuals and branch visits provide information on the day-to-day operation of the microfinance institution. Information on clients, gathered from the institutional databases and compared to secondary source data provides information on how the microfinance institutions are meeting its target market. Annual reports and other statements of activities provide information about an institution’s philanthropic activities. Most of the information used in this report and social scorecard is commonly available at most microfinance institutions. In some cases, data analysis and calculations of client data are necessary.

III. Illustrations from Six Social Audit Reports

This section discusses the six key dimensions of social performance and presents examples from six institutions in Latin America, Asia and Africa that exhibit strong social performance.

Dimension 1: Social Mission

Principle: Evidence of understanding and commitment to institutional mission should be present at all levels of staff and in all aspects of the MFI’s work. Fulfillment of social mission should be evaluated regularly.

Most microfinance institutions were incorporated with both social and financial goals. An institution’s social mission provides a roadmap of an institution’s specific social goals—whether they are women’s empowerment, alleviating poverty or simply increasing access to financial services. This dimension discusses how MFIs can evaluate their commitment to institutional mission and different mechanisms to measure mission fulfillment.

Key Social Mission Indicators
<i>Articulation of and commitment to institutional mission</i>
✓ The MFI has a clearly articulated mission and/or vision statement that describes the social goals and core values of the MFI.
✓ The MFI’s mission includes a focus on reaching clients without access to financial services in a sustainable manner.
✓ The institution’s strategic plan reflects a clear plan to implement the institution’s social mission.
✓ The Board of Directors addresses both social and financial issues during their meetings.
✓ Knowledge of and adherence to the MFI’s mission is actively promoted among staff members at all levels through training and properly aligned incentives.
✓ Senior management and the Board of Directors are diverse with respect to gender and experiences.
<i>Efforts to measure mission fulfillment</i>
✓ The MFI sets targets for social performance goals and regularly presents key indicators and other indicators relevant to social performance to its board.
✓ The MFI conducts or commissions periodic surveys to assess impact, using quantitative or qualitative research techniques.
✓ The MFI actively considers and uses measurements of social performance in management decisions.

Mission: The Case of ASA - Grama Vidiyal, India

Articulation of and commitment to institutional mission

An institution with strong social performance with respect to the social mission dimension is ASA - Grama Vidiyal (GV), an Indian NGO and microfinance service provider to more than 215 thousand women. Its social mission is clearly defined: “to empower women of the poorest families socially, economically and politically through networking them into community institutions and an efficient poverty alleviation and microfinance program.”

Initiatives stated in the MFI’s most recent strategic plan and other written documents, such as its annual report, are consistent with its institutional mission statement. In addition to financial services provided, GV organizes regular committee meetings in its branches for members to address social and political issues, and more than 150 of its clients have been elected to local governance roles. GV’s Board of Directors includes female members and community representatives. The minutes from prior year’s Board of Directors meetings show a balance between social and financial issues.

Employees that join the organization undergo a two day orientation training program where they receive training on GV’s history, its mission and vision. Overall GV staff members that were interviewed knew and associated strongly with GV’s mission and vision, with many responding that one of their primary reasons for working with GV was their concern for poor.

GV clients attend weekly repayment meetings where they are asked to pledge their commitment to GV. At the same time, field staff pledge their responsibility to GV and commitment to spreading GV values such as integrity, honesty and social focus. To emphasize the importance of values, GV conducted a “values launch” at the end of 2006. As part of this initiative, they

conducted a value assessment survey of senior staff. Junior staff assessed their managers on their commitment to values. Staffs with outstanding grades were honored with cash and other prizes.

Efforts to measure mission fulfillment

GV has actively sought to measure accomplishment of its social mission. GV has participated in development of tools to measure poverty levels of microfinance clients through programs sponsored by USAID, CGAP and the Ford Foundation. For more than 3 years, GV has analyzed the impact of its services on clients using a small random sample of clients who documented their life changes in diaries. GV has taken actions to improve services based upon results of research on clients. A recent example was the addition of a new seasonal loan, on the basis of suggestions from a client survey.

<i>Dimension 2: Outreach</i>
Principle: Microfinance institutions should broaden access to financial services, particularly to poor and underserved populations.

Outreach, the concept of how many and which clients an MFI serves, is one of the most highly valued dimensions of social performance. To some, the “market test” of whether clients take up services serves as a proxy variable indicating positive impact on clients. Most microfinance mission statements refer to an objective of increasing financial services. Many indicators on outreach are quantitative. Although most institutions will be able to report on indicators of coverage and growth with ease (this data forms part of general MFI reporting), data on demographic information on clients and the data needed to assess poverty levels may not be available at all MFIs. Poverty measurement has its own challenges. ACCION typically uses expenditure data from clients that is collected through the credit evaluation process and compares this data to national poverty lines.¹⁰

Key Indicators: Outreach
<i>Geographic Coverage and Growth</i>
✓ Number of active clients
✓ Number of branches
✓ Percent growth rate of clients in the last year
✓ Map: Geographic coverage of the country
<i>Demographic and Poverty Information on Clients</i>
✓ Percent female clients
✓ Client education levels
✓ Percent rural clients
✓ Percent poor clients (compare to % of poor nationally)
<i>Efforts to Reach Underserved Clients</i>
✓ Percent clients with loans not requiring the pledge of physical assets or monetary collateral
✓ Average loan size (annualized)
✓ Average loan size as a % of annual GNI (gross national income 11) per capita

¹⁰ The results of ACCION’s work on poverty assessment are available at <http://www.accion.org/pubs>. Other initiatives for poverty measurement in the microfinance industry are that of Grameen Foundation’s Progress out of Poverty index and USAID-sponsored Poverty Assessment Tools developed by the IRIS center.

