



**Social Performance Indicators Initiative – Phase 2
(SPI2)
Audit of the Social Performance of Microfinance Institutions :
the Definition of a Tool**

Draft Report N°3

Results of Field Testing

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and

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INTRODUCTION

Objectives of the initiative

The final result of this second phase is a simple tool aimed at stimulating discussion about social objectives within the MFI and at auditing the institution's social performance. Field testing, external review and comments from the micro finance community help design a clear, simple and relevant questionnaire and understand the usefulness and limits of each indicator.

Social performance is measured through the principles, actions and corrective measures implemented by the MFI to reach its social objectives with simple indicators based on information available at the MFI's level.

The participating MFIs

Total of the sample: 25 MFIs

Good rate of return : almost 80% of the MFIs asked for participation have answered.

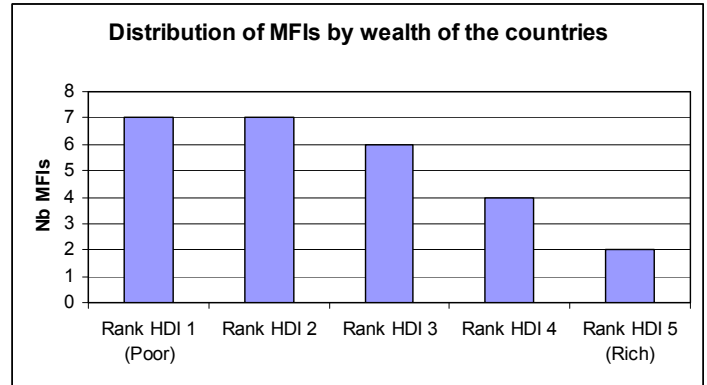
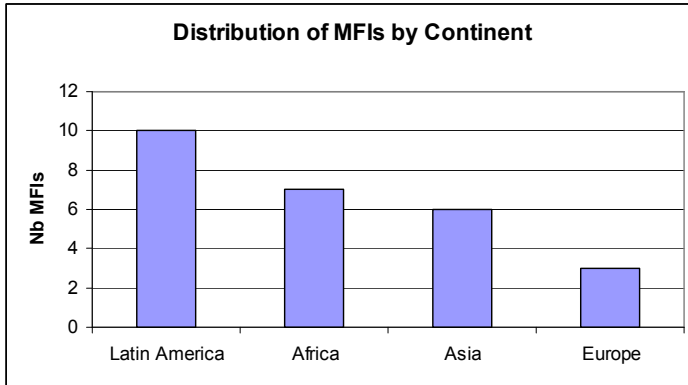
	Country	MFIs	
1	Bolivia	Pro Mujer	
2	Bolivia	Diaconia-FRIF	
3;4	Ecuador	CREAR: Cacpeco / San Jose	
5	Ecuador	Maquita, partner of Trias	
6	Mexico	AMUCSS: 2 microbanks	
7	Mexico	Despeno (with a rating of Planet Rating)	
8	Nicaragua	FDL, partner of AlterFin	
9	Peru	Proempresa, partner of SOS Faim	
TOTAL LATIN AMERICA			9
1	Benin	Finadev (with a rating of Planet Rating)	
2	Ethiopia	Buusaa Gonofaa	
3	Guinea	Crédit Rural de Guinée	
4	Madagascar	Vola Mahasoa	
5	Mali	CVECA - Dogon	
6	Mali	ICS- Nyeta Musow	
7	Chad	UCEC	
TOTAL AFRICA			7
1	Cambodia	Cambodia Community Savings Federation (CCSF)	
2	Cambodia	EMT/AMRET	
3	Indonesia	Bina Swadaya	
4	Philippines	Bayanihan Entrepreneurs Network	
5	Philippines	(ASHI) – with TRIAS in 2005	
6	Sri Lanka	Sanasaa, partner of Rabobank Foundation	
7	Thailand	Step Ahead MED	
TOTAL ASIA			6
1	France	ADIE	
2	France	FIR	
3	Albania	ASC Union	
TOTAL EUROPE			3
GRAND TOTAL			25

Some MFIs participated in the process from the beginning through their involvement in the working group on “Microfinance and social links” and workshop on “Finance of Solidarity” supported by the Foundation FPH : they were aware of the process and played a leading role in the demand for indicators of social performance.

