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SPI3 – DISCUSSION PAPER N°1

Stakes of Measuring Social Performance in Microfinance

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November 2006



SPI3 – Methodological Articles

Stakes of Measuring Social Performance in Microfinance

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Introduction

Given the twofold social and financial calling the microfinance sector claims, it has become increasingly crucial to focus on the way in which its institutions define their social mission and put it into practice in their governance mode (specific actions, management and information system, etc.). The general context does indeed give rise to much questioning about the evolution of the microfinance sector (development of «commercial» approaches, reinforcement of private investment and emergence of bank partnerships, etc.; Littlefield & Rosenberg, 2005), whereas its «real» contribution to a set of societal goals such as the fight against poverty, local development or the reduction of social inequalities is still subject to debate (Hulme & Mosley, 1996; Morduch, 2000; Pitt & Khanker, 1999).

The microfinance sector is at a crossroads. Microfinance institutions (MFIs) have shown their capacity to sustainably offer diversified, adapted financial services (small amounts, regular reimbursements, targeting of poor household activities, direct contacts with local credit agents, etc.) to those excluded from conventional banking systems. They have conceived non-traditional guarantees and developed systems based on solidarity, proximity and participation to increase trust and lessen informational and social barriers between the clients and the institution. The beneficiaries appreciate those services and generally reimburse their loans well.

If indeed the technical challenges have been met, recognition goes, first of all, to the innovations developed in particular by NGOs over the past thirty years, aimed at strengthening social bonds and pushing back the boundaries of financial services with products adapted to the social and economic constraints of the target populations.

Yet the challenges in the sector remain substantial:

- In terms of services offered, in order to continue their action in a long-lasting way, MFIs have to commit themselves to financial sustainability, manage their costs as best as possible and become subsidy-independent. As a result, MFIs are torn between their

¹ www.iram-fr.org

² www.cerise-microfinance.org

social mission (reaching the poor) and their financial objectives (covering the costs of the services offered). Moreover, the required change in scale of microfinance that will make it possible to serve the target public more widely – the number of people who could, in the long term, benefit from financial services and who are still excluded, can be estimated at about a billion – relies, in the current trends, on the involvement of commercial banks and the reinforcement of private investment. So what will microfinance's social mission be?

- In terms of meeting the needs of the target populations, microfinance, a strategic development tool, has been presented too often as a «large-spectrum medication», a solution to a wide range of economic problems – the fight against poverty, individual development and economic growth, emergence and consolidation of small companies, «empowerment» of women, support to families, etc.). Yet, criticism of the divergence from these practices is more and more frequent (See Guérin, 2003; Servet, 2006, for example). The main reproach is that of vulgarising financial practices that are in keeping with a purely commercial process without being concerned about the risks for the beneficiaries and the limits of their social impact. Institutions are simply seeking to make the underprivileged populations' access to basic financial services profitable via the application of techniques and rules closer and closer to commercial finance.

As a result, the evolution of microfinance towards “commercialisation” is running the risk of veering off course, where financiers will be able to turn towards commercial banks considered more professional, more reliable, more capable of reaching a general public, penalizing institutions that seek to carry out a social mission and which, up until now, had enabled innovations. Microfinance services mustn't be considered as development NGOs' «private hunting ground», nor should they become the exclusive tool of commercial banks. However, if we want to make sure the financial services offered maintain their social relevance, we have to be able to monitor and enhance actions that will reinforce general public microfinance that respects its clients and is sensitive to its impact.

Hence, the actors of joint liability finance are striving to enhance, gain recognition for and intensify their actions which they consider capable of reconciling social and financial aims. Concerns have also risen among the community of donors, preoccupied by the effects of microfinance while public funds are being used to support its expansion. Who are the beneficiaries? What is the social impact on individuals, communities and territories? What are the means of action and what is the social responsibility of these organisations?

Yet, the evaluation systems used up until now in the microfinance sector have essentially been focused on assessing financial performance. Up until recently, information concerning the social performance of MFIs has been fairly rare or subject to discussion as shown by the debates on impact studies (CERISE, 2003).

The idea that microfinance actions can no longer simply be guided and evaluated with the measuring stick for financial performance has slowly but surely made its way in the microfinance sector, following the observation of divergence and crises such as the overindebtedness of clients or the negative effects on the social bonds in the operations of certain so-called «joint-liability» groups. In this context, various initiatives have come to be since the early years of the 21st century, emphasizing the importance for the development and sustainability of microfinance institutions, social objectives and their enhancement. Yet this still remains to be demonstrated with adequate assessment approaches and guidance tools.

Thus the first tools appeared for measuring which populations were truly affected (CGAP *Poverty Assessment Tool*, research by the Accion International³ network), followed by growing pressure from donors to monitor targeting and impact⁴. Approaches and tools have enabled the concept of social performance and joint-liability finance to make headway. The Consultative Group to Assist the Poorest (CGAP) and various initiatives working in the field of microfinance defined social performance specifying that the social value of a financial institution is based not only on targeting the poor and the most marginalized, but also on strengthening social bonds, social capital and social responsibility.

There has been reticence as well (e.g., Jacquand, 2005): how and why should we monitor social performance that is far too complex, subjective and relative but not «mathematical» enough? Isn't the focus on social performance likely to divert MFIs from their aims of financial sustainability? Are we not going to place yet another burden on MFIs by imposing upon them still more new standards to follow and reach?

Above and beyond the technical design of the tools, a certain number of questions have remained unanswered: does the promotion and assessment of social performance allow new social, political and institutional regulations within the financial sector? Do they play a role in the development and spread of a common ethical base? Do they support new models of development?

In order for the approaches undertaken to be a lever for generating new forms of regulation, we must surpass the «fashionable» effect on social assessment and really integrate these tools and these approaches into the day-to-day life of joint-liability finance, make the actors of the sector acknowledge them, illustrate and prove the added value of the joint-liability approach. It is also a matter of being able to extend the concepts and approaches to the whole chain of activity of joint-liability economy: funding / production / distribution / consumption.

