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Social audits in microfinance: what have we learned about social performance?

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Introduction

Social performance assessment has evolved a lot in recent years, with the development of social audits, social ratings and reporting standards. CERISE has been a key force behind these developments, as pioneer of the Social Performance Indicators (SPI) tool. Developed in 2004 in collaboration with a wide range of practitioners (now members of the ProsperA network), the SPI is an open access tool¹ that assesses the principles, actions and corrective measures implemented by an MFI to achieve its social objectives. The indicators are used to score the MFI's social performance based on four key dimensions divided into three criteria (see table). The SPI includes all of the core SPTF/Mix Social Performance Standards (Part I) and most other SPS (Part II)², making it easy for MFIs to report to MIX.

Dimensions	Criteria
Dim 1. Targeting and outreach	C1.1 Geographic targeting C1.2 Individual targeting C1.3 Pro-poor methodology
Dim 2. Products and services	C2.1 Range of traditional services C2.1 Quality of services C2.3 Innovative and non-financial services
Dim 3. Benefits to clients	C3.1 Economic benefits to clients C3.2 Client participation C3.3 Social capital/Client empowerment
Dim 4. Social responsibility	C4.1 SR to employees C4.2 Consumer protection C4.3 SR to the community and the environment

The SPI tool assesses and analyzes MFIs' practices, thus helping them to manage social performance and improve social impact.

1. The increasing popularity of social audits

As of March 31, 2010, CERISE had received the results of 287 SPI audits³ from 223 institutions from 53 countries worldwide.

Profile of the MFIs using SPI											
	Peers	SPI Base		MBB 09			Peers	SPI Base		MBB 09	
Continent	Africa	66	30%	195	18%	Charter type	Bank	7	3%	82	8%
	Asia	19	9%	283	26%		Credit U	54	24%	182	17%
	ECA	5	2%	217	20%		NBFI	33	15%	338	31%
	LAC	123	55%	333	31%		NGO	87	39%	389	36%
	MENA	10	4%	56	5%		Rural B	4	2%	84	8%

¹ Available in English, French and Spanish at www.cerise-microfinance.org

² Only questions 18-22 on Outcomes are not included, as they do not fit into the SPI framework which focuses on the other stages of social performance: intent and design, internal systems and activities, and outputs.

³ The CERISE database had 320 audits as of 05/31/2010.

Age	New	23	11%	191	18%	Scale	Small	75	37%	428	36%
	Young	33	16%	203	19%		Medium	49	24%	394	34%
	Mature	134	66%	657	63%		Large	48	24%	351	30%
	N/A	14	7%	0	0%		N/A	32	16%		

Latin American and African institutions dominate the sample (55% and 30% respectively) due to the active involvement of MFIs' apexes and socially responsible investment funds in these regions. Compared to MIX data, the sample is well represented in terms of age and scale. Only in the charter type category are NBFIs slightly under-represented.

In fourteen countries, more than five MFIs have been audited. We estimate that the vast majority of MFIs in Bolivia, Benin, Ecuador, El Salvador, Guatemala, Mali and Nicaragua have used the SPI tool. In other words, the first countries to adopt widespread use of the SPI are countries where microfinance has been called into question by governments and where willful default movements have emerged. In these countries, social audits have been used to

SPI audit by year and type of review

		Audits	%	MFI	%
Year of the SPI review	2004	45	15,7	19	8,5
	2005	1	0,3	1	0,4
	2006	16	5,6	6	2,7
	2007	44	15,3	34	15,2
	2008	96	33,4	78	35,0
	2009	85	29,6	85	38,1
Assessment type	External	173	60,3	148	66,4
	Internal	98	34,1	64	28,7
	Test	16	5,6	11	4,9
SPI Version	SPI1	45	15,7	19	8,5
	SPI2	177	61,7	144	64,6
	SPI3	65	22,6	60	26,9
Source of the SPIs	MIV	82	28,6	76	34,1
	Network	80	27,9	70	31,4
	TA	77	26,8	49	22,0
	Other	48	16,7	28	12,6

dialogue with governments, justify changes to regulatory frameworks and public policies, and occasionally create distance from the irresponsible practices of "black sheep" MFIs.