¹¹ ACCION used World Bank information on GNI per capita converted to dollars using the Atlas method that was available at <http://siteresources.worldbank.org/DATASTATISTICS/Resources/GNIPC.pdf>

- ✓ The MFI makes efforts to promote access to its services to poor clients and/or clients without access to financial services. (ex: targeting or operating in areas of high need)

Outreach: The Case of Mibanco, Peru

Mibanco, a Peruvian microfinance bank that was founded as a non-profit community development organization, provides an example of an institution with excellent performance in outreach. Its mission statement affirms its commitment to being a leader in providing quality financial services to micro and small businesses, as well as the low-income sector of the population with limited access to traditional banking system.

Table 3: Key Data Mibanco (Data as of June 2006, unless otherwise noted)

Coverage and Growth	
Indicators	Data
Number of clients (June 2007)	252,740
Number of branches (June 2007)	81
Growth in clients (June 07/June 06)	29%
Loans granted in areas outside of Lima	51%

According to the MIX Market, in terms of number of clients, Mibanco is the largest microfinance institution in Peru with extensive coverage of branches in Lima and Peru's provinces.

Table 4: Demographic and Poverty Information on Clients

Women	55%
Education level	18% of clients report educational level of primary school or lower
Rural Borrowers	Not available.
Poor Clients	60%

Mibanco collected data on client gender and education levels in its MIS (information system) as part of its credit evaluation process. Using June 2006 data of nearly 200 thousand clients on family expenditure and family size collected from Mibanco's database during the credit evaluation process, ACCION calculated the percentage of poor clients to be 60 percent, similar to the national poverty level of 66 percent.

Table 5: Efforts to Reach Underserved Populations

Clients with loans not requiring physical or monetary collateral	11%
Average loan size	\$1,180 (3,669 soles)
Average annualized loan size as a percent of Peruvian GDP per capita	50%
New Mibanco clients as a percentage of borrowers that entered the Peruvian formal financial sector for the first time	27%

Mibanco offers a product called "Chasqui" that is designed to facilitate credit access to lower-income niches. With small loan sizes and no physical or monetary guarantees required, Chasqui

credits quickly grew to represent 11 percent of all Mibanco clients in 2006. Mibanco’s average loan size was approximately 50 percent of Peruvian annual gross national income (GNI) per capita (US\$2,360). Some have suggested that MFIs with an average loan size of 20 percent of annual GNI or GDP per capita are attending poorer segments of the population.¹² Although this assertion has been disputed, this indicator provides information about the nature of the financial services provided.

The Peruvian credit bureau collects information on individuals entering the formal credit system for the first time, disaggregated by financial institution providing the credit. With this information, Mibanco knows how many of its clients are receiving formal financial services for the first time, and how these clients contribute to the percentage of the banked in Peru. In the first half of 2006, nearly 1/3 of new formal financial system borrowers were Mibanco clients.

Dimension 3: Clients
Principle: Microfinance institutions should offer quality services that fulfill the financial needs of clients.

How an MFI interacts with its key stakeholders is a key component of social performance. Clients are key stakeholders of microfinance institutions, and providing clients with quality services is at the heart of any social performance assessment. Positive relationships with clients can enhance both the financial and social bottom line of MFIs and ensure that the reputation of the MFI remains positive.

Key Indicators: Clients
<i>Products and Services</i>
✓ Percent of clients with credit
✓ Percent of clients with savings
✓ Percent of clients with insurance
✓ Percent of average annual effective interest rate charged (includes commissions and fees ¹³)
<i>Efforts to Promote Client Satisfaction</i>
✓ The MFI provides incentives to keep its best clients, such as preferential interest rates, gifts, or automatic loan renewal.
✓ Incentives for loan officers incorporate the retention of clients as an important indicator.
✓ The MFI promotes quality customer service to staff by offering training on this topic and by providing adequate resources to promote prompt and courteous service to clients.
✓ The MFI measures response times: such as, the time it takes between the end of the credit evaluation and disbursement.
✓ The time spent in the branch by clients does not represent an undue burden on clients.
<i>Feedback mechanisms</i>
✓ Percent of client retention rate (year/year, ACCION network average was 79% in 2006)
✓ The MFI regularly conducts exit surveys to understand who drops out and why, and uses this information to improve operations.
✓ The MFI solicits feedback from clients (through client satisfaction surveys or focus

¹² Barres, Isabelle. "The MicroBanking Bulletin: Microfinance Information Exchange, Issue No. 8. November 2002.

