

SPI-Report No. 4

Proposal for a limited choice of indicators and their aggregation

Cécile Lapenu
Manfred Zeller

1. PROPOSAL FOR SOCIAL PERFORMANCE INDICATORS

Based on the response of MFI-practioners and objectives of the assessment of social performance, the research team suggests a list of indicators to be applied for field testing in a second phase.

1.1. Dimension 1: Outreach to the poor and excluded (25 points)

Mission of the MFI : 7 points

According to the senior management of the MFI , how much weight do the following possible objectives carry for the MFI (0= minor objective, 1=important objective):

- financial sustainability
 0 1 If answer is 1, specify strategy: _____
- outreach to the poor
 0 1 If answer is 1, specify strategy: _____
- outreach to the excluded (women, illiterate individuals, workers with unsecured status, etc.)
 0 1 If answer is 1, specify strategy: _____
- positive impact on income of clients
 0 1 If answer is 1, specify strategy: _____
- positive impact on education and social status of clients and their family members
 0 1 If answer is 1, specify strategy: _____

Mission drift: How does the MFI management keep to the social mission of the MFI? (0=nothing is done in particular; 1=the mission is clearly stated in the internal rules and regulations; 2=attention given to the composition of the governance structure or external audit)

Score 0 1 2 If answer is 2, specify: _____

Source: declaration from MFI management

Quality: measure an intention, some principles; can be checked from MFIs annual reports, charter, founding documents, etc. In particular, objectives can be ranked high if official reports and/or website of the MFI often mention the above objectives.

Geographic and socio-economic focus of client group targeting: 10 points

Does the MFI provide loans (0=never, 1=less than 30% of the loans, 2=more than 30%) to:

- urban⁽ⁱ⁾ areas with below-national-average socio-economic development ⁽ⁱⁱ⁾

Percentage of loans: _____ Score 0 1 2

- rural⁽ⁱ⁾ areas with below-national-average socio-economic development ⁽ⁱⁱ⁾

Percentage of loans: _____ Score 0 1 2

- workers with insecure status (no assets and uncertainty on daily employment e.g. casual laborers, landless tenants, etc)

Percentage of loans: _____ Score 0 1 2

- women

Percentage of loans: _____ Score 0 1 2

- illiterate individuals

Percentage of loans: _____ Score 0 1 2

Source: MFI management ; information derived from the MIS

Tools for targeting : 1 point

Do you use any targeting devices for improving the depth of poverty outreach of your MFI: (no=0 ; yes=1)

Example of indicators: indicators based on objective client conditions (illiteracy, farm or microenterprise size, housing index, assets, etc.); participatory wealth ranking (information given by the community itself)

Targeting device: _____ Score 0 1

Source: declaration from MFI management

Size of transaction: 5 points

Over the last 12 months (or last financial year), what is the distribution of the amount of the loans ?

Total number of loans given over the year: _____

Nb of loans below 50% of GDP/Cap : _____ % : _____

Nb of loans between 50 and 100% of GDP/Cap : _____ % : _____

Nb of loans above 100% of GDP/Cap: _____ %: _____

(0=all the loans are above 100% of GDP/Cap; 1= less than 30% of the loans are below 50% of GDP/Cap but some of the loans remain below 100% of GDP/Cap; 2= 30% of the loans are below 50% of GDP/Cap)

Score 0 1 2

At the time of the survey, what is the distribution of the amount of the savings account (demand deposits) ?

Total number of demand deposits : _____

Nb of demand deposits below 50% of GDP/Cap : _____ % : _____

Nb of demand deposits between 50 and 100% of GDP/Cap : _____ % : _____

Nb of demand deposits above 100% of GDP/Cap: _____ %: _____

(0=all the demand deposits are above 100% of GDP/Cap; 1= less than 30% of the demand deposits are below 50% of GDP/Cap but some of the demand deposits remain below 100% of GDP/Cap; 2= 30% of the demand deposits are below 50% of GDP/Cap)

Score 0 1 2

Over the last 12 months, what is the minimum size of savings account (in % of GDP per capita) (0=more than “x” percent of GDP p.c.; 1= up to “x” percent of GDP p.c.)?

