

Beyond Good Intentions Measuring the Social Performance of Microfinance Institutions

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Beyond Good Intentions

Measuring the Social Performance of Microfinance Institutions

The Context

Donors and industry experts have long pushed financial sustainability as the most important gauge of a microfinance institution's success -- after all, a microfinance institution that can cover its costs can also grow, serving more and more clients. Today, there are at least 320 sustainable institutions reporting to the Microfinance Information eXchange, or MIX, the industry's most trusted source for market data. The industry as a whole is growing fast, adding 13 percent more borrowers each year since 1999.

This growth is thanks in large part to the insistence on financial sustainability. But for many in the industry, while growth is important, it is equally important that poor and very poor people are reached, that quality services are provided, and that microfinance improves client lives. In other words, both financial performance and social performance matter. This is especially true for some donors and social investors who explicitly aim for broader social objectives.

This paper highlights the emerging emphasis on social performance in microfinance. It provides an overview of some of the existing assessment tools, and presents the CGAP-Grameen Foundation "Progress out of Poverty Index"¹ – a rigorous yet simple tool adjusted for each country that can help respond to the urgent need for a globally comparable social performance reporting format.

Why Social Performance

¹ The tool was developed by Mark Schreiner.

The increasing interest in social performance stems from a long held belief that while financial sustainability is essential for massively scaling up services, it is not sufficient to ensure that social objectives, which anchor much of the passion and commitment to microfinance, will be automatically met.

The social performance movement seeks to put "truth in advertising." If we say that we are reaching the poorest, then we should provide the evidence to back it up. Many individuals, donors, foundations, and governments put money in microfinance with the belief that microfinance helps poor people. To be accountable to these funders we must be able to report on how (or whether) microfinance helps poor people. Also many financial institutions, especially those rooted in "developmental" values, do want to know whether they are achieving their social missions or drifting away from them.

The move to assess social performance has generated understandable reservations: Will this end up as another cumbersome and costly donor mandate? Do we really need a new set of reporting standards? Is it even possible to standardize measures of social performance? Opposition to social performance, or impact assessment for that matter, is often voiced in this common refrain – "poor people coming back for repeat services is sufficient proof that institutions are being socially useful; why require any additional assessment?"

People coming back does indeed signal a strong "demand" for services. But it does not automatically imply that people's conditions are improving. In fact spiraling indebtedness (where clients borrow to pay back other debts) can be one reason why clients keep coming back. For many in the industry, the provision of financial services is not an end in itself. Access to microfinance matters because of the possibility it opens up to improve client lives. We cannot assume that such changes occur just because people come back for more credit. We need to look at the quality of services, client

satisfaction, and actual improvements in client conditions, especially because there is still a lot of public and charitable funding for microfinance. What if microfinance doesn't improve client lives? Then the funding could be shifted to other efforts, such as education, vaccinations, or agricultural extension.

Conflict in Andhra: Would Social Performance Monitoring Have Helped ?

The state of Andhra Pradesh in India is home to some of the fastest growing MFIs. SPANDANA, beginning in 1998, today has over 800,000 clients. SHARE has 1.5 million clients and SKS has over 70,000 clients. But this fast growth has led MFIs to run up against a strong rural development program in India -- the World Bank funded and government sponsored Indira Kranti Prataham (previously known as Velugu). Indira Kranti provides a range of services, including savings and credit services, to 12 million women. The program has accused MFIs of charging high rates of interest and a lack of transparency in dealing with clients. MFIs in turn felt their high quality service was attracting Indira Kranti clients and the hostility towards them stemmed from the competitive edge that MFIs had.

The situation with the government was brewing for some time when in December 2005 it exploded. Women's groups demonstrated against SHARE, and the Telugu language press was full of accusations of harsh collection tactics, unethical and illegal operational practices (such as taking savings, which the MFIs are not permitted to do), high interest rates and profiteering; as well as accusations about governance structures and MFIs being run as 'family businesses'. In March 2006, the Krishna District Collector invoked the state Money Lenders Act to temporarily seize fifty SHARE and Spandana branches.