This article will first deal with presenting initiatives concerning social performance assessment and management, and in particular one of the most advanced initiatives, conducted by the CERISE network. To date, the results of these various initiatives are especially innovative with concrete elements for assessing social performance and approaches to be structured with the day-to-day management and strategic issues of MFIs.

Secondly, the stakes and expectations brought to the fore by these approaches will be discussed so as to take them into account better in the future: to transform the trial, and strengthen social performance, this research must still take into account all the consequences, strong points, risks and reluctance in the face of these approaches so that they can be enhanced in order to strengthen the social and societal action of microfinance, joint-liability finance and the joint-liability economy in general.

³ See <http://accion.org/insight/>

⁴ See the debate on «US Poverty Mandate» (mfg-uspoverty@microfinancegateway.org) on Microfinance Gateway (<http://www.microfinancegateway.org/>)

Progress in social performance assessment tools

The SPI-CERISE Initiative

The approach

The SPI «*Social Performance Indicators*»⁵ approach is aimed at defining, along with the assessment of financial performances, a tool for assessing social performance in the field of microfinance (Lapenu & Alii, 2004) as well as promoting and strengthening social performance in the microfinance sector.

The general principle is based on the idea that to reinforce its social impact, an institution has to be able to clearly state its mission and make sure that its actions are in compliance with that mission. As a result, rather than simply observing its effects at the end of the line, the MFI can make sure that it has the means for reaching its social goal.

Illustration n°1: Concepts of impact and social performance

The March 2005 meeting in Paris which confronted approaches by different initiatives working on social performance, led to the development of a common framework on impact and social performance in which the SPI-CERISE tool fits perfectly.

A MFI's chain of activity

A MFI operates following a logical chain: «intention/mission => action => effect/impact»

The overall performance of an institution is defined as the results obtained at each of these stages in function with the impact sought and means implemented by the MFI to reach its goals. The overall performance can be broken down into economic and financial performances and social performance. On the basis of this chain, the following distinctions can be made: internal organisation of the institution (principles and action, at the start of the chain) and the effects, at the end of the chain, on the MFI's environment (clients, non-clients, local community, etc.).

Impact and its assessment

Impact is generally defined as all of the changes that can be attributed to the MFI's action, whether sought or not. It deals with the client, the group to which he belongs (family, community) and his socio-economic environment. The impact is located at the end of a MFI's chain of activity, as the final component of the overall performance. Analysing the impact consists in understanding, assessing and evaluating the effect of an action. It requires information from outside the MFI (situation of clients, non-clients and the community, etc.).

Social performance and its assessment

The social performance of a microfinance institution is the effective expression of its social mission in practice (actions, corrective measures, monitoring of results).

The overall social aim of a MFI generally consists in:

- improving the life of poor and excluded clients and their families in a sustainable way
- widening the range of socio-economic opportunities for the community.

To reach this overall goal, a MFI's social mission may be based on the following principles:

- Serving a growing number of poor and marginalized populations
- Improving the quality and suitability of the services offered to the target clients
- Creating profits for microfinance clients, their families and their community such as improving social capital and social bonds, increasing assets, income, lowering vulnerability, improving access to services such as health and education and

⁵ The SPI initiative has been led since 2002 by the French network CERISE in association with a group of international partners (Argidius Foundation from the Netherlands, Charles Mayer Foundation - FPH in Switzerland, University of Göttingen in Germany, Swiss Cooperation - SDC and CGAP, as well as a partnership of microfinance institutions and the members of a working group supported by the Charles Mayer Foundation (Chantier Finance solidaire).

meeting basic needs.

- Contributing to social and economic change in the communities served
- Involving the institution's social responsibility with respect to its employees, its clients and the community of which it is part.

Social performance, conveying the implementation process of the MFI's social principles, is located at the beginning of a MFI's chain of activity, as an element contributing to the MFI's final impact. The assessment of social performance consists in understanding and assessing the means implemented and their effectiveness in reaching the social goals set by the MFI. For the most part, it relies on information from within the MFI (founding texts and principles, mode of action and business plans, management and information system, etc.). The social performance and impact analyses are therefore complementary methods for the assessment of MFI activities.

With respect to measuring social performance, the design of the SPI-CERISE tool is designed for assessing the relevance and effectiveness of the actions and means that the institution devotes to its social goals. The analysis is based on a questionnaire mobilizing information from within the MFI (founding principles, business plan, activity reports, management statement, information from the MIS or Management Information System, etc.). Measuring social performance using the SPI-CERISE tool is hence complementary to impact assessment.

The SPI-CERISE tool is founded upon four major dimensions of social performance:

- Dimension 1: orientation towards poor or marginalized clientele not having access to the banking sector. MFIs generally seek to reach a population excluded from the commercial financial system. MFIs can have the aim of targeting socially-marginalized populations or the poor, or they simply offer financial services in a region where the banking system is absent or to people rejected by the banking system (but who are not necessarily poor or socially marginalized). The questions raised by the SPI-CERISE tool deal with the MFI's targeting strategy (geographic or individual targeting or via loan methodology) and the results of that targeting strategy.
- Dimension 2: diversification of services so as to adapt them to the needs of this specific public. Simply deciding to target a particular population is not enough. Microfinance services are too frequently standardized. The MFI must study the target population and work on developing its financial services so that they can be adapted to the clients' needs. The questions deal with the diversity of the services, the quality of those services (rapidity, proximity, transparency, suitability) and the access to non-financial services.
- Dimension 3: establishing relationships of trust with its clients and strengthening their political and «social capital». For MFIs, trust between the MFI and the client can reduce transaction costs and improve the rate of repayment. This can favour collective actions and decrease «free rider» behaviours, opportunistic behaviours, and reduce risks. For clients, reinforcing their social and political capital can reinforce their social organisation (collective action, information sharing, lobbying...) and self-confidence, making their economic and social development easier. The SPI-CERISE tool questions deal with trust and the MFI's information sharing with clients, participation of the latter in decision making at different levels of the MFI and finally, the MFI's actions in the field of strengthening its clients' social capital.
- Dimension 4: the institution's social responsibilities with respect to its salaried employees, its clients and their communities. Social consciousness is required in order to adopt a socially-responsible behaviour. Social responsibility requires an adequate

human resources policy, adaptation of the MFI's culture to the socio-economic and cultural context, concern for the impact of the actions on its clients and on the community in which the MFI is working. The questions mainly deal with the MFI's human resources policy, the MFI's actions which are the expression of social responsibility *vis-à-vis* its clients (impact studies, etc.), or *vis-à-vis* the community (reinvestment in services for the community, for example).