¹³ The Microfin business planning software for microfinance includes an effective interest rate calculator.

groups) at least once per year.
✓ The MFI has mechanisms in place to receive feedback and resolve complaints (ex: a publicized telephone number, e-mail, suggestion box).
✓ The MFI informs customers of any external consumer protection authority, and publicizes how and when to contact them.

Clients: The Case of Fundacion Paraguaya, Paraguay

Products and Services

Fundacion Paraguaya, an NGO founded in 1985, offers a diversity of financial products that enable it to serve distinct market niches within Paraguay. It is an example of a microfinance institution with strong social performance with respect to its clients. It offers credit for working capital, fixed assets, consumer needs, and for the improvement of homes. One mechanism for offering working capital credit is a village banking product of small loans exclusively for women. Other loan products are larger in size and targeted towards “larger” small businesses. As Fundacion Paraguaya is an NGO and not a bank, it is not permitted to capture savings or offer insurance. However, the organization does try to foment a savings culture by encouraging clients to open savings accounts in other banks.

Table 6: Key Data Fundacion Paraguaya (Data as of July 2006)	
Indicators	Data
Client retention rate	97%
Clients with credit	100%
Clients with savings or insurance	Not permitted due to regulatory structure
Average annual effective interest rate	54%

Efforts to Promote Client Satisfaction

Fundacion Paraguaya has one of the highest rates of client retention in the ACCION Network—96 percent in 2006, compared to an average of 79 percent for the 30 MFIs for which ACCION collects data. Although Fundacion Paraguaya does not automatically survey clients who leave the institution on their reasons for exit, their IT department creates lists of inactive clients and each loan officer must note the reasons for the client’s exit.

Fundacion Paraguaya offers special training for staff on ways to improve customer service. The incentive system for loan officers includes number of active clients as a key variable, and thus rewards staff for retaining clients.

Feedback Mechanisms

Clients interviewed about customer service acknowledged that response time is a strength of Fundacion Paraguaya. Fundacion Paraguaya is proactive in measuring its efficiency, and although reporting is not computerized, each regional office issues periodic reports on time elapsed between the credit application and the loan disbursement, which averaged between 2 to 4 days in 2006. Fundacion Paraguay also conducts intermittent surveys of client satisfaction.

Dimension 4: Information Transparency and Consumer Protection
Principle: The ideals of transparency and consumer protection should govern the actions of MFIs.

Information transparency and consumer protection are ideals that microfinance institutions strive to incorporate. In developing countries, where government regulation on these themes may be spotty or nonexistent, an MFI’s willingness to voluntarily adopt these principles assumes increasing importance. The labor component is framed within the context of the ACCION Network/Microfinance Network consumer protection pledge¹⁴ which has been adopted by more than 30 MFIs worldwide. National consensus among microfinance institutions regarding these issues should be a goal—in that way no institution feels that they will be at a competitive disadvantage by adhering to these principles.

Information Transparency and Consumer Protection: The Case of Uganda Microfinance Limited, Uganda

Key Indicators: Information Transparency & Consumer Protection
<i>Promoting Transparency</i>
✓ The MFI actively discloses and promotes client understanding of loan terms.
✓ The MFI provides clients with understandable receipts of all transaction.
✓ The MFI provides specific sessions that explain loan terms to each client before the loan is disbursed.
✓ Effective interest rates (including all commissions and fees) are disclosed to clients.
✓ The MFI publishes comprehensive regular reports of its activities and makes this information available to key stakeholders and other community actors.
<i>Consumer Protection</i>
✓ The MFI has developed a code of ethics and disseminated it to its staff.
✓ The MFI does not have any discriminatory practices in its provision of credit.
✓ The MFI has developed policies to safeguard client privacy, disseminated them to staff and verified them through internal audit procedures.
✓ The MFI has established policies to prevent unethical treatment of clients (particularly delinquent clients), disseminated them to staff and verified them through internal audit.
✓ The institution has developed policies to avoid creating over-indebtedness in clients and disseminated them to staff.

Promoting Transparency

Uganda Microfinance Limited (UML), a regulated microfinance deposit taking institution, is a good example of an institution that is transparent and adheres to consumer protection ideals. UML signed the ACCION network’s consumer protection pledge in 2004. To promote transparency, UML clearly discloses interest rates and fees on loans it issues. Clients receive printed receipts from cashiers for each transaction that takes place in a branch. UML staff are required to provide clients with written receipts for any fees or payments received outside of the branch.

Each potential UML solidarity group client is required to undergo a seminar on credit terms and procedures from the loan field officer. In addition to English, UML has developed pamphlets describing UML products in some local languages. UML disseminates key information to

¹⁴ For more information about the pledge and its principles, see Devaney, Patricia Lee. “Guidelines for Consumer Protection,” ACCION Monograph 14.

stakeholders through its annual report, the MIX market microfinance clearinghouse, a newsletter, and its website.

Consumer Protection

Although UML does not have a formal code of ethics, it has clear guidelines on permissible staff conduct, including descriptions of penalties for various infractions. General training on ethics and values is provided for new employees during induction.