While the situation has improved since then, the state government's core concern remain. They believe that MFIs are primarily lenders. And their single minded focus on profitability and growth leads to a culture of pushing debt and ensuring strict recoveries. Client welfare is inconsequential.

Many in the microfinance industry do not believe in the government's characterization of MFIs in Andhra. But they do feel that some of the MFIs lacked transparency on critical elements. This ranges from governance structures and interest rates to understanding client needs and client conditions. They believe that whatever social goals the MFIs had set themselves, they were only tracking and reporting on their financial performance. Aligning performance indicators to social objectives would have provided early warning on any problems clients may have been facing. Transparent tracking and reporting on client conditions could have countered allegations of loss of client welfare. A focus on a social performance bottom line may have significantly reduced the attacks the MFIs faced.

In fact many argue that assessing and managing an institution's social performance can actually improve the financial bottom line through better retention of clients and reducing costs. For example the Small Enterprise

Foundation in South Africa maintains that its social performance monitoring system allows it to better understand the reasons for client exits and thereby reduce drop-out rates. This has contributed to a significant increase in its returns on investments over a three year period.²

The Social Performance Task Force

So what has the microfinance industry -- practitioners, donors and service providers -- been doing to promote a "double bottom line," one that holds it accountable both financially and socially?

There have been important but isolated attempts over the last few years to integrate the assessment of social performance into the regular management process of financial institutions. These include the work of CERISE, the ImpAct Program, and CGAP, with strong support from different donors. But it was not until March 2005, when the Argidius Foundation, CGAP and The Ford Foundation brought together more than 30 leaders from various social performance initiatives in the microfinance industry, that a sustained movement for promoting social performance began. The Paris meeting led to the formation of the Social Performance Task Force. Its membership now includes over a hundred leading microfinance networks, financial service providers, rating agencies, donors and social investors. These members are committed to regularly assessing, reporting on, and improving the social performance management of their organizations and the organizations they support.

The Task Force is promoting a stronger industry focus on social performance through adopting a common definition, coordinating different initiatives, and creating a common reporting format.

Defining Social Performance

² ImpAct..

The Social Performance Task Force has rallied around a common definition of social performance -- “the effective translation of an institution's social goals into practice in line with accepted social values; these include sustainably serving increasing numbers of poor and excluded people, improving the quality and appropriateness of financial services, improving the economic and social conditions of clients, and ensuring social responsibility to clients, employees and the community they serve.”

Traditional evaluation has focused on end results and impact. However, impact is just one element of social performance. Social performance looks at the entire process by which impact is created. It therefore includes analysis of the declared social objectives of institutions, the effectiveness of their systems and services in meeting these objectives, related outputs (for example, reaching larger numbers of very poor households) and indeed success in effecting positive changes in the lives of clients.

Social performance therefore, as the Task Force recognizes, encompasses many different dimensions. Different social performance initiatives choose to focus on assessing particular dimensions of social performance. CGAP and Ford Foundation, for example, assess social performance at the client level through looking at outputs and outcomes. CERISE focuses on the process level through assessing intent, activities and output (but not on outcomes and impact). The M-CRIL rating tool on the other hand is holistic and encompasses all the different dimensions.

DIMENSIONS OF SOCIAL PERFORMANCE

INTENT AND DESIGN

What is the mission of the FI?

Does it have clear social objectives, and are systems designed to achieve

those objectives?



ACTIVITIES

What activities will the FI undertake to achieve the mission?



OUTPUT

Does the FI serve poor and very poor people?

Are the products designed to meet their needs?



OUTCOME / IMPACT

Have FI clients experienced social and economic improvement?

Social Performance Assessment Initiatives

We present below some of the different social performance initiatives highlighting the different dimensions they focus on.