Three parts are developed in the analysis: the first part providing a synthesis of the management's «intentions» and founding principles in terms of social goals based on the four dimensions, the second part based on establishing approximately sixty indicators of social performance, once again based on the four dimensions and, lastly, a complementary part, including the main financial ratios making it possible to correlate financial and social performances.

Following initial development research and a test phase dealing with 25 microfinance institutions in Africa, Latin America, Asia and Europe, an initial approach was defined. The set of analysis tools⁶ – the questionnaire and its user guide – and the initial findings were the subject of a validation workshop in March 2005 in Paris (CERISE, 2005).

The findings

Used internally, the SPI-CERISE tool enables reflection about defining, conducting and continuing the social mission set by the MFI. Vola Mahasoia in Madagascar, AMUCSS in Mexico, the CREAR project in Ecuador which supports savings and loan cooperatives, Bina Swadaya in Indonesia, the Albanian Savings and Credit Union in Albania are all MFIs that used the SPI-CERISE framework to make headway in their social policy: reflection about the nature of their social mission, identification of indicators to follow and to integrate into the MIS, board meetings on implementing the social mission, reflection on the goals set, the goals not pursued – which ones and why – the results achieved, etc.

Application of the tool also generated an overview of social performance by taking stock of the four dimensions considered preponderant in seeking social impact, and using a graph that sums up the information provided (See the example of Morocco below). As a result, applying the questionnaire drew MFIs' attention to what social performance meant to them, thus raising questions about the clarity of their social mission and their objectives, and about the means implemented for reaching them.

It was possible to apply the SPI-CERISE tool in a range of contexts (rural, urban, mixed, different continents, countries with contrasting levels of wealth) and in MFIs ranging in size, stature and maturity.

Illustration n°2: are tools applicable to the North and South?

The same questionnaire, applied in France, to the ADIE (Association pour le Droit à l'Initiative Economique) and FIR (France Initiative Réseau) for example, also prompted reflection about the vision of social performance conveyed by micro-credit institutes in a developed country: what role does the participation of clients, or salaried employees play? How can a policy of social responsibility be implemented? Can the same indicators be used in the North and South? Even if, marginally, the indicators are not necessarily transferable as they are (average loans of MFIs in the South versus a lever effect to have access to complementary bank financing in the North, for example), the principles and their translation into indicators can stay the same (links between local development and social responsibility with respect to community, creditworthiness of creator projects with respect to banks, for example).

⁶ Available on the CERISE website: <http://www.cerise-microfinance.org/>.

Comparisons by continent or by type will, in the long run, provide components about the social strategies of MFIs in relation to their context.

Illustration n°3: Findings per category

	Region			Status			Intervention Zone		Size		
	Latin Amer.	Africa	Asia	Com-mercial	Co-op	Non-profit	Rural	Urban	Large	Medium	Small
D1: Target	18	19	17	17	18	19	18	18	18	16	18
D2: Service quality	17	16	14	16	16	15	16	16	17	15	14
D3: Social Capital	13	16	16	13	19	14	18	15	17	14	14
D4: Social Respons.	15	18	13	17	16	14	16	15	16	16	14
Total	63	69	61	62	69	63	68	64	67	60	60

Source: test of the SPI-CERISE tool on 24 MFIs in 2004 (CERISE).

The data in the chart above deal with a limited sample and the findings come from the SPI-CERISE tool in the test phase⁷. The trends observed in this chart serve more as lines for reflection and points to be analysed further.

It can be observed that, beyond targeting the poor, MFIs in Latin America focus their attention on the quality of services and African MFIs place emphasis on social responsibility. In Asia, the other significant dimension deals with reinforcing clients' social capital. By type of status, although non-profit NGOs «limit» themselves mainly to targeting the poor, cooperatives seek to develop the social capital of their clients and MFIs with commercial status grant substantial attention to their social responsibility. It can be seen that rural MFIs⁸ make efforts in terms of strengthening their clients' social capital, striving to build on social bonds still present in rural zones. Lastly, small MFIs try, first of all, to develop their targeting strategy, whereas the largest ones can diversify their actions in favour of a «wider» social strategy: targeting, service quality and strengthening of social capital. All in all, it can be observed that Dimension 1 (Targeting the poor) is not sufficient for measuring the social performance of a MFI, given the knowledge that each MFI can develop a rich, diversified strategy to meet its social objectives.

Finalization of the SPI-CERISE tool shows that a system of standardized rating can make it possible to compare performances from one institution to another or, in any case, by groups of peers (same context, same type of institution), as the Moroccan example below demonstrates.

The data concerning four micro-credit associations in Morocco⁹ shows that in a single context and with a single type of institution, faced with the same legal restrictions – in the case of

⁷ Tool that still included a few biases in favour of cooperatives concerning Dimension 3 – MFI based on the participation of the members – and biases for the largest MFIs – which could valorise activities, however small, in their portfolio.