UML makes efforts to safeguard client privacy. Its loan policies and procedures manual outlines guidelines for preserving client loan documentation. It requires the storage of key security documents in safes accessible only to the loan officer. Cashiers are clearly instructed not to give information on clients to any third parties. UML’s independent internal audit function conducts detailed work including verification of policies and procedures, visits to every branch, verification of clients at each branch and follow-up on any suspicions of fraud.

UML has distinct and clear policies on the treatment of clients and delinquency management with appropriate action at each phase of delinquency. UML also makes efforts to minimize client overindebtedness. UML’s credit policies involve an in-depth analysis of client capacity to pay. For group loans, social guarantees provide the most important indicator of client capacity to pay. However, without a national credit bureau system that captures complete information on client credit history, overindebtedness has been a problem for some clients. Quarterly trainings for staff, incentive systems that penalize delinquency in portfolios, and an emphasis on careful determination of client capacity to repay during the credit evaluation help staff assist clients in avoiding overindebtedness.

Dimension 5: Association with the Community

Principle: Microfinance institutions should maintain positive relations and strive to improve the communities in which they operate.

This dimension captures indicators that reflect a MFI’s relationship with its surrounding community. Indicators include efforts to promote community projects with social benefits as well as efforts to minimize any negative effects on the community resulting from the MFI’s operations—which are often termed as corporate social responsibility. These indicators below track whether microfinance institutions can promote environmental and social standards.

Many more possible indicators exist than the ones listed below and institutions should report on additional areas that they feel are relative to their social mission. For example, the Global Reporting Initiative has developed an extensive list of indicators to measure direct environmental impacts of institutions.¹⁵

The idea of corporate social responsibility is controversial to some. Many feel that while it is correct that corporations should behave ethically and transparently, the idea that a corporation should use its resources to promote social purposes is irresponsible. Yet, many microfinance institutions were created to pursue both social and financial goals. And if social performance helps to improve overall performance by building goodwill and improving an institution’s relationship with the community, a tradeoff between the two may not exist at all.

¹⁵ www.globalreporting.org



Association with the Community: The Case of BanGente, Venezuela

Key Indicators: Association with the Community
<i>Social Responsibility</i>
✓ The MFI participates in national or international microfinance advocacy efforts (ex: participated in national microfinance networks, promoted microfinance among regulatory bodies.)
✓ Number of individuals served or amount donated to projects that aid the surrounding community (ex: volunteer work, donations, etc.)
✓ The MFI links clients to providers of non-financial services in the community (ex: health, education etc.)
<i>Sustainable Growth</i>
✓ The institution has established clear policies prohibiting the financing of businesses with adverse effects on its surroundings (ex: harmful to the environment, illegal, use of child labor).
✓ The institution has demonstrated evidence of environmental responsibility in both its headquarters and branches, and has worked to foment this same sense of responsibility in its clients.

Social Responsibility

BanGente, the first commercial bank serving small and microenterprises in Venezuela, has played an important role by demonstrating the sustainability and profitability of microfinance to its parent company BanCaribe and other banks. As such, it embodies many of the ideals mentioned in the Association with the Community dimension.

BanGente engages in community activities through its foundation, an entity with a 200 thousand dollar budget that targets unmet needs of microentrepreneurs. BanGente donates services to support a vocational program to facilitate the creation of projects with a social impact. BanGente also funds a legal assistance program that links microentrepreneurs in need of legal advice and creation of legal documents. In addition, the foundation maintains a calendar of courses on business development for microentrepreneurs. BanGente has also worked with the Venezuelan government to help hundreds of clients, particularly those who work in the transportation sector, subscribe for social security benefits.

Sustainable Growth

BanGente’s code of ethics dictates a high standard of conduct that the institution must have both with its clients and its surrounding community. BanGente’s credit policies prohibit lending to any businesses that are not legal, although no categories of businesses are explicitly excluded.

Dimension 6: Labor
Principle: Microfinance institutions should strive to develop their human resources and maintain active communication with staff.

Employees are key stakeholders of microfinance institutions. Microfinance institutions have a strong responsibility to maintain policies and procedures that promote staff satisfaction. The success of the MFI, and the nature of its interactions with clients, depends upon its employees. This dimension focuses on the existence of policies and procedures to promote diversity and equal treatment and the existence of fair labor practices. It also examines the support

organizations provide to employees to enhance personal skills and potential. Lastly, the existence of a broad array of feedback mechanisms to promote communication between staff of all levels, is a key component of this dimension.

Labor: The Case of CREDIFE, Ecuador

Key Indicators: Labor
<i>Human Resources Policies</i>
✓ The MFI does not permit discrimination of any sex, race, ethnicity or religion in its hiring.
✓ Breakdown of employees according to gender
✓ A clear salary scale has been established that is based upon market salaries.
✓ Staff receives an attractive benefits package in conjunction with national norms.
✓ The MFI supports programs for skills management and lifelong learning that support the employability and career development of employees.
✓ Average hours of training per year per employee
<i>Feedback mechanisms</i>
✓ Percent of staff turnover (year/year), disaggregated by job category
✓ The MFI conducts exit surveys of all employees who leave, and compiles these surveys into reports shared with senior management.
✓ The MFI gathers employee opinions through a labor climate survey regarding compensation, workload, training, organizational culture once a year.
✓ The MFI has an established system to address staff grievances.
✓ The MFI solicits regular feedback between staff at all levels.
✓ Staff receives feedback from their supervisors, including an annual performance evaluation.