Size in local currency: _____ % of GDP p.c.: _____ Score 0 1

Source: MFI management ; information derived from the MIS

Quality: the absolute values should be provided by the MIS. Calculation in terms of % of GDP p.c. can be done later when analysing the data. The survey given to the MFI management should ask for the absolute values.

The ranking (definition of “x”) for the minimum size of savings account should be defined using example of MFIs conditions related to national GDP p.c.

Collateral : 2 points

Does the MFI agree to provide loans only secured by “social” collateral (i.e. solidarity among groups, recommendation by trusted third party, physical guarantees which have very low commercial value but are important for the borrowers)?

(0 = Never, 1= for less than 30 % of the loans, 2= for more than 30% of the loans)

Percentage of loans: _____ Score 0 1 2

Source: MFI management ; for the percentage of loans relying on such collateral, information should be provided by the MIS

1.2. Dimension 2: Adaptation of the services and products to the target clients (25 points)

Range of services: 11 points

How many different types of loan products does the MFI provide ? (0=only one; 1=2 or 3; 2=more than 3) Score 0 1 2

Does the MFI provide consumer /emergency loans? (0=no; 1=yes) Score 0 1

Does the MFI provide loans from 0 to 6 months? (0=no; 1=yes) Score 0 1

Does the MFI provide loans from 6 to 12 months? (0=no; 1=yes) Score 0 1

Does the MFI provide loans above 12 months? (0=no; 1=yes) Score 0 1

How many different types of voluntary savings products does the MFI provide? (0=no savings products; 1= 1or 2; 2= more than 2) Score 0 1 2

Does the MFI provide insurance products (except death insurance for loans, see below) ? (0=no; 1=yes) Score 0 1

Flexibility of repayment (0= only one program fixed by the MFI, 1=the programme proposes different schedules; 2=the schedule is decided with the clients when receiving the loan) Score 0 1 2

Source: declaration from MFI management

Consumption loans: short term (less than 3 months), very rapid disbursement (1 or 2 days), no specific purpose asked for the loan, or allowed officially for consumer goods, etc.

Differences between types of loans products: at least 3 elements are different among the followings (purpose, amount, duration, guarantee, interest rate, schedule of repayment)

Differences between types of savings products: at least 2 elements are different among the followings (minimum size, term, interest, minimum transaction size).

Quality of services (8 points)

Decentralisation: In rural areas, what is the maximum distance clients travel to receive a loan or make a deposit (0= more than xx km; 1 = less than xx km) Score 0 1

Prompt delivery of the loans : what is the frequency of the meetings of the credit committee (or of the decision taking for loan delivery by the loan officers) to decide to grant the loans to a borrower ? (0=up to once a month ; 1= more than once a month)
Score 0 1

Has the MFI ever conducted market surveys (in particular with the analysis of the household budgets) to improve the quality of services to the clients? (0=never; 1=only at the beginning; 2=sometimes on irregular basis; 3= regularly, planned in the strategy of the MFI)
Score 0 1 2 3

Percentage of client drop-out or inactive clients (no transaction on credit and savings for more than one year) over the last 12 months (or last financial year) [number of drop-outs over the average number of clients over the last 12 months/financial year]
0=more than 30%; 1=10-30%; 2=less than 10% Score 0 1 2

Has the MFI ever conducted surveys on client drop-outs? (0=never; 1=done, or % of drop-outs less than 5%) Score 0 1

Source: MFI management ; for the drop-outs, information can be sometimes available in the MIS but not always. If not available, the MFI management should ask to loan officers.

Quality: distinction cannot be made among the reasons for departure (dissatisfied, excluded, do not need services anymore, etc.) but in any case, high percentage of drop-outs means that the services do not fit the needs of the clients.