The SPI was tested in 2004; a wider public starting using the tool after it was finalized in 2005. Our analysis only looks at data from 2006 (versions 2 and 3). An external auditor validated most of the audits. Up until 2008, mostly networks and TA providers administered the tool, either accompanying MFIs in the audit process or verifying results. Starting in 2009, several MIVs started to use SPI, which has helped to diversify the profile of MFIs using the tool by attracting first-time users. The current widespread use of the SPI tool suggests it meets the expectations of investors, apex institutions, support organizations, researchers, governments, regulators and donors alike.

2. Social performance results

Distribution of SPI scores			
	N	%	Cumul.
< 35%	14	6,9	6,9
35-40%	11	5,4	12,4
40-45%	11	5,4	17,8
45-50%	22	10,8	28,7
50-55%	30	14,7	43,6
55-60%	19	9,3	53,0
60-65%	29	14,2	67,3
65-70%	28	13,7	81,2
70-75%	22	10,8	92,1
> 75%	16	7,8	100
Total	202	99,0	

Fewer than one in eight MFIs obtain very low results (less than 40%). Similarly, fewer than one in twelve score over 75%. Indeed, if we exclude the bottom and top quartiles, half of the MFIs score between 49% and 68%. The median is 57% and the average 58%.

This distribution is due to the fact that the SPI tool is standardized. It aims to be a relatively comprehensive assessment of the different dimensions of social performance. As such, we do not expect MFIs to score full points; rather, results should reflect the institution's self-defined mission and strategy. For example, urban banks may prioritize a diverse product mix and social responsibility, while a rural cooperative will focus on targeting and participation. This is why it is so important to

refine analysis beyond the aggregated score; each dimension should be analyzed against the institution's strategic priorities. Moreover, comparing scores is only useful when institutions are part of the same peer group.

Social performance scores according to MFI peer groups

	Tous (N=204)	Africa (60)	Asia (14)	ECA (4)	LAC (116)	MENA (10)	Mixed (N=79)	Rural (N=62)	Urban (N=55)	Mature (N=134)	New (N=23)	Young (N=33)	Large (N=48)	Medium (N=49)	Small (N=75)	For Profit (44)	Not For Profit (N=141)	Bank (N=7)	Credit Union (N=54)	NBFI (N=33)	NGO (N=87)
Total SPI score	58%	54%	66%	47%	59%	54%	57%	62%	53%	58%	54%	56%	60%	61%	54%	54%	59%	59%	56%	53%	60%
Dim1-Targeting	63%	53%	77%	48%	67%	70%	61%	73%	54%	61%	66%	65%	57%	67%	62%	57%	65%	59%	53%	56%	72%
C1-1 Geog targeting	55%	48%	66%	52%	57%	66%	54%	72%	39%	53%	57%	57%	49%	62%	52%	47%	57%	48%	48%	44%	63%
C1-2 Indiv targeting	52%	40%	67%	30%	58%	49%	50%	56%	51%	52%	58%	49%	50%	53%	51%	53%	52%	60%	37%	51%	62%
C1-3 Methodol targeting	57%	51%	67%	44%	58%	68%	56%	63%	52%	55%	57%	65%	50%	60%	59%	50%	59%	44%	53%	52%	62%
Dim2-Services	62%	55%	68%	51%	65%	55%	63%	62%	60%	63%	56%	59%	69%	65%	56%	63%	61%	70%	59%	60%	63%
C2-1 Range of services	62%	58%	67%	51%	65%	40%	63%	61%	62%	64%	55%	56%	67%	70%	56%	62%	62%	77%	68%	57%	58%
C2-2 Quality of services	71%	62%	76%	56%	75%	70%	73%	68%	71%	72%	65%	67%	80%	76%	62%	72%	70%	78%	65%	72%	73%
C2-3 Innovative non fin services	54%	46%	62%	47%	57%	53%	53%	57%	49%	54%	50%	53%	60%	51%	50%	54%	53%	57%	47%	53%	56%
Dim3-Benefits	49%	54%	55%	38%	48%	35%	47%	59%	42%	50%	44%	48%	52%	49%	47%	41%	52%	39%	60%	42%	47%
C3-1 Eco Benefits for clients	50%	48%	56%	34%	52%	34%	47%	55%	47%	51%	48%	46%	53%	52%	46%	50%	49%	63%	54%	48%	46%
C3-2 Participation	48%	64%	50%	33%	42%	31%	44%	65%	37%	49%	43%	48%	50%	46%	49%	34%	53%	16%	71%	37%	42%
C3-3 Empowerment	50%	50%	60%	47%	51%	40%	50%	56%	44%	52%	42%	49%	52%	48%	47%	41%	53%	43%	53%	42%	53%
Dim4-Responsibility	56%	52%	62%	50%	58%	57%	57%	55%	56%	58%	51%	52%	63%	62%	51%	57%	56%	67%	53%	55%	59%
C4-1 SR to staff	64%	60%	67%	65%	65%	65%	66%	59%	66%	66%	65%	59%	71%	72%	57%	67%	64%	76%	59%	65%	68%
C4-2 Client protection	64%	59%	71%	61%	65%	73%	66%	60%	65%	67%	55%	61%	72%	72%	58%	66%	64%	85%	59%	62%	67%
C4-3 SR to community environ	40%	33%	49%	23%	44%	32%	37%	45%	37%	41%	34%	36%	44%	41%	36%	37%	40%	43%	38%	37%	42%

