

The Double Bottom Line: Evaluating Social Performance in Microfinance

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In the microfinance arena, success of a microfinance institution (MFI) has long been associated with financial performance outcomes measured by loan portfolio quality, operating efficiency and profitability. Yet, these indicators tell only part of the performance story in microfinance. Most microfinance institutions strive to meet both financial and social goals, managing a double bottom line. Strong financial performance underpins an MFI's ability to pursue its social objectives, and conversely, achieving social goals generally enhances financial performance.

The renewed interest in the social goals and value of microfinance is a response to the growing recognition that MFIs should be held accountable for the achievement of social outcomes as well as their financial performance. Currently, there is a lack of information about key values, a lack of evidence about what is being achieved and, to the extent there is information, a growing recognition that achieving social goals requires a deliberate and focused strategy by MFIs.

As the industry has matured and grown more competitive and commercial, there is a greater demand for social performance information to make sure that the social roots of microfinance are not abandoned, and to define what those social roots are. Two main groups are contributing to this demand: social investors, who seek assurance that their investment funds are flowing into microfinance institutions that are truly achieving the social goals expressed in their mission statements; and microfinance institutions themselves, who increasingly recognize that even with a sincere dedication to a social mission and a committed staff, they do not know whether they are achieving their desired social goals without having information or evidence. Furthermore, MFIs also may benefit from a formal, external evaluation of their social performance, even if results highlight specific areas for improvement; potential investors are likely to

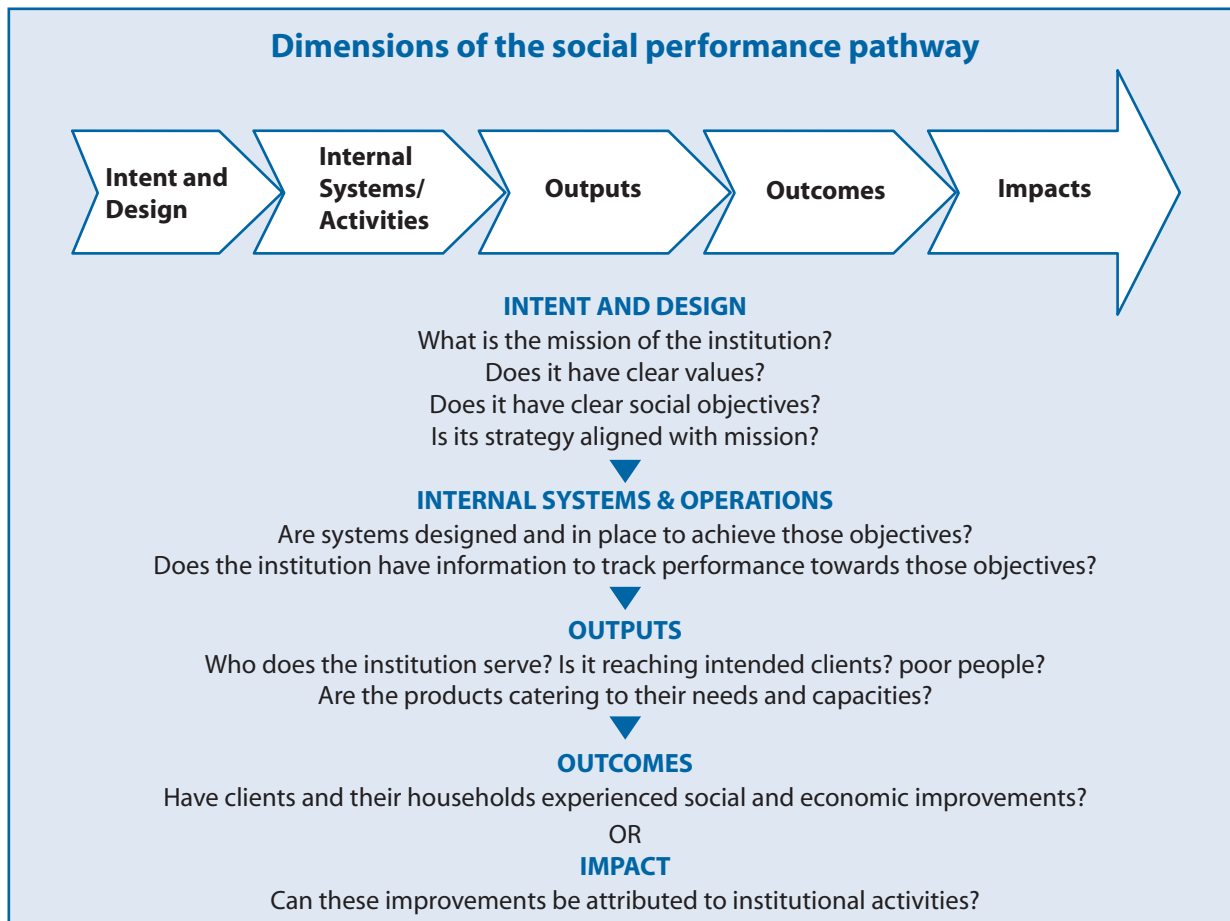
respond positively to the increased transparency that social evaluations and reporting provide, and may also interpret the evaluation exercise as proof of the MFI's deep commitment to its social goals.