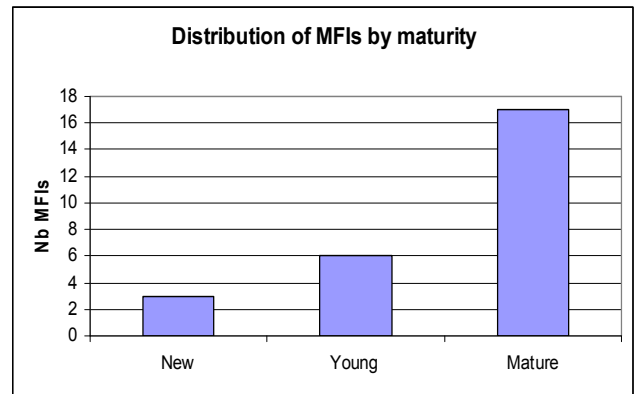
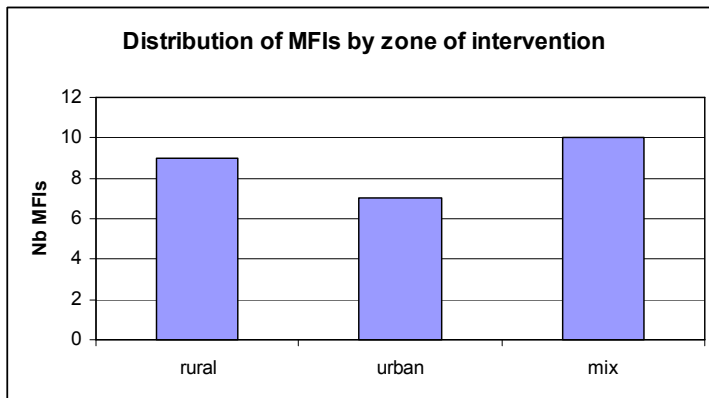
For the other MFIs, the role of the facilitators has been important: they have explained the process and the objective (at this stage, this was not an evaluation but still a test for a questionnaire).

This high level of participation means that the MFIs feel concerned about the issue of social performance and that they find the questionnaire relevant.

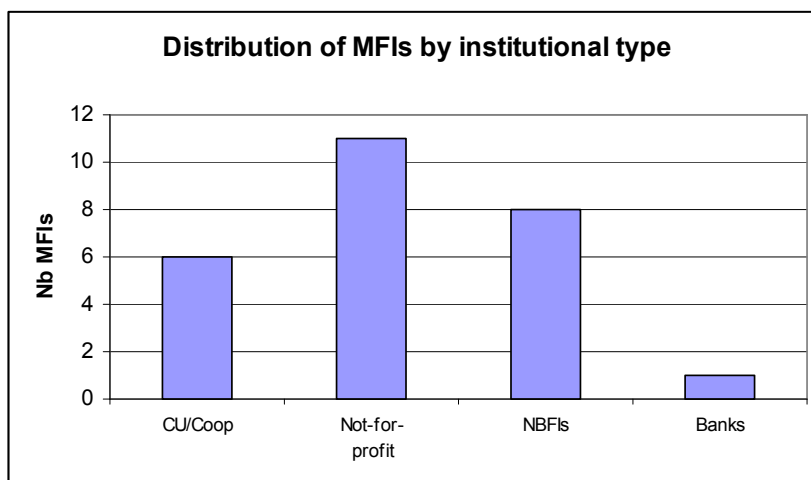
The 25 MFIs have about 625,000 members with more than 150 million USD of outstanding loans and more than 32 millions USD of savings in Latin America, Africa, Asia and Europe.