MFIs generally score highest on dimension 1, targeting and outreach (63% on average). This is indeed microfinance's main objective, one that has underpinned the creation of most MFIs. Next highest is dimension 2, products and services (62%), and dimension 4, social responsibility (56%). Dimension 3, which measures the economic and social benefits MFIs provide their clients, generates the lowest scores (49%). Indeed, this dimension implies that the MFI regularly monitors and evaluates its clients' situation, or involves them in governance—two aspects that tend to be neglected in the microfinance sector.

In terms of criteria, most MFIs score high on quality of service (C2-2). This is because it is hard to establish objective indicators that are also standardized and verifiable. Nonetheless, even if this criteria is slightly over-rated, the result suggests that MFIs pay attention to their clients' needs. The criteria that produces the lowest scores focuses on social responsibility vis-à-vis the community and environment (C4-3). It attempts to measure the complex dynamics of local development, and account for environmental protection as it relates to MFIs, a relatively new concept.

From a **geographic** standpoint, the best scores have been recorded in Asia, particularly in dimension 1 (targeting), but fewer audits have been done on the continent than elsewhere (due to fewer trade associations and a less developed ProsperA membership base). Latin American institutions also score well, especially for dimension 2 (products and services). Africa tends to score high in criteria on participation (dimension 3).

Rural MFIs tend to score higher than **urban** or mixed institutions. This advantage is reflected especially in dimension 1 (targeting) and dimension 3 (benefits to clients), namely the criteria on participation and innovative/non-financial services.

Analyzing the **size** of MFIs allows us to assess the trend toward mission drift. Findings suggest that large MFIs generally target less the poor and excluded than medium and small MFIs. However, they tend to score well in the other dimensions of social performance.

Charter type appears to have an impact social performance: overall, for profit institutions score lower than non-profits. That said, if we analyze performance by governance type, banks and NGOs stand out as having similar overall scores. Banks score well in products and services and social responsibility while the NGOs emerge as targeting “champions.” NBFIs score the lowest, appearing to be caught in the middle, having left targeting strategies to NGOs, but with no clear policy concerning services or social responsibility.

3. The relationship between social and financial performance in microfinance

The most recent study on the relationship between social and financial performance was conducted in 2009 on a smaller data set⁴.