In response to this rising demand for information and accountability on social performance, MFIs and other stakeholders are examining processes and tools, including social indicators, that measure the degree to which MFIs are effectively putting their social missions into practice. Though it is commonly asserted that the microfinance industry serves the poor, and commonly assumed that, as long as microfinance clients are repaying loans and borrowing again, they must be benefiting from those loans, a microfinance institution cannot actually know these outcomes to be true without specific field level evidence. Social indicators investigate these assumptions, using data and objective analysis to provide both the MFIs and potential investors with a more comprehensive understanding of MFIs' social commitment and achievement. The indicators can cover a range of areas, from internal processes at the institutional level, (such as the social goals reflected in the MFI's mission statement, its values of social responsibility, the range of financial and non-financial services it offers and relative access to these, staff incentives that an MFI uses, methods for market feedback), to indicators that investigate the program's outputs, such as the percentage of clients who live below the poverty line upon entering the MFI program, and the client exit or dropout rate.

An additional benefit of social indicators is that their development and pilot testing has improved the industry's understanding of social performance issues, notably, the distinctions among intent, implementation, and outcomes. **Figure 1** is a diagram of the "path" or process for translating an MFI's mission into practice.

The key challenges to developing common social indicators surround establishing clear indicators

Figure 1: Social Performance Pathway



that are meaningful to a variety of constituencies from all areas of the world. The indicators cannot be too onerous to collect; must be practical to apply; and should be useful to the MFI as part of an internal system of reporting and management. Social performance information collected is relevant only to the extent that it is meaningful and useful to the MFI and related to its particular mission.

The recent development of a core set of common indicators is an important step forward in the process of MFIs holding themselves accountable to their stated social missions, yet the integration of social indicators into regular use will still require varying approaches and modifications by individual MFIs. For some MFIs, integrating social performance management into their activities may entail developing a comprehensive framework within the institution. For others, it may be more realistic to start with only a handful of indicators for reporting and develop a social performance system incrementally from there.

How Indicators Were Developed

Recognizing that use of social indicators can drive improvements in social performance – that we measure what we value, and we value what we measure – many different organizations have independently developed methodologies and tools for assessing social performance.

The Social Performance Task Force (SPTF) was created in 2005 to advance social performance through the development of a common social performance reporting and rating framework, the establishment of a core set of indicators and standards to measure social performance, and the creation of tools for monitoring and assessing social performance. The Task Force is a collaborative group of more than 250 microfinance professionals, including practitioners from all regions, donors, and investors.

In the spring of 2008, in collaboration with a group of MFIs throughout the developing world, the SPTF created a draft set of social performance indicators and studied them in a pilot test. Fifty-seven MFIs agreed to participate, providing responses for each indicator, along with feedback on the actual process. Of the organizations who participated in the pilot, about half were NGOs, approximately one-quarter were non-bank financial institutions, and the balance were cooperatives/credit unions, banks, or another type of institution. The two primary purposes of this exercise were for the SPTF and participating MFIs to gain a better understanding of the process of gathering and inputting the requisite information, and for the SPTF to refine the draft set of social performance indicators. An additional purpose of the pilot test was to promote eventual reporting of social performance data to MIX.

The 57 MFIs participating in the pilot project were asked to rely not solely on information they had readily available, but also to gather data as needed in order to report a value for each social performance indicator. For example, while institutions could easily respond to indicators related to organizational structure, policies

and procedures with information already on hand, many organizations had to conduct new research before they could respond to indicators involving client level data, particularly "results" indicators such as the measurement of depth of outreach.

After gathering data on the social performance indicators, MFIs in the pilot process reported their results. For each indicator, institutions responded to the following four statements:

- 1) This data can be easily obtained
- 2) This data can be easily verified
- 3) This indicator is relevant to my institution
- 4) My institution is willing to publish the data of this indicator publicly on MIX Market.