The MFIs' zones of intervention can be classified as mostly rural (9), mostly urban (7) or mixed (10) with a larger sample of 17 mature MFIs (more than 7 years of intervention).



The MFIs range from not-for-profit organizations, i.e. NGOs, associations, foundations (11 MFIs), to banks (one development bank), with instances of cooperatives/credit unions (6 MFIs) and non-banking financial institutions, i.e. limited companies and for-profit organizations (8 MFIs). The 11 not-for-profit organizations only account for 25% of the members of the sample.



The external review process : usefulness of self-evaluation and external reviews

In order to keep a common frame of analysis for the discussions with the MFIs, CERISE produced a guideline for the external reviews, and Cécile Lapenu coordinated all reviews through extensive exchanges with the reviewers and her own external reviews.

In most instances, the case studies have been done as follows:

- Introduction to the questionnaire by a facilitator
- Self-evaluation by the MFI
- Discussion with the external reviewer.

In the cases where the MFIs were very busy, or not sufficiently involved/aware to fill out the questionnaire by themselves, consultants or practitioners working with the MFIs have filled out the questionnaire. The discussion with the MFIs and external reviews have been conducted with the questionnaire externally filled out.

It seems necessary to fill it out in two stages:

- self-reporting or reporting by a person who knows the institution very well
- external review

Social performance remains more subjective than financial performance. It is thus necessary to take into account details of the intentions and actions of the MFIs to reflect the reality of the social performance. At this stage, an in-depth knowledge of the institution is necessary to take this into account, and this is better done through self-evaluation.

Self-evaluation is a useful step to stimulate internal discussion and to develop afresh a social performance culture that may have been forgotten through the pressure for financial performance.

On the other hand, in the field-testing process we have encountered differences between the results of self-evaluation and the results of the external reviews. The differences arise from 1) differing interpretation of items in the questionnaire, 2) the tendency for the MFIs to overestimate their social score when they have great confidence in their actions, 3) the tendency, also, to underestimate their actions when it comes to dimensions usually not much taken into account (such as their relations with the local community).

With the new version of the questionnaire and a companion manual documenting the hypothesis behind each indicator, and the explanations for the different options in the answers and the potential source of information, discrepancies should be much reduced.

However, the two-stage process (self-evaluation, external review) will remain important in ensuring real involvement of the MFIs and reliable results.

PRELIMINARY ANALYSIS: USE AND INTERPRETATION OF THE RESULTS

Analysis by group of peers

We will take into account in the analysis the results from the external reviews, which reflect better the reality of the institution.

Analysis can be conducted with the whole sample of the 25 MFIs, based on the results of the external reviews.

Global score and scores by dimension and sub-dimension can be analysed:

- by type of MFI: is there a link between institutional type and social performance?
- by geographical context (wealth of countries, continents, rural/urban): is there any particular focus on a dimension or sub-dimension according to geographical context?
- by size of MFI: can the size of the institution influence its social performance?
- by age of MFI: is there any evidence of mission drift?

Results by institutional type

	For-profit / NBF1 (7 cases)			Cooperatives (7 cases)			Not-for-profit (11 cases)		
	Min	Max	Aver.	Min	Max	Aver.	Min	Max	Aver.
Poverty outreach	14	20	17	13	23	18	14	23	19
Quality of services	14	22	16	13	21	16	9	19	15
Social capital	2	20	13	15	23	19	8	23	14
Social responsibility	12	23	17	12	20	16	9	21	14
Total	51	74	62	54	81	69	41	83	63

Best total scores for the cooperatives (but biased in the tested questionnaire by the question on “elected” representatives of the clients).

For-profit MFIs focus on dimensions of poverty outreach and social responsibility.

Cooperatives focus on dimensions of poverty outreach and improvement of social capital.

Not-for-profit MFIs focus mainly on poverty outreach.