Correlation (Spearman) between social and financial performance

	Borrowers/Staff		Portfolio at Risk (30 days)		Operating expense ratio		Operational self sufficiency		Return on assets		Total Portfolio	
	All MFIs	NGOs	All MFIs	NGOs	All MFIs	NGOs	All MFIs	NGOs	All MFIs	NGOs	All MFIs	NGOs
Type of MFIs												
Number of MFIs included	167	76	162	78	166	76	159	72	172	77	175	79
Total Social Performance Score	.212**	.176	-.016	-.079	-.058	-.034	-.002	-.057	.066	-.041	.285**	.174
Dim 1. Targeting and outreach	.270**	.185	.014	.016	.091	.115	-.083	-.186	.090	-.104	-.017	-.056
C1.1 Geographic targeting	.317**	.162	-.087	-.121	-.033	-.176	-.057	-.105	.054	-.173	.057	.093
C1.2 Individual targeting	.108	-.045	.082	.154	.187*	.239*	-.084	-.244*	.053	-.103	-.022	-.073
C1.3 Pro-poor methodology	.235**	.298**	-.023	-.126	.024	.129	-.064	-.079	.098	.044	-.071	-.174
Dim 2. Products and services	-.069	-.279*	.034	.071	-.136	-.081	.066	-.069	.008	-.106	.450**	.190
C2.1 Range of traditional services	-.134	-.216	.084	-.008	-.188*	-.246*	.056	-.046	-.088	-.171	.281**	.169
C2.1 Quality of services	.094	-.072	-.037	-.096	-.130	-.059	.151	-.014	-.012	-.146	.481**	.291**
C2.3 Innovative and non-financial services	-.024	-.189	.010	.161	.053	.150	-.031	-.114	.109	.056	.219**	-.009
Dim 3. Benefits to clients	.175*	.229*	.060	-.009	-.063	.010	-.046	.008	.038	.102	.118	.000
C3.1 Economic benefits to clients	.055	.127	.054	.051	-.142	-.049	-.102	-.069	-.049	.088	.206**	.055
C3.2 Client participation	.163*	.273*	.035	-.135	-.033	.016	-.047	-.029	-.008	.015	-.003	-.077
C3.3 Social capital/Client empowerment	.142	.151	.073	.107	.008	.033	-.002	.074	.144	.170	.135	.050
Dim 4. Social responsibility	.153*	.173	-.215**	-.270**	-.104	-.166	.113	.028	.034	-.092	.459**	.476**
C4.1 SR to employees	.108	.095	-.146	-.120	-.093	-.139	.108	.021	.069	-.054	.380**	.199
C4.2 Client protection	.041	.192	-.152	-.325**	.002	-.149	.111	-.051	-.049	-.160	.304**	.409**
C4.3 SR to the community and the environment	.163*	.029	-.126	-.162	-.122	-.112	.054	.184	.078	.097	.259**	.319**
**	Correlation significant at 0.01 level											
*	Significant convergence between social and financial performance											
	Significant divergence between social and financial performance											

Good social performance is generally associated with good financial results (green cells). More specifically:

- In terms of poverty outreach, individual targeting is associated with higher costs but geographic and methodological targeting are associated with higher staff productivity; this is particularly true among participatory institutions.
- Institutions with a diverse product mix have lower operational costs.
- Participatory institutions tend to have higher productivity.
- Institutions that score high in social responsibility tend to have lower default rates.
- Larger institutions appear to better manage products and services, and social responsibility.

Current SPI data allows us to refine these findings by peer group. For example, the observation regarding the cost of individual targeting applies particularly to NGOs, and is even associated with low OSS. For NGOs, a diverse product mix is correlated with lower staff productivity. On the other hand, those with well-developed consumer protection measures have a lower portfolio at risk.

⁴ Bédécarrats, Lapenu and Angora, 2009. Is Social Performance Profitable, MicroBanking Bulletin N°19, December 2009.

Conclusion

Active stakeholder involvement has made the SPI a standardized social audit tool that effectively addresses social performance assessment and management needs. With more and more institutions using the tool, we now have a critical mass of data, making it possible to characterize the social performance of MFIs according to context and type: rural MFIs tend to overcome the inherent difficulties of their operating areas by developing participatory governance models but also strong adaptation of services, and efforts towards social responsibility; NGOs tend to have strong targeting strategies and while banks appear to focus on diverse product mix and solid social responsibility policies. For the NGOs, the measures in favor of consumer protection are linked with lower portfolio at risk.

The attention being given to social performance is paying off: our analysis confirms that social performance and financial performance are compatible. It is indeed possible to have a clear strategy for sustainable microfinance—one that aligns financial, social and environmental objectives.