CERISE: Social Performance Indicators Initiative

The CERISE tool³ is essentially a questionnaire and guide that helps an MFI evaluate its intentions, actions and corrective measures implemented, rather than transformations in clients. The underlying premise is that the analysis of internal systems and processes are adequate to determine whether an institution has the available means to attain its social objectives. The CERISE tool examines four dimensions of social performance: (1) outreach to the

³ Manfred Zeller, et al, "Social Performance Indicators Initiative : Final Report" , 2003.

poor and excluded populations, (2) adaptation of products and services to target clients, (3) improving social and political capital, and (4) corporate social responsibility. But rather than interviewing clients to determine depth of outreach, for example, the CERISE tool examines internal systems – the mission statement, whether targeting tools are used, loan size – to approximate whether poor clients are actually being served. Also rather than analyzing client empowerment at the household and community level, social and political capital of clients are determined through assessment of their involvement in MFI decision making and in the transparency of the financial transactions. The appeal of the tool of course lies in its ease of use and the fact that it can be administered by the MFI. Long client level surveys are avoided. Instead available institutional information is mined to generate an assessment.

The Social Performance Assessment (SPA) Tool⁴

The SPA tool combines a set of social performance indicators (a scorecard) at the level of the organization and a social audit to evaluate the social performance of MFIs. It is based on information on organizational processes rather than client outcomes and impacts. The rationale for this is explained in terms of cost considerations. It is far less expensive to focus on organizational process, especially on information that is already available, rather than create new formats for collecting new data.⁵

The organizational scorecard is based on the assumption that much of the financial information that financial institutions regularly collect can be used as proxies for their social performance. The scorecard includes a set of indicators under six dimensions of outreach—breadth, depth, length, scope,

⁴ The Accelerated Microenterprise Advancement Project (AMAP) for Financial Services Knowledge Generation developed the SPA tool for USAID.

⁵ Gary Woller, “Evaluating MFIs’ Social Performance: A Measurement Tool”. Micro Report # 35, 2006.

cost, and worth of outreach to clients and the community.⁶ The indicators are deliberately selected to reflect readily available information. For example, breadth of outreach reflects the number of borrowers, the percentage of clients with non-enterprise loans, and voluntary savers as a percentage of borrowers. Depth of outreach is determined through assessing average loan size, percentage of female clients, and percentage of rural clients. Scope of outreach includes number of distinct enterprise loan products, number of other financial services, the type of savings offered, and the percentage of clients with three or more products or services. Indicators for assessing outreach to the community are the only ones that may not all be readily available, but they can still be collected from staff interviews. There are ten indicators for outreach to the community. They include: percentage of operating revenues reinvested back into the community, percentage of employees that have left, female-male employee ratio among professional-level staff, benefits to employees, and transparency and management access for clients.

The scorecard is supplemented by an independent “audit” that evaluates five key areas of an institution -- institutional mission, management and leadership; hiring and training; monitoring systems; incentive systems; and strategic planning.

The final social performance report includes both the scores from the organizational scorecard as well as the findings on internal processes from the audit. The tool does not attempt to measure social performance, per se, but rather determines the extent to which key performance indicators are consistent with social performance, and whether internal processes are designed and implemented in a way that aligns policies, behaviours, and outcomes with an MFI’s stated social mission and whether it is likely to continue to do so in the future.

⁶ This is ultimately based on Mark Schreiner, “Aspects of Outreach: A Framework for the Discussion of the Social Benefits of Microfinance”, *Journal of International Development*, Vol. 14, pp. 591–603, 2002.

M-CRIL's Social Rating⁷

M-CRIL has developed a social performance rating tool, administered externally by the rater, to assess “the likelihood of an MFI achieving its social mission in line with accepted social values.” It covers both organizational level indicators and “results” indicators. It analyzes mission statements, institutional policies and internal systems of the organization to determine whether they effectively reflect its social mission and whether there are mechanisms in place for staff and client protection. The rating also assesses the efficacy of the services in meeting client needs. In addition short surveys are conducted to determine whether poor and excluded households are being served and whether clients are improving their social and economic conditions. The M-CRIL tool is much larger in scope than the others since it encompasses all different dimensions (intent, activities, output and outcome) of social performance.