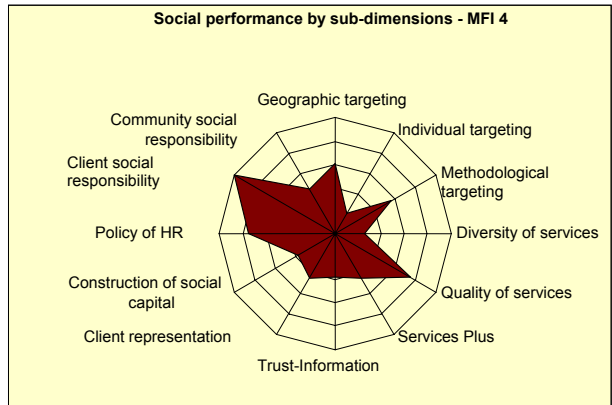
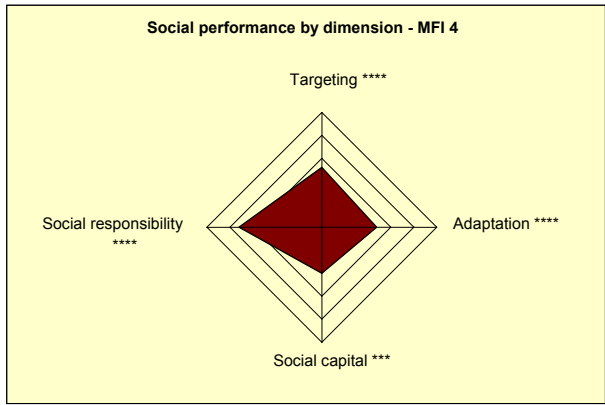
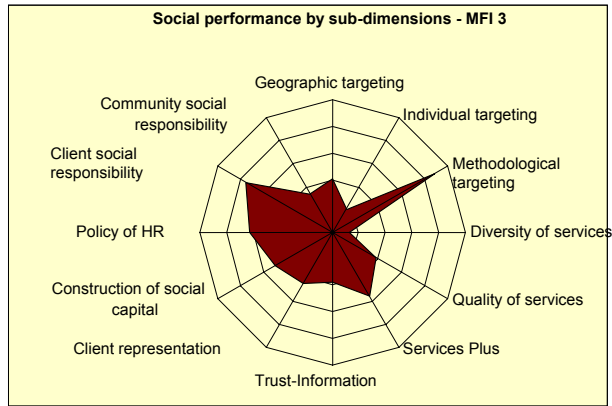
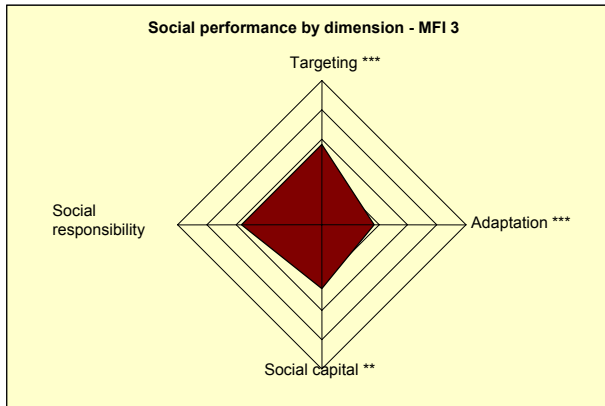
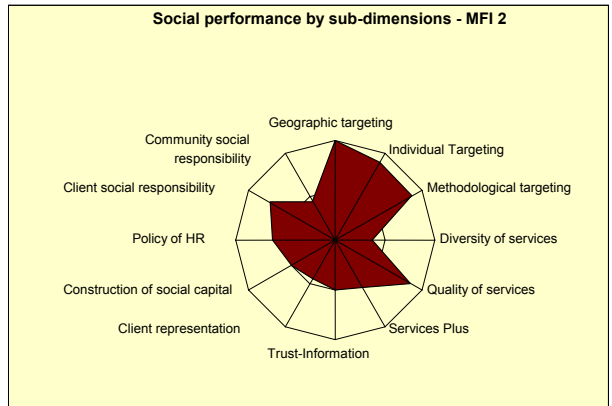
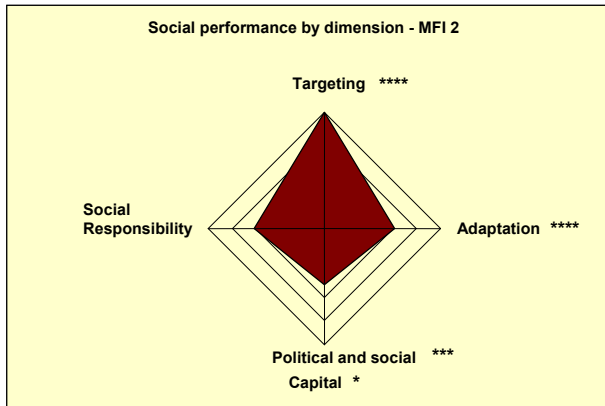
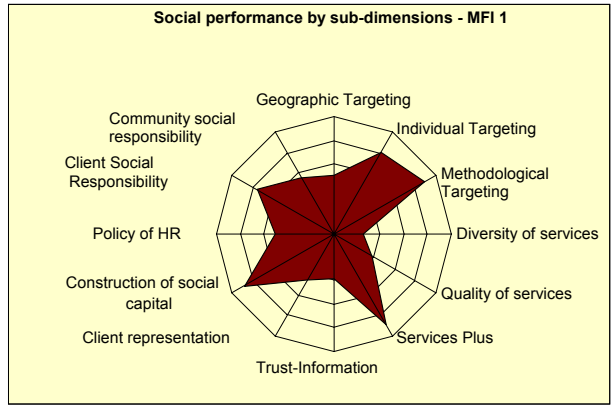
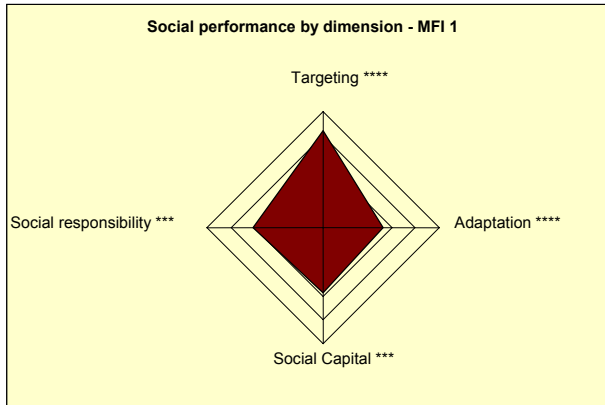
⁸ The absence of rating differences in terms of targeting between the urban MFIs and the rural MFIs may come from a bias in the questionnaire which was corrected in the latest version (importance granted to rural clients).