Poverty outreach is not the exclusive preoccupation of not-for-profit MFIs, as one can see that this dimension elicits high scores for all the institutional types. However, reducing social performance to poverty outreach can underestimate the efforts of cooperatives and for-profit institutions towards improvement of social capital and social responsibility.

Results by continent

	Latin America (9 cases)			Africa (7 cases)			Asia (6 cases)		
	Min	Max	Aver.	Min	Max	Aver.	Min	Max	Aver.
Poverty outreach	14	23	18	14	23	19	14	19	17
Quality of services	13	21	17	14	19	16	9	22	14
Social capital	2	20	13	5	23	16	9	22	16
Social responsibility	11	21	15	13	23	18	9	16	13
Total	51	77	63	55	83	69	41	74	61

(Not enough cases in Europe to analyse trends)

Best scores for Africa.

Once again, the dimension on poverty outreach is important in all the three continents.

In Latin America, the second most important dimension deals with quality of services; in Africa, the second most important dimension concerns the social responsibility of the MFI, while in Asia, improvement of social capital comes after the dimension of poverty outreach.

Results by rural or urban areas

	Rural (9 cases)			Urban (9 cases)		
	Min	Max	Average	Min	Max	Average
Poverty outreach	13	23	18	14	23	18
Quality of services	13	22	16	9	21	16
Social capital	12	23	18	5	23	15
Social responsibility	11	23	16	9	21	15
Total	55	81	68	41	83	64

The MFIs taken into account are mainly or exclusively rural or urban. The mixed cases with a high proportion of clients in both rural and urban areas have not been taken into account in the analysis.

Poverty outreach, in the tested questionnaire, does not differentiate rural and urban areas (both score on average 18, with a maximum of 23). However, given the high occurrence of poverty in rural areas, this may be a negative bias in the questionnaire which has been dealt with in the new version (with a specific focus on geographic targeting).

Urban MFIs are mainly focusing on outreach to the poor and the excluded and the 3 other dimensions remain less important.

In rural areas, another dimension which stands out is improvement of clients' social capital; rural areas may present more opportunities to make connections and strengthen social links among villagers.

Results by age of MFIs

	Old MFIs (9 cases)			Mature MFIs (8 cases)			Young MFIs (9 cases)		
	Min	Max	Average	Min	Max	Average	Min	Max	Average
Poverty outreach	9	23	17	13	23	18	14	23	18
Quality of services	7	21	15	14	22	17	9	16	14
Social capital	10	23	16	8	23	15	2	22	13
Social responsibility	11	23	16	12	21	15	9	20	14
Total	38	81	64	55	83	65	41	70	59

“Old MFIs”: Until 1990

“Mature MFIs”: from 1991 to 1997

“Young MFIs”: from 1998

At this stage, one cannot see any mission drift for the MFIs; on the contrary, the old MFIs have a balanced approach with relatively high scores for all the 4 dimensions, resulting in a high total average score; the mature ones show higher scores on poverty outreach and adaptation of services, with a high total average score; the young MFIs are mostly focused on poverty outreach with no incentives or no means to pay better attention to the other dimensions, resulting in a lower total average score.

Results by size of MFIs

	Large MFIs (9 cases)			Medium MFIs (9 cases)			Small MFIs (7 cases)		
	Min	Max	Average	Min	Max	Average	Min	Max	Average
Poverty outreach	14	23	18	9	20	16	11	23	18
Quality of services	10	22	17	7	20	15	9	19	14
Social capital	8	23	17	5	20	14	2	23	14
Social responsibility	12	23	16	11	21	16	9	18	14
Total	55	81	67	38	77	60	41	83	60

Large MFIs: More than 20.000 members

Medium MFIs: between 7.500 and 20.000 members

Small MFIs: less than 7.500 members

As for the old MFIs, large ones have a balanced approach with high scores in all dimensions and a high average total score. These results may be biased by the way the tested questionnaire was designed: as some of the indicators did not take into account the share of the activity within the institution, large MFIs may have benefitted over smaller ones with a more generous score.