The respondents responded to the four statements above by: strongly agreed, agreed, disagreed, or strongly disagreed. In this way, the SPTF was able to gauge which indicators are not just meaningful to the MFI, but which ones are readily accessible.

Sample of questions from Pilot Survey:

Each indicator has a set of questions that relate to that indicator. For example, Q9 addresses 'Social Responsibility to Clients' and a sample of questions that relate to that category are as follows:

1. Do you fully disclose, in a clear and understandable way, the pricing, terms and conditions of financial products (including interest charges, insurance premiums, all fees, etc.) before the loan is disbursed? In which of the following ways do you disclose this information?
 - Training with clients before the loan is disbursed
 - Written information that includes interest and different up-front costs
 - Oral communication
 - Other (please specify)
2. Do you have a grievance procedure for clients? Do you explain the grievance procedure to clients? What is provided as part of the grievance procedure?
 - Contact information of appropriate person in the organization
 - Complaints/suggestion box at branch
 - Hotline/call center
 - Other (please specify)
3. Which of the following do you do to avoid creating over-indebtedness in clients?
 - Seek information on clients credit history
 - Alliance with other local financial institutions to share information on clients/credit bureau
 - Careful follow up in case of default
 - Allow rescheduling of loans in case of default if this seems appropriate
 - Other (please specify)

Bearing in mind that the pilot test results came from a group that had volunteered to participate in the exercise, and hence *a priori* presumably expected the exercise to be helpful, it is nonetheless interesting to note that the vast majority of participants responded that measuring their organization's social performance through the test indicators proved to be an extremely valuable process.

In June 2008, at its annual meeting, the SPTF discussed lessons learned from this pilot survey and suggested next steps in the development and promotion of the core set of social indicators. An important outcome of the meeting was that the members of the SPTF reached agreement on a group of 23 indicator categories for inclusion in their MFI reporting framework.

Consensus also emerged that MFIs would begin reporting in early 2009 to MIX Market on these core indicators. The group acknowledged that while results from some other indicators beyond the core group was desirable and could be quite relevant, the data for those was also the most difficult to collect and would require further development before a substantial group of MFIs would be able to credibly report on them. The goal of the meeting was to find agreement on social performance indicators and begin reporting on these indicators, with the knowledge that the number of indicators will grow and data become more robust, similar to the process for reporting on financial performance.

Figure 2 shows the social performance pathway, and each category of question assigned to a component of the social performance pathway. The group agreed to two general categories for the indicators: Agree to Do, and Agreed to Work On.

The indicators that participants 'Agreed to Do' are shown in Figure 2 under the section Indicators Part I and cover the majority of the internal 'process' indicators. The results from the pilot showed that these indicators met the criteria of being 1) relevant and useful 2) easy to obtain 3) easy to verify 4) and willing to publish.

The indicators that the group 'Agreed to Work on' are shown under the section Indicators Part II and tended to be the 'results' indicators that are more difficult to obtain. Yet, these were also perceived as highly relevant, so participants wanted to continue to find better ways to collect this information.

SPTF members felt that while process indicators are important and can show the orientation and effort

of the MFI, they offer no evidence on whether these strategies actually help the MFI achieve its social goals. Having a policy or statement of intent is not the same as producing an effect. It was therefore important to have a combination of process and results indicators in the final set of indicators.

Next Steps and Future Challenges

Since the annual conference in June 2008, the Social Performance Task Force has been working on implementation of the agreed upon steps. MIX has a staff member solely dedicated to social performance standards, and together with the other Task Force members, has completed a new version of the indicators based on the feedback and recommendations from the committee and the MFIs that participated in the pilot survey. A glossary to better clarify the questions has also been developed to accompany the indicators. Once completed, this new version will be distributed to networks and MFIs.