ACCION's SOCIAL

ACCION has developed its own tool – the SOCIAL (social mission, outreach, client service, information transparency and consumer protection, association with the community, labor climate). It is a diagnostic tool to evaluate the success of an MFI in fulfilling its social mission and its contribution to broadly accepted social goals. It offers a comprehensive social assessment of MFIs to complement the financial assessment provided by the CAMEL.⁸ ACCION believes that its tool helps improve organizational performance by highlighting strengths and weaknesses in social performance, and providing information on how the MFI is perceived by clients, staff, and the community. It fulfills the information requirements of third parties, such as socially responsible investors or donors, who may require this information. It follows the example of many private sector businesses by providing shareholders

⁷ M-CRIL's Social Rating: www.m-cril.com/social-rating-microfinance-institutions.html

⁸ ACCION's tool to measure capital adequacy, asset quality, management, earnings, and liquidity of microfinance institutions.

with a social performance report that demonstrates increased transparency and a broader framework for decision-making. It establishes a baseline of performance before entering a phase of change or evolution, as well as demonstrating to microfinance institutions how social performance can be measured practically on a regular basis.

The SOCIAL is conducted through interviews with management, staff, board members, and clients. It includes reviews of strategic and business plans and minutes of board meetings. Data from MFI client databases are analyzed and validated through comparisons with external surveys, national data, MIX data, market studies and other secondary information. Branch visits are also made and maps of geographic coverage are constructed.

To date, one pilot has been completed and others are in the pipeline.

The CGAP-Ford Social Indicators Initiative

Background

While CGAP has welcomed the diversity of initiatives associated with assessing social performance, it strongly believes that what matters in the end is client level information. Internal structures and organizational level indicators are often weak predictors of performance. MFIs, for example, can have hierarchical structures and little staff or client participation in decision making, but yet be hugely successful in creating opportunities for clients that allow them to improve their social and economic conditions. So while internal process indicators may be relevant, CGAP feels, ultimately what is critical is indicators that demonstrate economic levels of clients and changes in client conditions. This led CGAP to partner with the Ford Foundation in 2005 to launch the Social Indicators Initiative.

The Social Indicators Initiative

The CGAP-Ford initiative intended to track the social performance of MFIs by monitoring the levels and changes in the socio-economic conditions of clients without attempting to attribute causality. More specifically the project sought to develop indicators that could inform on:

- whether MFIs are reaching the very poor
- whether clients are increasing incomes and building assets
- whether client social conditions are improving

The challenge has been to select indicators that are simple and low-cost, yet at the same time rigorous enough and globally applicable. For example, the Cashpor Housing Index (which scores building material of walls and roof and number of rooms) is an excellent predictor of poverty and wealth in rural South Asia but not applicable in urban areas and in many countries. Data on incomes or nutritional intake, on the other hand, are universally understood but too costly and complicated for MFIs to collect.

Early on, the project decided to measure poverty using national poverty lines and the international benchmarks of \$1 (or \$2) per person per day as global indicators of client economic levels and to link simple proxy indicators to these broad measures of poverty. The logic was simple: if most people living below the poverty line in rural areas of a country were landless, then landownership is a simple indicator of poverty that would be straightforward for MFIs in that country to collect. The percentage of landless clients could then be converted to a percentage of clients living below the national poverty line. If in another country quality of housing correlated well with poverty lines (e.g. a thatched roof implies living below the poverty line), then MFIs in that country could be collecting simple information on housing. This information could then be converted to percentage of clients living below the poverty line in that country. This would then allow global comparisons of client economic levels of MFIs in different countries. The challenge of course was to demonstrate, in an extremely rigorous fashion, that simple proxy indicators are indeed linked with poverty lines.

Mark Schreiner, working for CGAP and the Grameen Foundation U.S.A., developed a way to construct country-level poverty indices which does precisely what the project sought.⁹ These indices are based on statistical analysis of national household expenditure surveys. They use a small set of simple, observable, inexpensive indicators to estimate the share of clients who are poor (below a given poverty line). CGAP and Grameen Foundation have named this tool the “Progress out of Poverty Index (PPI)” since it not only provides information on poverty levels of clients but also tracks changes in economic levels of clients. PPIs have been created for ten countries, with CGAP-Ford funding, and another dozen are in the pipeline. This is providing a basis for MFIs to start reporting.