For example, a large MFI has more ease in diversifying its services and thus automatically has a better score in Dimension 2.

Medium MFIs also have a balanced approach with no specific dimension appearing as the main focus.

Small MFIs concentrate more on poverty outreach, maybe thanks to the proximity they can maintain with their clients.

Individual analysis

The four dimensions represent four clusters of 25 points, or a total of 100 points for each MFI.

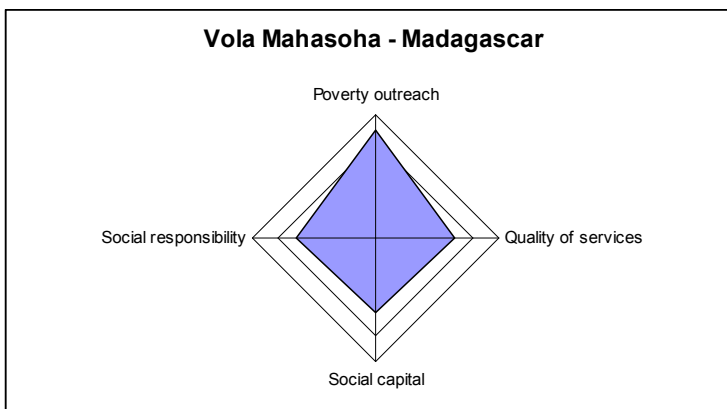
The total score can be taken into consideration, but as each MFI can choose on which dimension it wants to focus, it is more appropriate to analyse the results by dimension.

Analysis by dimensions

Analysis by dimension can show the main orientation of a MFI.

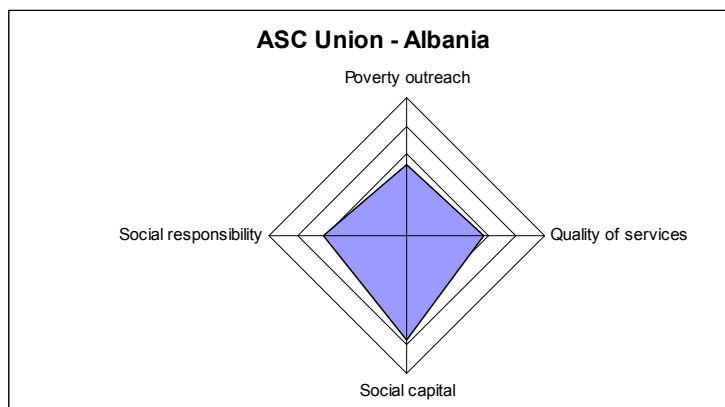
MFI with main focus on poverty outreach

	Score	%
Poverty outreach	22	0,88
Quality of services	16	0,64
Social capital	15	0,60
Social responsibility	16	0,64
Total	69	



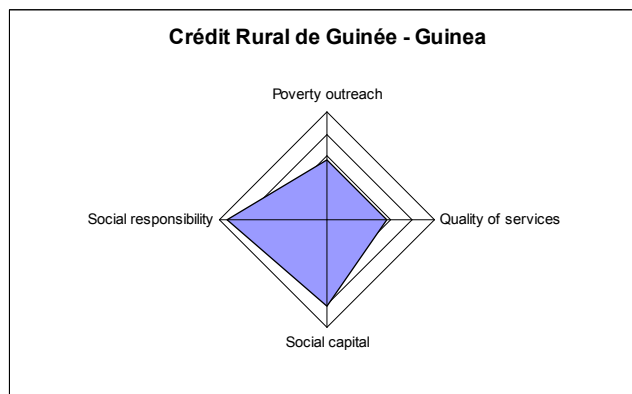
MFI with main focus on social capital

	Score	%
Poverty outreach	13	0,52
Quality of services	14	0,56
Social capital	19	0,76
Social responsibility	15	0,60
	61	