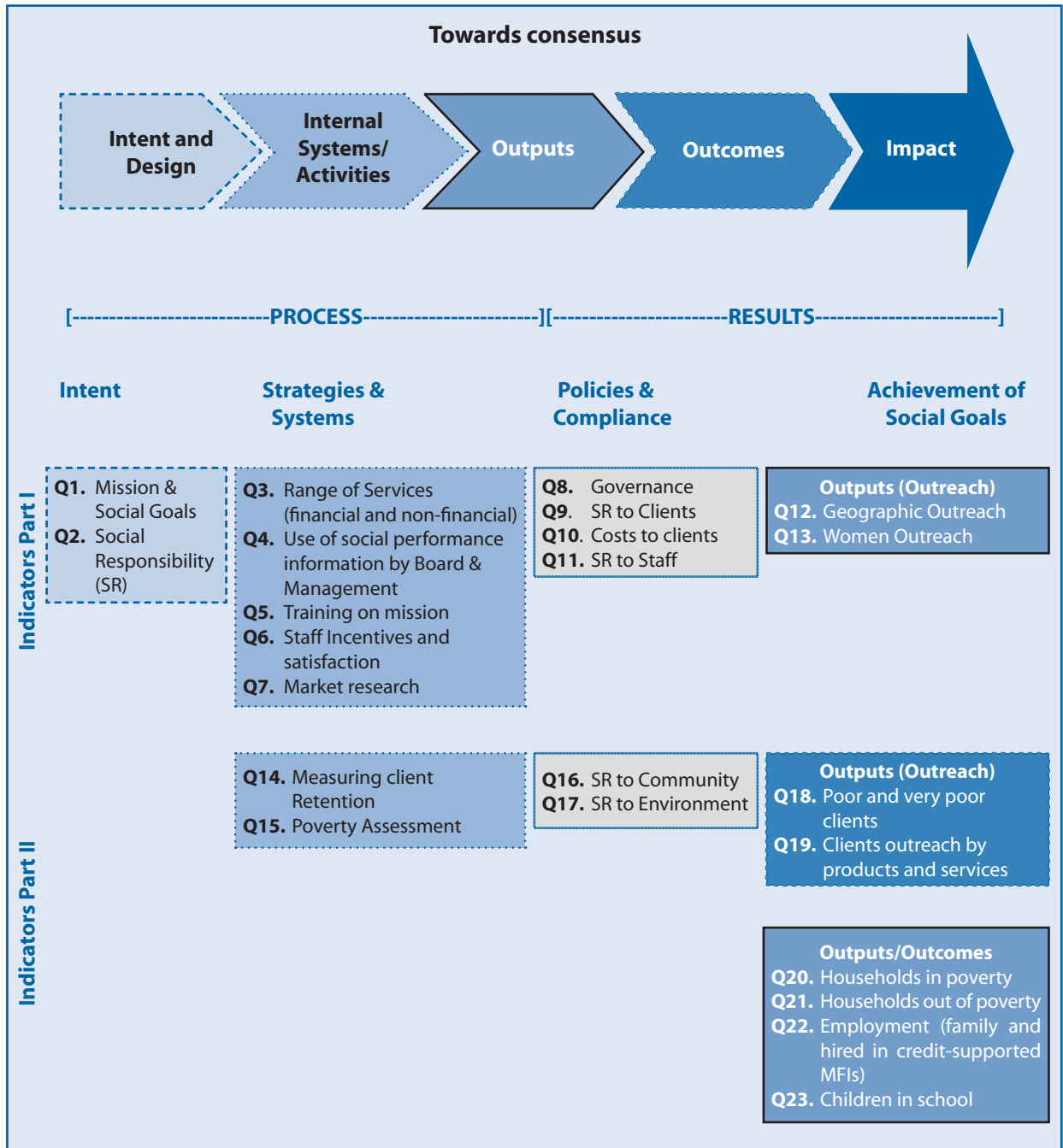
Validating Data

Similar to financial reporting, there is a need to achieve objective verification of the data reported by MFIs, and to develop a protocol of verification for each question. For process indicators, current suggestions include asking for related evidence such as reports and statements, with some follow-up questions to cross-check for internal consistency. For results indicators, it will be necessary to ask for baseline data, sampling information and reports, as well as information about systems the MFI has in place for checking quality of data. If an MFI has had a social rating, the social rating report that covers both systems and data will provide the strongest level of verification.

Making Use of Social Performance Information

Finally, the SPTF will be considering the challenge of how to link external reporting and internal use. Tracking social indicators will be most beneficial if the same information is relevant both to external stakeholders and to the management of MFIs. Investor use may be as straightforward as performing research from publicly available sources, but MFI management teams must decide how to effectively operationalize the social indicators data

Figure 2: Indicators to Report on Social Performance



once it is gathered. It is not the 'collection' of data *per se* that is of utmost importance, but rather the use of that data to improve the social performance of MFIs.

For more information about the Social Performance Task Force and social performance indicators, visit www.microfinancegateway.org, and click on Resource Centers.