Non-financial services accessible to the clients (4 points)

Does the MFI ensure that the clients can have access to the following non financial services? (within the same organization or thanks to formal partnership and cooperation with other local organization):

Non financial services related to financial and economical management of the loan : business training, management of family budget, access to market, innovation, etc. (no=0, for some clients (or for all but on a compulsory basis)=1; for all clients of a voluntary basis=2))
Score 0 1 2

Non financial services related to social needs: literacy training, health services, access to social workers, etc. (no=0, for some clients (or for all but on a compulsory basis)=1; for all clients of a voluntary basis=2)) Score 0 1 2

Source: MFI management

Quality: The non financial services are not necessarily supplied by the MFI but in relationship with other local NGOs, projects, government organizations, etc. Direct contacts should exist between the MFI and the provider to ensure access for the clients of the MFI.

Participation (2 points)

Has the MFI ever used tools (such as meetings, surveys or focus-group discussions) to involve its clients in the design of the services provided ? (no=0, for the early stages of the MFI=1, regularly (i.e. at least once a year)=2)

Tool(s) : _____

Score 0 1 2

Source: declaration from MFI management

1.3. Dimension 3: Improvement of social and political capital of the clients (25 points)

Transparency: 4 points

Does the loan statement differentiate between the amount of the principal and the amount of the interests and fees to be paid in order to give clear information to the borrowers? (no=0, yes=1) Score 0 1

Do the clients receive written statements on each of their loan transactions? (no=0, yes=1) Score 0 1

Do the clients receive written statements on each of their savings transactions? (no=0, yes=1) Score 0 1

Do the clients have access to the MFI's annual accounts? (no=0, yes=1) Score 0 1

Source: declaration from MFI management

Clients representatives: 11 points

Do the clients of the MFI elect representatives to any representative body in:

- Consultation (no=0, yes=1) Score 0 1
- Decision making (no=0, yes=1) Score 0 1
- Control (no=0, yes=1) Score 0 1

Do these bodies have an effective impact on decision making and actions of the MFI management ? (0=no ; 1=yes)

If the answer is 1, precise the changes : _____ Score 0 1

How often do these bodies meet staff managers? (0=never; 1=once a year; 2= regularly and as often as required by the representatives) Score 0 1 2

Is there a system of rotation of the elected members ? (no=0, yes=1) Score 0 1

Is there a system of training of representatives / elected members (no=0; yes, on an irregular basis=1; yes, on a regular basis, planned in the strategy and related to the rotation of representatives=2) Score 0 1 2

What is the percentage of women among client representatives (compared to % of women among all clients) (0= no women representative; 1= few women representatives; 2= about the same proportion as female clients) Score 0 1 2

Source: declaration from MFI management / MIS

Empowerment : 10 points

Have the MFI's operations sought to strengthen the social cohesion of the local community it is serving? (no=0; indirect, minor objective=1; direct, major objective=2). Score 0 1 2
If score 1 or 2, describe: _____

Have the MFI's operations sought to increase the voice its clients have in the local (or national) government? (no=0; indirect, minor objective=1; direct, major objective=2)
Score 0 1 2
If score 1 or 2, describe: _____

Does the MFI provide leadership training for the clients (team building, representation, etc.)? (no=0, yes, on an irregular basis=1; yes, on a regular basis, planned in the strategy=2)
Score 0 1 2

On a scale from 0 (no effect) to 2 (large influence), how does the MFI rank its power to influence the decisions concerning the public policy of the local government?
Score 0 1 2

On a scale from 0 (no effect) to 2 (large influence), how does the MFI rank its power to influence the decisions concerning the public policy of the national government?
Score 0 1 2

Source: declaration from MFI management

1.4. Dimension 4: Social Responsibility of the institution (25 points)

Human resources policy: 9 points

What is the starting annual income (including bonuses) for loan officer compared to the starting annual income of a school teacher (primary school) in the same community? (0=much lower; 1= about the same; 2= higher)
Score 0 1 2

What is the annual budget for training of employees (as a % of budget p.a.)? (0=less than1%; 1= between 1 and "x" %; more than "x" %)
Score 0 1 2

Can the employees participate in decision-making? (no=0, through dialogue or consultation between staff and direction=1, through a consultative elected body or through participation in the governance=2)
Score 0 1 2

Does the MFI ensure that the employees have access to some type of health coverage?(no=0, yes=1)
Score 0 1