⁹ Research done in 2005 by Edouard Sers and Arthur Lhuissier within the framework of their end-of-study research project for the Lyon School of Management (France), with funding from Planet Finance Maroc – use of the SPI-CERISE tool.

Morocco, the prohibition for MCAs to collect savings directly, for example – viewing the graph of results makes it possible to explore the social actions and strategies conducted by the various MFIs. Thus, it can be observed that certain MCAs are more clearly focused on targeting the poor and very poor (MFI 1 and 2). Some MFIs have «strong lines»: MFI 1 combines a strategy of individual and methodological targeting, innovative services and reinforcement of its clients' social capital; MFI 2 is focused on targeting the poor and very poor; MFI 3 has a targeting strategy clearly oriented on the methodology of loans specifically adapted to poor or excluded clients; MFI 4 combines service quality and social responsibility with respect to its clients. It can also be observed that all the MFIs devoted efforts to their social responsibility with respect to their clients whereas on the contrary social responsibility with respect to the community where they are working has remained a minor concern.

The process undertaken by CERISE was supported by significant participation on the behalf of microfinance institutions wondering about the possibility of putting together a social performance assessment tool. At the end of the design and test phases, the tool developed seemed, for the various stakeholders, like a useful contribution to the internal reflection of microfinance institutions as well as support to defining their strategy. Although information comes essentially from the microfinance institution, all of the participants converge on the idea that external coaching is required for accompanying an audit and assessment process.

Illustration n°4: Example of 4 Micro-credit Associations (MCA) in Morocco



Other initiatives and joint reflection

Along with other initiatives that have been developed (via the Imp-Act Consortium, research by AMAP with USAID, the North-American network SEEP, the European microfinance platforms and networks or the Council of Microfinance Equity Funds¹⁰) work on exchange and coordination was considered desirable for the progress of the whole sector. For that reason, following the SPI-CERISE workshop in March 2005, a larger meeting took place¹¹ and two working groups were initiated. The first one («*Social Performance Task Force*»¹²) brought together a group of actors interested in social performance in microfinance (practitioners, researchers, donors, investor, rating agencies) aimed at developing exchanges on the subject within the sector. The second one, organised by donors («*CGAP Donor Working Group on Social Performance*»), was to reinforce the coordination of the latter about taking into account social performance and working on benchmarking indicators. These working groups led to a joint definition of social performance in microfinance (See box n°1). This definition widens the concept of social performance beyond the simple targeting of the poor to integrate notions of social responsibility and development of «capabilities» in the terms according to Amartya Sen (2000).

The aim of these various initiatives is to pursue the progress made on the tools (standardisation, «reporting» format, rating conditions, etc.), to strengthen the actors' capacities to manage and measure their social performance via exchanges, training and information, to develop the culture of social performance within MFIs and their partners (diffusion, lobbying, etc.). One of the major aims is to end up with social rating for MFIs. The rating agencies of this group¹³ are trying, based on various sets of indicators (CERISE-SPI, AMAP, Microfinanza, M-CRIL, Imp-Act, etc.) to make note of the indicators in common as well as the differences and identify what could emerge as a list of indicators for social reporting and rating, making reference to what a MFI can do in self-assessment and what would be assessed from the outside.

With the progress in these approaches, a certain number of issues still need to be made clear up as mentioned in the introduction, so as to reinforce the final aim: promote social performance and reinforce the social impact of microfinance and beyond that, actions of joint-liability economy in the financial field, but also actions of production, commercialisation and exchange.

«Technical» limitations of rating social performance

This quick inventory gives rise to a series of questions as to the state of progress of the tools and, more generally speaking, as to the possibility of putting together measurement tools – and therefore rating tools – for performance in the realm of social responsibility.

¹⁰ Consortium Imp-Act (<http://www.imp-act.org>), Accelerated Microenterprise Advancement Project (<http://www.povertytools.org/>), Small Enterprise Education and Promotion network (<http://www.seepnetwork.org/>), *Council of Microfinance Equity Funds*.

¹¹ Upon the initiative of the CGAP, the Ford Foundation and the Argidius Foundation.

¹² http://microfinancegateway.com/resource_centers/socialperformance

¹³ M-CRIL, Planet Rating, Microfinanza, MicroRate, etc.

Is rating social performance an impossible aim?

It should be recalled that the craze in the field of «societal rating»¹⁴ rests largely upon the symbolic power that financial rating has acquired¹⁵. Indeed, the latter, which arose in the 19th century, has grown to maturity and is now widely accepted in the world of finance. It formalises, for the account of investors, an independent opinion on the capacity of a borrower to reimburse his debt and makes it possible to define a level of risk that will determine the interest rate for the financing. In the case of social rating in microfinance, the tools seek to make sure that the organisation gives itself the means to reach its social aims. By going further towards impact evaluation, they rely on a simplified view of the social dynamics generated by the financial services. Yet, to what extent can we simplify and «formalize an independent opinion»? Simplifying of rating can also be done to the detriment of the multiplicity of the stakeholders' social aims and tend to ignore their contradictions.

It is of utmost importance to go through a «participative» process, as undertaken by the SPI initiative, to satisfactorily achieve that goal: each of the stakeholders can suggest points to evaluate as well as ways of evaluating them, and can judge the feasibility in terms of relevance of the components integrated into the rating: indicators that effectively reflect a notion of social performance, are easy-to-access, discriminating between organisations and verifiable by an external «auditor», etc. The progress of the various initiatives has made it possible to view tools and results and promote a debate on concrete foundations. Although rating now seems possible, the debates still deal with the approaches to follow: the relativity of indicators and their compliance to standards.