Human Resources Policies

CREDIFE is a subsidiary microfinance services provider of Banco Pichincha, a leading commercial bank in Ecuador. As a best practice institution with respect to its management of labor-related issues, CREDIFE has clearly defined human resources policies in areas such as the hiring of personnel, orientation and training of new staff, benefits, and performance evaluation. CREDIFE does not have an explicit non-discrimination clause in hiring its staff, however women are strongly represented in both field and management positions.

CREDIFE has a clear salary scale. Personnel receive both a fixed salary and variable incentives for excellent performance. CREDIFE staff receive a benefit package that includes life insurance for the employee, options for loans, medical insurance for the employee and its family, vacation benefits and uniforms,

Table 7: Key Data CREDIFE (Data as of August 2005, unless otherwise noted)	
Indicators	Data
Staff retention rate (August 2004-2005)	80%
Average hours of training per year per employee	6

Staff Development

CREDIFE has dedicated significant resources to promote staff development. In addition to a month-long training program for new staff, CREDIFE personnel are authorized to take part in courses given by Banco Pichincha. In 2005, CREDIFE staff enrolled in trainings for 47 different courses, including those that improve their ability to perform job-specific tasks as well as general courses in computer technology or leadership. On average, each employee received approximately 6 hours of continuing education per year.

Feedback Mechanisms

In 2005, CREDIFE retained approximately 80 percent of its personnel. No known benchmarks exist for this indicator, which varies according to national norms and macroeconomic conditions. Anecdotally many microfinance institutions strive to retain at least 85 percent of their personnel annually. Human Resources conducts exit surveys of all its staff who leave the institution. At the time of ACCION’s review, the human resources department had recently conducted an extensive labor climate survey based on in-depth interviews of employees. This survey was conducted in all offices of CREDIFE and covered areas such as salaries and organizational culture. Furthermore, staff receives feedback from their supervisors through a well-developed performance evaluation system that measures staff performance relative to skill requirements for each position.

IV. Building a Social Scorecard

The prior section of this article provided an extensive format for reporting on social performance. A consolidated format to provide key information to stakeholders on a regular basis—a social scorecard—is now described.

Table 8: Sample Composition of a Social Scorecard

Component of the Social Scorecard	Social Dimension
Text of an institution’s mission	Social Mission
Number of active clients	Outreach
Number of branches	Outreach
% Growth rate of clients in the last year	Outreach
% Female clients	Outreach
% Clients with a certain education level	Outreach
% Rural clients	Outreach
% Poor clients (<i>compare to % poor nationally</i>)	Outreach
% Clients with loans not requiring the pledge of traditional collateral	Outreach
Average loan size (annualized)	Outreach
Average loan size as a % of annual GNI (gross national income) per capita	Outreach
% Client retention rate (year/year)	Clients
% Clients with credit	Clients
% Clients with savings or insurance (if offered)	Clients
% Average annual effective interest rate	Clients/Information Transparency
Number of people served or amount donated through community projects	Association with the Community
% Staff retention rate (year/year)	Labor
Average annual hours of training per employee	Labor

Providing a concise summary of key social performance indicators to management and key stakeholders on a regular (for example, quarterly) basis ensures that microfinance institutions consider this data in their decision-making. We refer to this summary report as a social scorecard. Since this report is designed to be no more than 1-page long, the bias is towards quantitative indicators that can be updated on a regular basis. Indicators that can be included in a social scorecard are listed in the table below.

In case of Uganda Microfinance Limited (whose social scorecard is displayed on the following page), the social scorecard has been customized to reflect data availability and institutional priorities. This customization process, and some simple rules to promote successful creation of a social scorecard, are discussed below.

Customizing the Social Scorecard: Lessons from Uganda Microfinance Limited

Lesson 1: Institutions should take an flexible approach to reporting on social performance.

The availability of information will dictate the composition of the scorecard—and again, not every MFI will be able to generate details on client characteristics, particularly poverty information or even staff rotation. But most MFIs can report on the gender of their clients, client turnover or some other information that may be key to their social mission. Creating a simple social scorecard that begins with data that is currently available ensures that social performance reporting need not be a costly endeavor. Institutions may maintain a “wish list” of information that they may want to capture in the future to build on existing social performance information.

In case of Uganda Microfinance Limited (whose social scorecard is displayed on the prior page), the social scorecard was adapted based upon data availability and institutional priorities. For example, no information was captured in the client database that described clients as rural or urban. Thus, the social scorecard displayed included information on rural status of clients from an external survey that had been done recently. Uganda Microfinance Limited has the freedom to add—or subtract—indicators as its capture of information changes.

Lesson 2: Scorecards should be adapted to reflect an institution’s unique mission.