The poverty index is simple, inexpensive, transparent, and intuitive. It measures poverty via simple questions (do you have a latrine? do you cook with wood?) rather than long surveys and difficult calculations of income and expenditure. Tests show that a single index works in both rural and urban areas of a given country. Accuracy is high. For a group’s poverty rate, estimates for most countries are accurate within plus or minus two percentage points with 90-percent confidence. The index can include five to ten indicators or more. For estimating poverty rates, 5-indicator indices are 90 to 95 percent as accurate as 10-indicator indices.

The PPI for the Philippines is presented below. This index uses five indicators – housing material, type of toilet, presence of gas stove, children’s schooling and ownership of TVs. Points for each response are pre-determined through econometric analysis of national level data for each country. An MFI uses the PPI by visiting the client’s home and getting answers to the five questions. Actual scores for each response are written down. For example a household with no gas stoves get a zero and one with water sealed toilets get a seven.

⁹ For a technical understanding of how the scorecards are constructed, read Mark Schreiner, “Seven Extremely Simple Poverty Scorecards”, prepared for CGAP, November 2006.

Scores can range from zero (the poorest) to 100 (affluent). Of course the indicators for each country vary as do the scores for each.

Progress out of Poverty Index for the Philippines

| Indicator | Points | Actual Score |
|--|---------------|--------------|
| 1. What are the house's outer walls made of? Light materials (<i>cogon, bamboo, sawali, nipa</i>) Strong materials (aluminum, brick, wood, asbestos) | 0 10 | |
| 2. What kind of toilet does the household have? Not water sealed Water sealed | 0 7 | |
| 3. Does the household own a gas stove? No Yes | 0 21 | |
| 4. Do all children ages 6-17 go to school? No Yes No children | 0 9 26 | |
| 5. How many TVs do the household own? None One Two or more | 0 17 36 | |

Source: Mark Schreiner "Seven Extremely Simple Poverty Scorecards", prepared for CGAP, November 2006.

Once scores are added up they are converted to a poverty likelihood using a pre-constructed table (annex 1). For example, if one-third of Filipino clients have scores of 10, another third of 20, and the final third of 30, their poverty likelihoods (from annex 1) would be 77.8 percent, 76.6 percent, and 51.1 percent. The poverty rate for the group is estimated as the average, or (77.8

+ 76.6 + 51.1) / 3 = 68.5 percent. In other words the group would have a 68.5% likelihood of being below the poverty line.

Assessing Change

Poverty scoring can also assess changes in client conditions.¹⁰ Progress (or regress) over time is estimated as the change in a group's average poverty likelihood.

In the Philippine example above, clients had a poverty rate (the average of the group's poverty likelihoods) of 68.5 percent. If they are scored again a year later and the scores for each third of the group is 5 points higher (that is, 15, 25, and 35), then their new poverty likelihoods will be (from Annex 1) 75.4 percent, 58.9 percent, and 38.8 percent. The group's new poverty rate will then be $(75.4 + 58.9 + 38.8) / 3 = 57.7$ percent. Because the average poverty rate a year earlier was 68.5 percent, the poverty rate has improved by 11 percentage points. In other words, 1 in 9 clients would have exited poverty in the year. Of course, this measurement does not imply that participation in the microfinance program caused the change, it only determines that change happened.

The CGAP-Ford initiative had also sought to develop some indicators to measure specific social aspects of change. Change in health status was however dropped since very few MFIs were interested in reporting on health indicators. Interestingly, many MFIs report on women's empowerment, but the indicators were too diverse to permit benchmarking for a global format. It was thus decided to only include school attendance. PPIs for every country therefore include children's school attendance as one of the indicators. Regular tracking can provide information on whether increasing numbers of client children attend school.

¹⁰ The poverty scorecard assesses changes in client conditions but does not establish any direct causal connection between such changes and program participation. That would be too expensive and complicated. Most practitioners are content with information that can tell them what is happening to their clients.

Next steps in the Progress out of Poverty Index

CGAP, Ford Foundation and Grameen Foundation have created PPIs for a dozen countries.¹¹ Another dozen is being created. This will enable a large number of institutions to adopt simple indicators to assess the economic levels of entering clients and changes in their economic and social conditions. More country indices can be prepared contingent on demand. Global reporting can hence be simple and comparable. CGAP and the Ford Foundation are also encouraging MFIs to use the PPIs. Over thirty institutions are already in the process of implementing them.