A relative approach

The general goal of a social performance assessment tool is to make a judgement not of the enterprise's profits to come, but of the manner in which it behaves in a given social context (Fatoux, 2002). It is therefore important to develop a relative approach, eager to grasp the constraints of the institution's context and analyze how, given this set of constraints, one institution behaves better than another.

Yet the logic of social rating systems defines indicators that are not necessarily adapted to every type of situation. For example, the approach of excluding based on a monetary threshold of poverty may not correspond to all the contexts and factors of social exclusion, like belonging to non-native communities such as Peul herders in rural zones of Western Africa, are sometimes completely ignored in the analyses. In the latest version of the SPI-CERISE questionnaire, the exclusion criteria chosen are left to the MFI's discretion, and therefore depend on the MFI context. Nevertheless, the constraint of comparability and standardisation limits the extent to which specificities closely linked to the different contexts taken into account.

In certain contexts, the criteria selected can turn out to be inadequate or in contradiction with local reality. For example, women's access to credit can be reflected by a deterioration of their situation when they are subjected to pressure from spouses forcing them to retrocede their credit and, sometimes, it simply turns out to be socially impossible and the microfinance

¹⁴ The term «societal» seems to better express all the dimensions encompassed by the Anglo-Saxon terminology of *Social Performance* and which is not solely limited to the social phase of the activities. Nevertheless, although both expressions are used in the literature and currently debated, the term «social» appears to be more frequently used, and for that reason we have used it in the original, French version of this text.

¹⁵ Capron & Quairel-Lanoizelée, 2004, p. 224.

institutions cannot be liable for this social discrimination. It must be possible to integrate the local socio-economic constraints into the evaluation¹⁶.

In a given geographic area, it can be relevant, like what FINRURAL undertook in Bolivia, and more generally speaking, FOROLAC-FR in Latin America (cf. illustration n°6), to put together a referential enabling comparisons between different institutions operating in the same context.

Illustration n°6: FOROLAC-FR's regional experience on measuring social performance

FORO LAC FR, the Latino-American and Caribbean Forum on Rural Finance, is a network of 13 national microfinance networks from 9 countries. In particular Finrural, a Bolivian network of microfinance cooperatives and NGOs is a member of Foro Lac.

This international network has demonstrated its will and decision to monitor the management and measurement of social performance in microfinance in the Latino-American region.

In October 2005, FORO LAC FR organised an international meeting on the theme of measuring social performance (“Midiendo el Desempeño Social en Microfinanzas”) in Santa Cruz in Bolivia with the aim of reporting on progress in the different methods and experience existing in terms of measuring social performance; reporting on the expectations and perspectives of the networks, international organisations and MFIs themselves on the issue; presenting proposals of four national member networks of Foro Lac concerning social performance indicators applicable in the context of their member MFIs and analysing the possibility of standardising social performance assessment on the regional level and establishing guidelines implementing a homogenous system based on standard indicators.

In order to pursue the process generated by the Santa Cruz meeting, FORO LAC FR decided to support the regional initiatives dealing with the management and assessment systems of social performance in the Andean region, Mexico, Haiti, and in the Central American region. That strategy meets the demands of the national networks and MFIs in the countries involved eager to count on tools and approaches for managing, improving and assessing their social performance, as much in the perspective of their institutional mandates as in terms of impact on their clients.

A normative approach

Once the criteria are defined, the evaluation relies on a set of weightings by field which reflect the social principles and values of the rating institute or its instructing party. Even when this «black box» is transparent, in the case of international investments, it is unlikely that a single system can meet the expectations of partners from different institutions and different countries.

It is conceivable, for example, that North-American partners pay more attention to minorities than Europeans, whereas Europeans (the French, for example) will lend more interest to the fulfilment of various stakeholders, such as salaried employees. Social minimums on the basis of which the various judgements are constituted will depend on national legislation pertaining to social protection, etc.

The emergence of coordinated systems is a substantial challenge in order not to multiply, like NGOs or aid projects for development receiving their funding from many donors, the different, even contradictory, questionnaires and procedures. It therefore seems especially hard to imagine that an «endogenous» dynamic such as a system put together between the actors of microfinance from a single country or a single region (Latin American type for FOROLAC presented in illustration n°6) could serve as a reference. It should in theory associate all the partners, both current and potential, of the institutions involved in the approach, or risk under biasing the judgement of some by over-evaluating the criteria emphasized by others.

¹⁶ Cf. first part of the SPI-CERISE tool where each MFI can reposition its social strategy within the framework of its economic and social constraints.

Expectations and rating constraints

What can we expect from the evaluation of social performance?

The aim of tools such as the SPI's is to provide microfinance institutions a simplified representation of their social performance. That information can be used on several levels, and as with any evaluation activity, it features a two-fold finality of internal learning and liability with respect to third parties. As highlighted by various observers of social responsibility in enterprises – SRE (Utting, 2002), introducing societal evaluation practices in economic activities did not originate with a sudden fad for major social and environmental challenges, but can first be analysed as an attempt to adapt to the economic and political context. Different reasons have been put forward to explain these approaches and they can be analysed in the case of microfinance even if, contrary to the private sector taken as a whole, microfinance has been built since the beginning on a double social and financial identity.

The first theory is that social responsibility approaches can be at the base of win-win strategies both on the social and financial level. Findings from many studies in the private sector show that the correlation between social and financial performance is not the least bit obvious. In the case of microfinance, certain analysts defend the so-called “double bottom line”¹⁷. Many MFIs have the intuition that reinforcing their social performance can contribute to strengthening their financial performance by improving their relations with clients and the socio-economic environment in which they operate.

The other idea is that an approach emphasizing social responsibility enables institutions to improve their competitive edge. Although it is not, in the case of microfinance, a real challenge with respect to the clientele, the parallel can be made with the search for external financing and the positioning of microfinance *vis-à-vis* investors who are integrating these criteria more and more in their analysis process. This approach is therefore at the heart of enterprises' brand image management or «capital-reputation», with the central idea that the latter, in particular in a sector like microfinance, cannot be based solely on financial criteria. The emergence of new market segments, in terms of access to financing (ethical investors), would then explain the development of social responsibility approaches.