Not every area of social value is covered in the SOCIAL framework. For example, some MFIs have a social mission focused on gender empowerment or targeting services to people with AIDS as a key goal—neither of which are featured heavily in ACCION’s tool. MFIs can adapt their scorecard to include key indicators on these themes as needed.

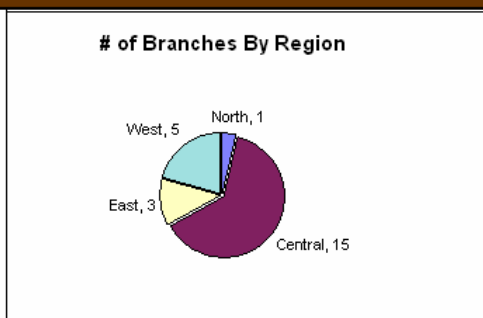
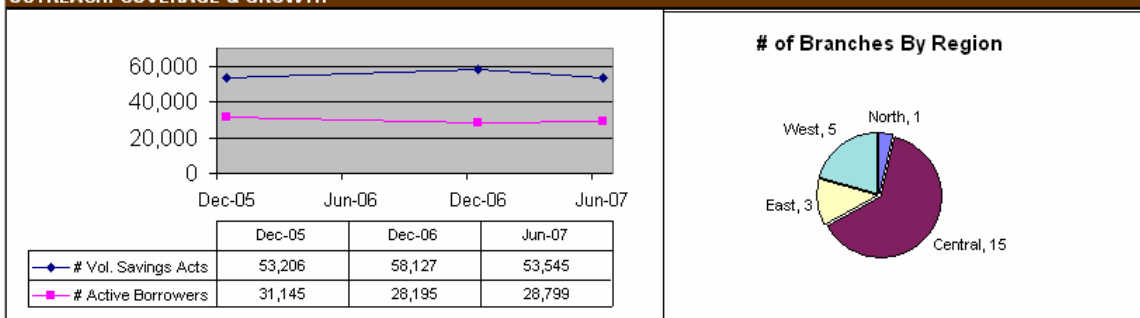
In the case of Uganda Microfinance Limited, directors of the microfinance institution were interested in learning about how the institution was evolving over time, particularly in light of the institution’s recent transformation from NGO to regulated microfinance deposit taking institution. Thus their scorecard includes information on how client outreach and loan sizes were changing over time.

UGANDA MICROFINANCE LIMITED SOCIAL SCORECARD



Mission: To provide quality financial services to microfinance clients and other stakeholders in a courteous, efficient and transparent manner

OUTREACH: COVERAGE & GROWTH

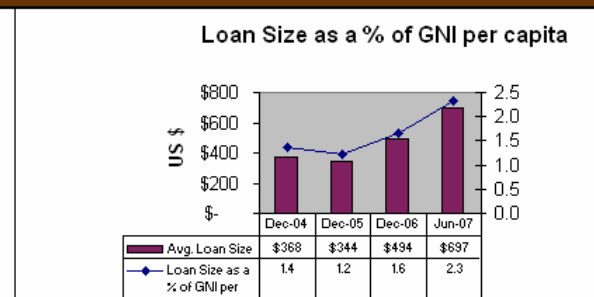


OUTREACH: KEY STATISTICS BY POVERTY LEVEL (November 2006 data of 7 branches and IMF Uganda data)

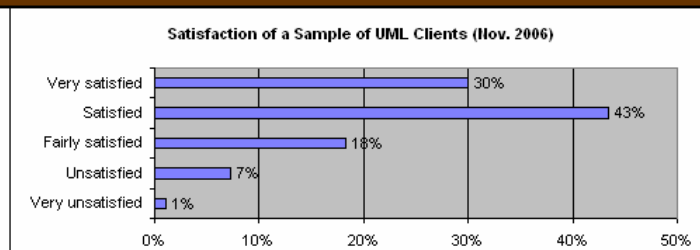
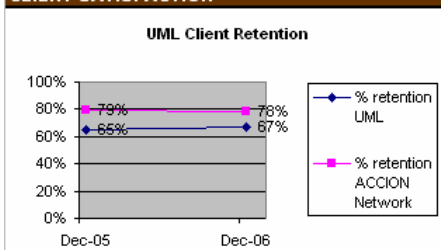
	% of Clients	% of Group (WC) Clients	% of MCC Clients	% of New Clients	% of Rural Clients	% Female	Monthly HH Expend. Per Capita (U.Shg)	Average loan size	All Uganda
Poor (below nat'l pov. line)	13	17	5	17	18	50	18,952		38%
Vulnerable Non-Poor	13	14	9	13	13	60	41,844		
Non-Poor (>150% of nat'l pov.)	74	69	86	68	70	48	139,687		62%

CLIENT CHARACTERISTICS

	UML	All Uganda
Demographic Characteristics		
% Female	50	51
% Rural	59	75
Average household size	4.7	5.8
% with no education	4	4
% with completed primary school	24	13
Living Conditions		
% with electric energy	58	14
% with radio	96	69
% with TV	58	3
% with refrigerator	34	