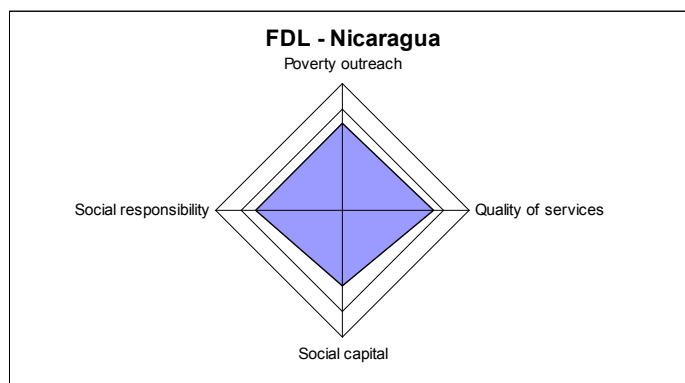
MFI with focus on social responsibility and social capital

	Score	%
Poverty outreach	14	0,56
Quality of services	14	0,56
Social capital	20	0,80
Social responsibility	23	0,92
Total	71	



MFI with balanced approach

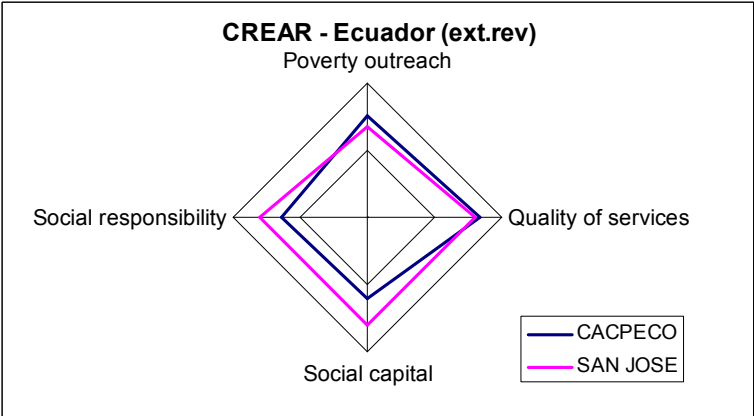
	Score ¹	%
Poverty outreach	17	0,68
Quality of services	18	0,72
Social capital	15	0,60
Social responsibility	17	0,68
Total	67	



¹ Results from self-evaluation

Comparison between two MFIs

MFI	Cacpeco		San José	
	Score	%	Score	%
Poverty outreach	19	0,76	17	0,68
Quality of services	21	0,84	20	0,80
Social capital	15	0,60	20	0,80
Social responsibility	16	0,64	20	0,80
Total	71		77	



In the testing phase, the results can be discussed by dimension to see if they reflect the reality of the social performance of the MFIs and if they show clearly the difference between different MFIs. This has led to improvements in the questionnaire during the external reviews.

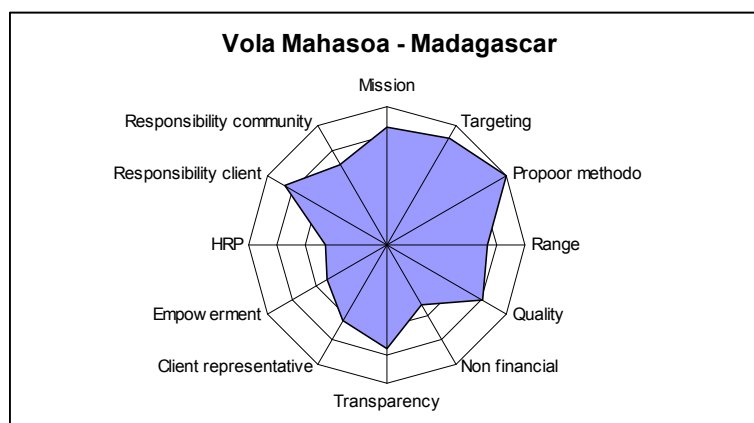
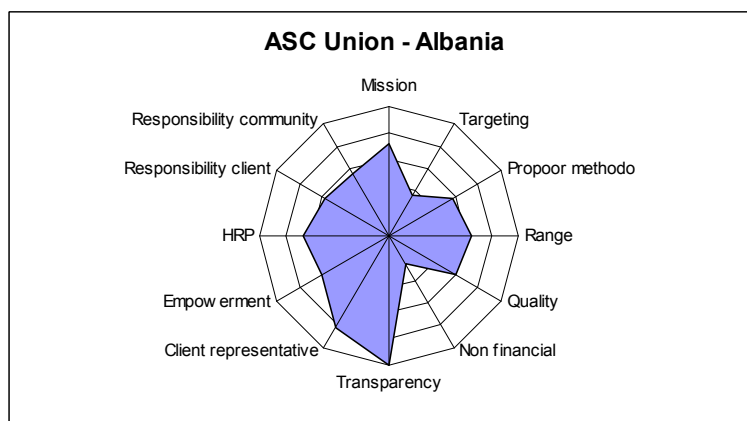
Analysis by sub-dimensions