These strategies can also turn out to be all the more important since pressure is developing from NGOs and social movements (like debtor unions, well-known in Bolivia or Mexico, for example) and in the face of which new positions have to be determined. Hence, compared to the recurrent pressure on high interest rates in the microfinance sector, emphasizing social performance can constitute a vital response for upholding the sector's financial viability.

Therefore, there may seem to be a new form of regulation emerging between absolute liberalism and State intervention. Based on contractual approaches between private actors, sometimes called «stakeholders' capitalism», it is put forward as a third path based on an «ethical» approach of economic activities. The wider use of this type of approach in the sphere of political economics is now the topic of substantial criticism¹⁸ (Lordon, 2000; Guilhot, 2004), whereas its “hijacking” by certain categories of actors is itself sometimes

¹⁷ See, for example, the exploratory work by Simon Cornée in Peru (2006) and his complementary work in Bolivia with Finrural and Cerise.

¹⁸ Including, with a look at the long history of building social protection systems, in comparison with the philanthropy of the 19th century, See Castel R., 1995.

denounced¹⁹. In terms of perspectives, questions can therefore be raised concerning the relative part of each of these explanations, their capacity to actually reinforce the final impact on the beneficiaries and the way to build instruments that are as adapted as possible.

Expectations of MFIs

For MFIs, strategies reinforcing social performance involve specific costs in the short-term: client training, group leadership, information reporting and a spirit of transparency, taking into account of social bonds and local values; which requires in-depth knowledge of the social and cultural specificities in the areas where MFIs operate, contribution of non-financial social services, etc. Targeting poor populations (remote rural zones, small amounts, risks concerning the activities, etc.) often remains a costly option, where scale economies are small, and the costs of transaction high.

In relation to these investments, MFIs want to be evaluated not only on their financial performance, their forecasts and perspectives, but also on the value of their social action and their commitment to the fight against poverty and exclusion. As a result, MFIs are searching for tools that will provide their work with value, recognition, and visibility. In exchange, this approach reinforcing social bonds and social responsibility can also lead to cost reductions in the long term. Transparency, information transfer and shared knowledge will create trust, strengthen relationships for the long term, enable common standards and values and thus make clients loyal and favour reimbursements. Client training and participation can also increase the productivity of the agents and limit transaction costs for the institution by reducing the cost of monitoring and checking the financial transactions.

Given the crises with which MFIs have been confronted in recent years (massive departure of clients, inactive clients or groups, unpaid debts, bankruptcies, etc.), the latter have everything to gain from improving their social performance to strengthen their stability and credibility.

To promote these «win-win» situations, as mentioned in the first theory, MFIs are seeking tools used in the institution's internal steering to monitor their social performance: what is our social mission, how can it be implemented, what indicators should be followed? These tools must also enable regular «feedback» to improve their operations. As a result, they need analytical tools and decision-making tools that offer a framework for reflection and information about which indicators to follow and how to interpret them. Among their expectations, MFIs are requesting full-fledged tools adapted to their situations; they also fear, within the framework of the second theory of building their «capital-reputation», that tools will be multiplied, adding ratios and data to be collected in the long list of requests by their different institutional and financial partners; within a rating system, they want to be able to sum up all of their efforts conducted in favour of social impact on their clients and environment, and do not want «light ratings» that would not emphasize their activities and commitments enough.

An assessment tool at the service of ethical investors

In terms of liability, the analysis of social performance is worthwhile especially with respect to ethical funds. These funds, that have already been around quite awhile²⁰, are currently

¹⁹ *«It is also a matter of laying the foundations of political action in a world now an orphan of socialist thought and which has consequently given the biggest corporate managements a free hand in a universe of diluted law»* (Y. Pesqueux, p. 35 in Bonnafous-Boucher M. & Pesqueux Y., 2006)

booming. They constitute a major financing alternative in the microfinance sector in the absence of an exit strategy for commercial investors who would like to make their investments in MFI capital, for lack of an exchange market for this type of stock (Van Maanen, 2004). Slowly but surely, these funds have been joined by funds from the private sector, and in particular funds from the banking sector, but as «sustainable development» or patronage approaches and therefore encouraged to use the same type of criteria. These approaches are sometimes supported by public action. On the international level, «Global Compact» initiated by the United Nations in 2000 and designed to promote practices respecting human rights, workers and the environment is the main partnership reference between United Nations institutions, the private sector and non-profit organizations (NGOs, unions). However, in some European countries, the public authorities have done their best to supervise the practices in the field of social responsibility accountability, in particular as far as investment is concerned²¹.

These funds are accountable with respect to their principals and, when donations are sought for financing their activities, they have to justify their choices based on their donors' expectations²². For the donors, it is therefore important for social performance assessment instruments to be developed with as much transparency as possible and all the more so since the information used is always subject to guarantees, as opposed to financial information that is certified by auditors.

The question remains, nevertheless, as to the use of this information by ethical funds²³. Will they find the means to «vote with their hands» and therefore be active in the general assemblies of the stockholders and the boards of directors so as to orient microfinance institutions towards more balanced strategies in terms of social and financial performance? Or, on the contrary, will they mainly act by «voting with their feet» by disinvesting in the institutions that do not provide them the required information or by acting in an overly disconnected way with respect to this balance? In any case, the strategy defined poses the problem of which role is assumed as far as the governance systems of microfinance institutions are concerned and the capacity of those funds to reposition the analysis of social performance within the wider-reaching stakes of social and economic development in the regions and countries of origin of the financed institutions.

Progress and constraints of rating agencies

Rating agencies can accompany the social audit process and the construction of the «capital-reputation» of MFIs. Some of them, involved in the field of microfinance, have worked together on the “Social Performance Task Force”. A certain consensus was reached as to the main dimensions of social performance that are to be assessed in a social rating. A general framework has been drawn up along three main lines: 1) context, 2) process and system, 3) results.

²⁰ The first ethical funds appeared in the United States in the 1920s upon the request of religious congregations concerned with not investing their savings in the production of alcohol or gambling.