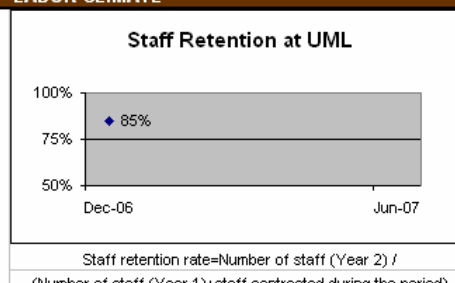
CLIENT SATISFACTION



PRODUCTS AND SERVICES

	% Client Distribution	Portfolio Distributi	Avg Loan Size (U 000)	Effective Interest Rate
Working Capital	61%	14	110	63.7
Capital Asset	0	0	1,267	51
Rural Employment Guarant.	12	12	472	53
Back to School	7	1	59	51.3
Micro-Corporate	18	47	1,302	63.7
Employer Guarantee	2	10	2,822	53
Home Investment Loan	1	6	3,065	
SMEs	0	9	32,067	
Microleasing	0	2	11,453	

LABOR CLIMATE



Lesson 3. Benchmarks and targets should be included to provide context.

One issue that arises repeatedly is whether social performance should be measured against an institution's own mission or generally accepted social development goals. Using the institution's own mission as a yardstick makes benchmarking difficult. Using "generally accepted" social development goals, such as the Millennium Development Goals, makes benchmarks possible, but reaching consensus on what social goals or desired practices should be is a difficult process, particularly if institutional missions are very distinct.

Benchmarks from different household surveys of Uganda conducted by the IMF, the Finscope project and the IRIS Center are presented to provide context to client data, particularly for client poverty levels and demographic data. ACCION client retention statistics provides some context on client retention.

V. Challenges

Challenges to the mainstreaming of social performance remain. Five of these challenges, and the perceived tradeoffs inherent in them, are discussed in this final section.

Multitude of Frameworks vs. Rush to Standardization

The challenge of achieving social performance is made more difficult by the lack of consensus around how to measure social goals. The measurement of social performance is at an early stage, and the proliferation of social performance tools for microfinance has led to confusion as to what social performance means. Yet, the different tools—with their varying emphases on different aspects of social performance—provide richness to the dialogue on social performance—and ultimately, the most practical and most meaningful frameworks will be the ones that are adopted. Efforts are being made, led by the Social Performance Task Force,¹⁶ to pilot test a common reporting framework on social performance over the following year. This will lead to the fulfillment of one of the greatest needs in social performance: a clearinghouse where all MFIs can report their social performance data, not just those whose donors or investors require them to report on such information. This ACCION tool roughly matches the core indicators being piloted—in terms of framework—if not individual indicators. In time, the best parts of ACCION's SOCIAL tool will likely be incorporated into various social performance frameworks that are being applied.

External Assessments vs. Self-Evaluation

While the concepts of social performance remain under development, many microfinance institutions prefer to receive some initial assistance in measuring their social performance. Even when clear guidelines become available, external assistance may be helpful in mining potential sources of data, setting up systems of reporting, or simply in providing an objective, expert opinion on institutional performance. Self-evaluation on the other hand attempts to address the challenge of making indicators more than an empty reporting exercise. It promotes institutional buy-in and knowledge of social issues, as the evaluation is conducted by staff.

Credibility vs. Practicality

The ideal social performance approach has both credibility and practicality. Credibility comes from a research process that yields accurate information. Practicality means that such that institutions can apply the social performance in a fairly quick and simple manner. Unfortunately,

¹⁶ http://www.microfinancegateway.org/resource_centers/socialperformance/article/28257/

social performance approaches that are relatively inexpensive and easy to implement often lack in-depth meaningful information, or in some cases, accurate information. The time-intensive approaches to some actors will require that some microfinance institutions receive assistance in social performance reporting. Methods that produce information that is accepted as valid may require more resources that are deemed practical. Microfinance institutions that engage in such social performance reporting will dedicate significant human resources. The question of if or how MFIs will be compensated for social performance reporting in the absence of donor funding remains an open issue.

Specificity to Microfinance vs. Broader Approach

Which social performance approach will win favor: one which is specifically developed by and for the MF industry or a “mainstream” approach that cut across sectors? The attraction of an approach that is used across sectors is obvious—greater recognition and can be used by social investors for all of their investments (not just for microfinance). ACCION’s hope is that a mainstream approach to social performance will be adopted by the microfinance industry. At the same time, we hope that the approach that is ultimately adopted to include the detailed client information and emphasis on best practices in consumer protection and transparency that has been emphasized for so many years in microfinance.

MFI Mission vs. Broader Development Goals

Microfinance institutions have different missions and objectives. Standardization of social performance measures requires that a framework be chosen that may be less tailored to a specific institution. For example, the issue of poverty measurement has been the subject of much discussion. Poverty measurement features prominently in most social performance frameworks—yet many microfinance institutions have social missions that set a goal of increasing access to financial services, regardless of the poverty level of a client. Should that MFI be evaluated against the same benchmark as an MFI with an explicit mission to serve the poorest of society? The social performance framework that achieves critical mass will ideally balance these two tradeoffs.