How many employees have left the MFI during the last 12 months, as a percentage of the average number of employees? (0= more than "y"%; 1= less than "y"%; 2= no departure)
Score 0 1 2

Source: declaration from MFI management with some information derived from the MIS

Quality: avoid direct surveys from MFI management on the employees in order not to create tension between management and employees

Social responsibility towards the clients: 7 points

Has the MFI ever conducted socio-economic studies to assess the situation of the clients? (0=never and not planned; 1=planned in a near future (within one year); 2=once; 3=regularly (e.g. every year or system of continuous awareness))

Score 0 1 2 3

Has the MFI ever had to change its products and services due to negative impact on social cohesion or welfare of its clients ? (0=not a major preoccupation for the MFI; 1= studied but no changes so far; 2= studied and no problems recorded or changes made after identification of the problem)

Score 0 1 2

If score=2, describe: _____

Does the MFI provide some type of insurance that frees the family from the burden of debt in case of death of the borrower? (0=no; 1= yes)

Score 0 1

Does the MFI propose specific measures (such as rescheduling of the loans) in case of natural disaster? (0=no; 1= yes)

Score 0 1

Source: declaration from MFI management

Social responsibility towards the local community (iii): 9 points

Respect for local culture and values

Does the MFI take care that its actions are compatible with the local culture and values (through surveys and studies, through discussions with local authorities, key resource persons from the community, etc.)? (0=no specific action; 1=information collected at the beginning ; 2= information collected on a regular basis (ex. once every 2 or 3 years))

If the answer is 1 or 2, sources of information : _____ Score 0 1 2

Does the MFI work with local loan officers who can speak the local language and know the local culture (no=0, some of the loan officers know the local culture and language=1, most of the loan officers know the local culture and language =2)

Score 0 1 2

Community investment

How often has the MFI assisted the local community through financial support (grants or loans) for community projects (school, hospital, church, mosque, temple, etc.): 0= never; 1= seldom (only once every 3 or 4 years); 2=every 2 years; 3= once a year or more

Score 0 1 2 3

If scores 1, 2 or 3, describe investments: _____

Has the MFI ever had to change its products, services or way of functioning due to negative impact on social cohesion or welfare of the community ? (0=not a major preoccupation for the MFI; 1= studied but no changes so far; 2= studied and no problems recorded or changes made after identification of the problem)

Score 0 1 2

If score=2, describe: _____

Source: declaration of the MFI management

Definitions:

- i **Urban and rural areas** : the official definition of urban and rural areas does not refer to comparable population sizes of settlement and may greatly depend on the country. However, typically in developing countries, rural areas (fewer than 5000 inhabitants) are sparsely settled and employment is mainly in agriculture, whereas towns (more than 20000 inhabitants) are densely settled, and employment is 85-95% non agricultural. Intermediate conditions correspond to peri-urban and secondary towns (from Lipton et Ravailon, 1995).
- ii **Economic situation compared to the national average** : each MFI operational area can be classified as richer, poorer or equivalent compared to the national average, from statistical data available at national level or from the experience from the MFI management and potentially other key resource persons who can classify the areas, on the basis of their knowledge and on objective elements (activities, infrastructures, etc.)
- iii **Community** : community means the people who live around the institution (residents and organisations from the district/neighborhood or from the village ; sometimes, groups formed by socio-economic or socio-cultural activities)

THE SOCIAL PERFORMANCE INDEX: PROPOSALS FOR WEIGHTING AND AGGREGATING INDICATORS

1.5. Arbitrary weightings leading to an index with a maximum of 100 points

External weightings given. The previous section suggested indicators, each with a certain number of points depending on the answer. The points were suggested by the researchers. Each of the 4 dimensions accounts for 25 points, so the total is 100.