²¹ *Pensions Act* in the United Kingdom (2000), Law on New Economic Regulations (NRE) in France (2001), etc.

²² Or a discourse which meets the major criteria of this approach, for funds within the framework of sustainable development. Indicators dealing with environmental performance could therefore soon join social performance indicators.

²³ The analysis conducted in terms of capital acquisition is also worthwhile concerning the problem of refinancing, although the power of influence may seem more limited in this case.

As such, a social rating is, first and foremost, focused on the context and profile of the institution:

- Country and regional environment (secondary data)
- Evolution of the MFI, institutional form, model, clientele
- Details of the financial products and services, analysis of client access

This initial part is essentially descriptive and backed by surveys, annual reports by the MFI, the operations manual, MIS, etc.

Secondly, the social rating focuses on the process as far as organisation is concerned:

1. Social performance management, i.e.:

- Mission – coordination, clarity, internal communication
- Consistency of the systems with the mission – strategy, procedures, HR, reporting, mission follow-up, decision-making, etc.

2. Social responsibility:

In reference to objective standards, rating agencies strive to evaluate social responsibility with respect to clients (SR1), employees (SR2) and the environment (SR3). When it is possible and/or relevant, they take into account the gender approach (GA), non-financial services (NFS) and governance by the members / clients (MG).

Thirdly, the social rating looks at the results and the report on activities conducted in terms of the achievement of social goals: targeting poor and excluded populations – number and degree of exclusion (SG1), adaptation to client needs and capacities – range and suitability of services (SG2), improvement of client well-being and extension of opportunities for the community – indicators relevant to the MFI's mission, and contributing to the Millennium Development Goals (SG3).

Although agreement is stronger about the general framework of a social rating, disagreement persists as to the way to obtain information: can we be content with information available from within the MFI, do a certain number of clients have to be interviewed to determine their profile and their degree of satisfaction? How can a social rating be successfully conducted within a limited time period (4 to 5 days for an institutional and financial rating)? How can we make sure that we are aware of the institution's inner workings? Does a financial rating need to be combined with a social rating? Who will be willing to pay for the costs required for a social rating?

Moreover, concerns in terms of weighting, grading and interpretation as well as the issues raised previously about relativity and normativeness will resurface all the more strongly once the long-term aim of rating becomes that of combining all the information into a single mark...

For the time being, donors are still supporting the initiatives by rating agencies that are testing social ratings, and are striving to do both «*light*» (based on available information) and «*fat*» ratings (based on client surveys).

Should we go further in terms of learning?

Assessment approaches of social performance can go, in terms of governance or internal dynamics of the enterprises, above and beyond the basic diagnosis designed to be shared with partners. This is the case, for example, of what the sector of social economics (mutual benefit associations, cooperatives, non-profit associations) has sought to develop in Europe. This sector, by nature, constitutes a spur-like incentive in this field, due to the fact that, although subject to the laws of competition, it also conveys a certain number of values (fraternal and mutual aide, solidarity, company democracy, social benefit, etc.).

In an approach called societal report (*bilan sociétal*©), the CDJES²⁴ has endeavoured to put together a specific approach of analysis and dialogue with the organisation's various stakeholders (society members, employees, elected officers, suppliers, elected community leaders, etc.). The indicators developed take into account a wider environmental, human and social responsibility and make it possible, in the face of contradictory interests, to clear up possibilities of compromise and arbitration between the different categories of actors. For example, for a microcredit institution, they have reflected on joint arbitration between employees and borrowers about how to manage payments and set interest rates.

Furthermore, the assessment approach proposed within the framework of microfinance could widen the reflection to the fields of social and liable economics linked with the activities of microfinance in the sectors of production and commercialization: the role of organisations of producers, expectations with respect to public authorities, role of fair trade, etc. Is it possible to imagine a common ethical foundation and to reflect on standards of development?

Conclusion: the future of societal responsibility assessment approaches for microfinance institutions remains to be written

It is still too early to imagine what the future holds for approaches pertaining to societal responsibility: either a new form of «marketing» (or rather «funding» in the case of microfinance institutions) or, on the contrary, an in-depth transformation of the relations between the financial sphere and the real sphere (Capron & Al., 2004).

For some analysts, way at the top, these approaches are part of a new phase of adaptation of capitalism that has managed to harness the contestations of citizen movements (Boltanski and Chiapello, 1999), but not particularly capable of transforming reality in depth. For others, on the contrary, these approaches are a powerful lever, capable of generating new forms of more contractual regulation, making it possible to change the course of globalization.

The questions raised are the same in the sector of microfinance and the field of possibilities remains wide open. The outcome will mainly depend on the sector's unique capacity to structure itself and to what extent its actors claim the approach as their own. The future will be, for example, quite different if the approaches are built solely between the sector's «stars»²⁵, the investment funds and major international audit firms or if, on the contrary, approaches endogenous to the initiative of professional microfinance associations on the national level are acknowledged.

²⁴ Centre des Jeunes Dirigeants et des Acteurs de l'Economie Sociale

²⁵ The ten institutions that seize 60% of foreign investments in the microfinance sector...

Lastly, a recurrent danger arises as to the risk of a shift in the discourse on social performance that could reinforce the idea that microfinance constitutes the only, and unique, effective answer to the problems of poverty and exclusion, by giving it, with respect to financial liberalization and disengagement of the State, the «*role of the hare in the greyhound's race*»²⁶. That would be burdening it with too much and would most likely pave the way for future and painful disappointments. A more realistic discourse involves both a proper analysis of the limits of microfinance in terms of impact and, most likely, a repositioning of the sector within the framework of wider public policies, founded on the more redistributive model and using, among others, the microfinance channel to reduce the social inequalities of development. From that point of view, the approaches of social responsibility would not appear as substitutions to the State's shortcomings, but indeed as a complementary tool enabling higher effectiveness.

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²⁶ Statement by the director of a Moroccan microfinance institution, in issue n°78 of Techniques financières et développement (March 2005).

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