Conclusion

Every microfinance institution can and should measure its social performance. Social performance reporting enables microfinance institutions to focus on fulfillment of social goals in the same way that they focus on financial goals. This article outlines social performance principles and corresponding indicators relevant to six key areas: social mission, outreach, clients, information transparency and consumer protection, community activities and labor. By providing examples from the comprehensive social reports of six MFIs from three continents, and describing how to create a social scorecard that presents consolidated social performance information, an MFI should be able to read this article and have a better idea of how to report its social performance.



References

ACCION International, ACCION Camel Technical Note, Version 2003.

Barres, Isabelle. "The MicroBanking Bulletin: Microfinance Information Exchange, Issue No. 8. November 2002.

Davis, Ian. "The Biggest Contract," *The Economist*. May 26, 2005

Devaney, P. (2006) Bringing Pro-Consumer Ideals to the Client: A Consumer Protection Guide for Financial Institutions Serving the Poor. ACCION Monograph 14.

Global Reporting Initiative (2002) "Financial Services Sector Supplement: Social Performance" www.globalreporting.org

Hashemi, S. et al. (2007) "Beyond Good Intentions: Measuring Social Performance at Microfinance Institutions" CGAP Focus Note 41.

Karlan, D. and N. Goldberg. "The Impact of Microfinance: A Review of Methodological Issues" August 2006

Reddy, R and K. Horn Welch. (2006) Measuring Poverty at Microfinance Institutions: Lessons from the ACCION Network. *ACCION Monograph 16*. Boston, MA.

Reddy, R. "Social Performance Practices of Equity Investors in Microfinance." Paper for the Council of Microfinance Equity Funds. May 2005.

Zeller, M. C. Lapenu and M. Greely, "Social performance indicators: A summary report (2003)" <http://www.cerise-microfinance.org/publication/pdf/impact/SPI-summary.pdf>

Additional Resources

Microfinance Gateway Social Performance Resource Center.

http://www.microfinancegateway.org/resource_centers/socialperformance

This *InSight* was written by Rekha Reddy, Senior Director, Research and Policy, under the direction of Elisabeth Rhyne, Senior Vice-President. The author would like to thank Hema Bansal, David Dewez, and Sandra Neisa for their input into this social evaluation tool and the staffs of ASA-GV, BanGente, CREDIFE, Fundacion Paraguaya, Mibanco, and Uganda Microfinance Limited for their willingness to participate in ACCION's social audit pilots.

ACCION acknowledges the financial support of the Tinker Foundation for the Latin America social performance audit pilots. This publication and the India and Uganda social performance pilots were prepared with funds provided by the Academy for Educational Development (AED) with financing from the U.S. Government through the U.S. Agency for International Development under Cooperative Agreement Number EEM-A-00-06-0001-00 for the FIELD-Support Leader with Associates. The opinions expressed herein are those of the author(s) and do not necessarily reflect the views of the U.S. Agency for International Development.

ACCION International's *InSight* series is designed to highlight practical applications, policy viewpoints and ongoing research of ACCION. To download other editions of *InSight* free-of-charge, please visit www.accion.org/insight

Other titles in ACCION's *InSight* series include:

InSight 1: ACCION Poverty Assessment Framework

InSight 2: Economic Profile for 15 MicroKing Clients in Zimbabwe

InSight 3: Making Microfinance Transparent: ACCION Policy Paper on Transparency

InSight 4: Building the Homes of the Poor: Housing Improvement Lending at Mibanco

InSight 5: Poverty Outreach Findings: Mibanco, Peru

InSight 6: The Service Company Model: A New Strategy for Commercial Banks in Microfinance

InSight 7: Market Intelligence: Making Market Research Work for Microfinance

InSight 8: ACCION Poverty Outreach Findings: SOGESOL, Haiti

InSight 9: ACCION PortaCredit: Increasing MFI Efficiency with Technology

InSight 10: Leveraging the Impact of Remittances through Microfinance Products

InSight 11: ACCION's Experiences with Rural Finance in Latin America and Africa

InSight 12: Developing Housing Microfinance Products in Central America

InSight 13: ACCION Poverty Outreach Findings: BancoSol, Bolivia

InSight 14: Practical Skills for Microentrepreneurs: ACCION's Experiences with the ABCs of Business Program

InSight 15: Bridging the Finance Gap: ACCION's Experience with Guarantee Funds for Microfinance Institutions

InSight 16: MFIs and Foreign Exchange Risk: The Experience of ACCION's Latin American Affiliates

InSight 17: ACCION Poverty Outreach Findings: Apoyo Integral, El Salvador

InSight 18: Who Will Buy Our Paper: Microfinance Cracking the Capital Markets

InSight 19: Providing Cost-Effective Credit to Small-Scale Single-Crop Farmers: The Case of Financiera El Comercio

InSight 20: Financially Viable Training for Microentrepreneurs

InSight 21: Getting to Scale in Housing MF: A Study of ACCION Partners in Latin America

InSight 22: Microfinance Cracking the Capital Markets II

InSight 23: The Banco Compartamos Initial Public Offering

For more information about ACCION publications, please visit <http://www.accion.org/pubs>