Common Reporting Format

The development of a variety of assessments tools, reflecting different dimensions of social performance, is extremely exciting for the industry. Some tools focus on organizational process and internal systems. Availability of information at this level is a major reason for this. After all, it is far easier to ask for the percentage of women staff or whether staff get training and benefits, or if consumer protection policies exist, than to determine client socio-economic status. For others the ultimate proof of whether social missions are achieved depends on client level information. The important questions for them include whether institutions are reaching poorer and excluded clients and if they are experiencing positive changes in their lives. There is unanimous agreement however on the need for institutions to report on their performance.

The Social Performance Taskforce is currently developing a common reporting format that includes both organizational and client level indicators. The emphasis is on indicators that are conceptually clear, simple, cost-effective, statistically rigorous, and comparable across countries. The MIX,

¹¹ These include, Bangladesh, Bolivia, Haiti, India, Malawi, Mexico, Nepal, Nigeria, Pakistan, Philippines, South Africa and Vietnam.

as a member of the Taskforce, has agreed to highlight this common reporting format and make social performance data widely available through its website. This will allow donors and investors and others to conduct more holistic assessments of institutions encompassing both financial and social performance bottom lines.

Conclusion: Towards Managing Social Performance

The discussions in this paper center on social performance assessment tools. And while assessing and reporting on social performance are important in their own right, they need to be integrated to the broader question of how institutions can more effectively manage the organizational steps necessary to better achieve their social goals.¹² This involves clarifying the social goals of institutions, understanding whether current program practices relate to the achievement of these goals, and setting appropriate achievement targets. It involves developing and adopting simple indicators that are integrated into the regular monitoring system so that progress can be tracked. It involves continuous feedback and learning so that staff and management can adapt practices to improve performance.

Better reporting on social performance reflects how well institutions invest in and learn from their social performance management practices. It is important therefore that as we develop assessment tools and monitoring formats we ensure they are anchored in a drive to promote greater social performance management in the industry.

¹² The Imp-Act group, a collaboration of practitioners and service providers, has long been active in improving social performance management practices of institutions. They have created guidelines and training manuals for this purpose. Read “Social Performance Management in Microfinance: Guidelines” for a discussion on their practice.

Annex 1:

Philippines Scores and Poverty Likelihoods

| If an individual's score is ... | then the poverty likelihood is ... |
|--|---|
| 0-4 | 85.2 |
| 5-9 | 78.1 |
| 10-14 | 77.8 |
| 15-19 | 75.4 |
| 20-24 | 76.6 |
| 25-29 | 58.9 |
| 30-34 | 51.1 |
| 35-39 | 38.8 |
| 40-44 | 34.6 |
| 45-49 | 35.7 |
| 50-54 | 26.4 |
| 55-59 | 15.9 |
| 60-64 | 13.2 |
| 65-69 | 13.1 |
| 70-74 | 3.8 |
| 75-79 | 6.7 |
| 80-84 | 3.4 |
| 85-89 | 16.6 |
| 90-94 | 12.6 |
| 95-100 | 0.5 |

Poverty likelihoods are percentages

| | School Attendance | Housing/Land | Water & Sanitation | Diet | Cooking Fuel/Stove | Phone & TV |
|-------------|-------------------|--------------|--------------------|------|--------------------|------------|
| Bangladesh | 1 | 2 | 1 | | 1 | |
| Bolivia | 1 | 1 | 1 | | 1 | 1 |
| Haiti | 1 | 2 | 1 | | | 1 |
| India | 1 | 2 | | | 1 | 1 |
| Malawi | 1 | 1 | | 1 | 1 | 1 |
| Mexico | 1 | 1 | 1 | | 1 | 1 |
| Nepal | 1 | 1 | 1 | 1 | | 1 |
| Nigeria | 1 | 1 | | | 1 | 2 |
| Pakistan | 1 | 1 | 2 | | 1 | |
| Philippines | 1 | 1 | 1 | | 1 | 1 |

Annex 2: Type of indicators in poverty indices (by country)