Internal weightings by MFI-industry, and continuously updated. An improvement of this weighting system would be for the weightings to be provided by the micro-finance sectors (MFIs, donors, investors, etc.). In order to achieve this, we have already asked MFI practitioners about the relative importance of each dimension and subdimension. From these results, weightings can be calculated. If this weighting system is chosen, weightings could be updated on a continuous basis. Whenever a MFI reports on the indicators, it would also be asked to report on the relevance of each dimension and subdimension. The average weighting across all MFIs reporting on SP would be adjusted over time. Even so, strategic responses cannot be ruled out, for example an MFI may rate complementary non-financial services low if it does not supply them itself. Thus, the weightings are clearly a function of the properties of the sample. If we have many GB replications in the sample, there would be a greater emphasis on weightings on poverty outreach.

Overall, arbitrary weightings have the advantage of being simple, transparent, and clear. However, social performance (as the definition of poverty) is context-specific, and arbitrary weightings do weight the same indicator alike irrespective of local conditions. Also, arbitrary weights do not allow inclusion of additional or alternative indicators that are well adapted to local conditions of specific regions or countries. Therefore, in principle, a rating system with flexible weightings is desirable.

Type of weightings: the weighting system does not necessarily mean that each indicator should be ranked between 0 and 1 or 2. The idea of a “nominal” score which does not assign a positive value to 1 and a negative value to 0 but gives an idea of the MFI choices (focus on poverty, focus on women, focus on empowerment, etc.), could also be analyzed further.

1.6. Weightings given by principle component analysis (PCA)

In section 1, about 15 indicators have been put forward. These (and more) could be easily be aggregated into an index using Principal Component Analysis, similar to the technique the PAT is using (Henry et al., 2003; Zeller et al., 2001 and 2002). The only requirement is that all indicator variables are ordinal or ratio (i.e. no dummy variables).

The social performance index would be a relative index, i.e. measuring the social performance of a particular MFI in relation to all other MFIs (from all regions or countries) that also reported using the SP questionnaire. The PCA model could be adjusted from time to time by an expert committee (for example the SPI steering committee in consultation with a

researcher), and new weightings be calculated when significant changes in the sample have occurred.

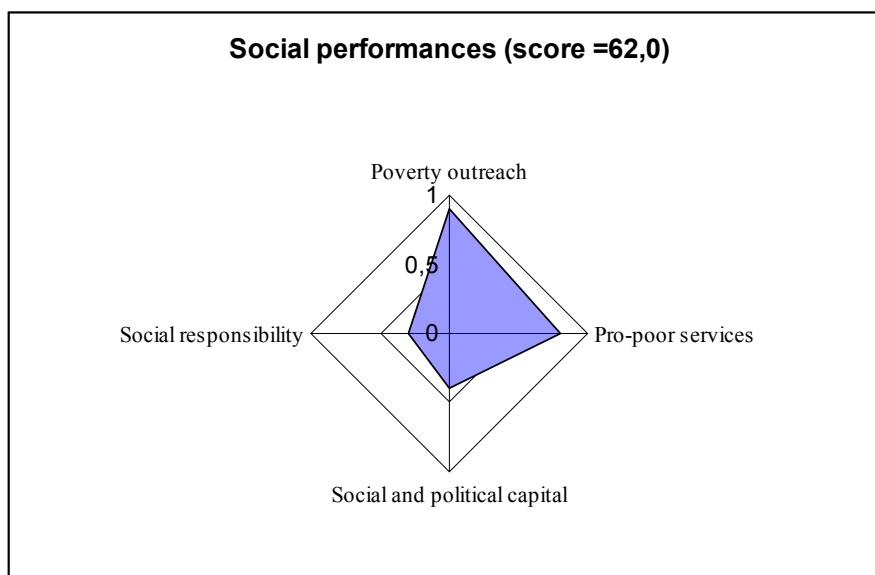
1.7. Weights for SPI and its subdimensions

The above methods of aggregation can be used not only for the SPI reflecting the total, but also for each of the subdimensions (provided that enough indicators are selected).

A useful graphical display of an orientation of a MFI towards one or the other dimension is proposed as follows.

A score can be affected by dimension as a % of the total score for each dimension (or in relation to the maximum value of the PCA-generated index of social performance).

Example 1: MFI with strong social performances regarding poverty outreach



Example 2: MFI with low concern regarding poverty outreach but focusing on social capital and social responsibility