The sub-dimensions will be reformulated with the new version of the questionnaire. Each sub-dimension will have more or less the same weight.

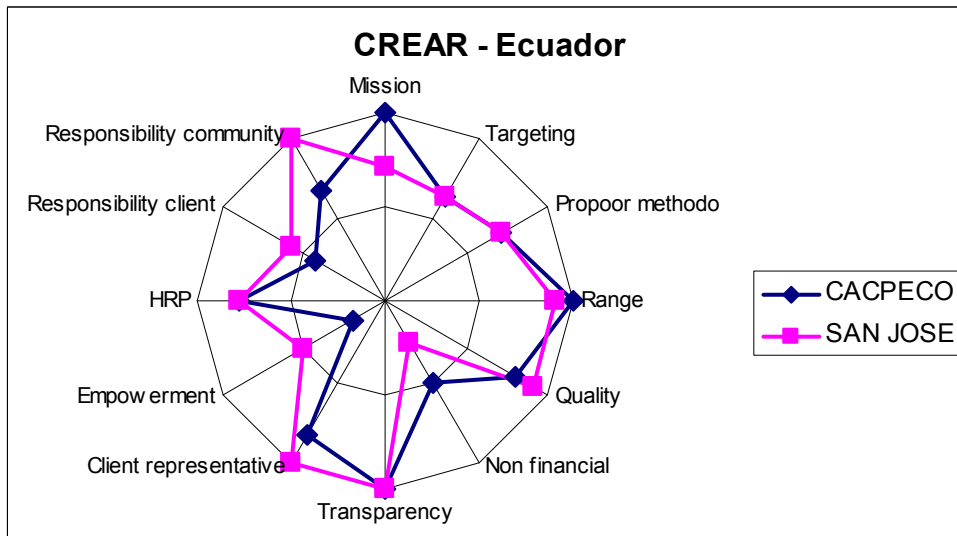
Analysis by sub-dimensions can visualize the strength and main focus of the MFIs for the different dimensions.

Two MFIs with major focus on different dimensions

		Maximum	ASC Union - Albania		Vola Mahasoa - Madagascar	
			Score obtained	%	Score obtained	%
Outreach of the poor and excluded	Mission	7	5	0,71	6	0,86
	Targeting	11	4	0,36	9	0,90
	Propoor methodo	7	4	0,57	7	1,00
Adequation of services	Range	11	7	0,64	6	0,73
	Quality	10	6	0,60	8	0,80
	Non financial	4	1	0,25	2	0,50
Improvement of social capital	Transparency	4	4	1,00	3	0,75
	Client representative	11	9	0,82	7	0,64
	Empowerment	10	6	0,60	5	0,50
Social responsibility of the MFI	HRP	9	6	0,67	4	0,44
	Responsibility client	7	4	0,57	6	0,86
	Responsibility community	9	5	0,56	6	0,67



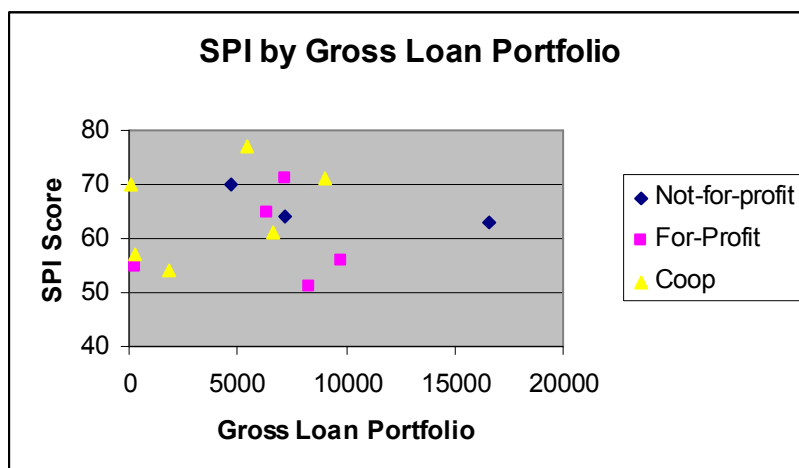
Comparisons between MFIs of the same type

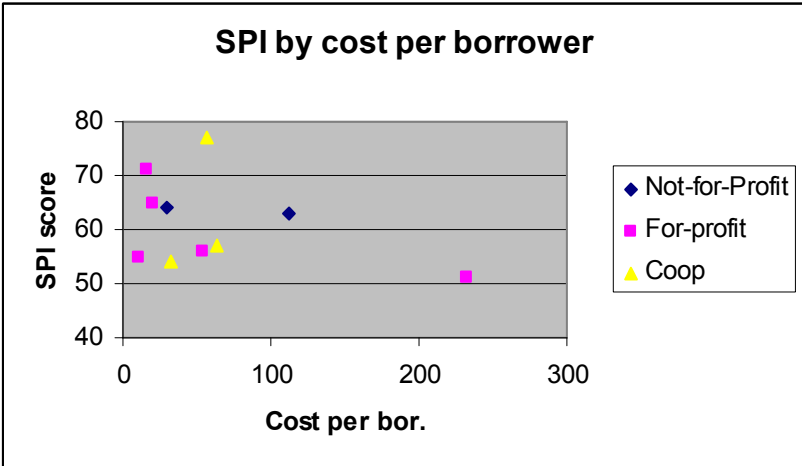
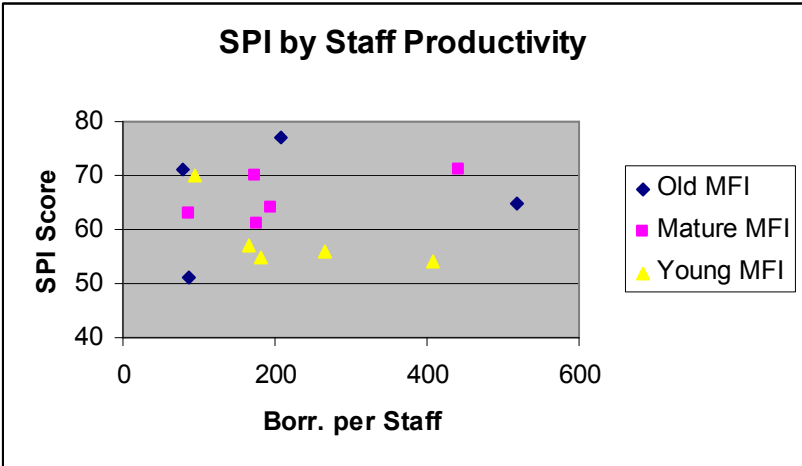


Links between social performance and financial performance

Social performance must remain connected with financial performance. High social performance must not tempt MFIs to neglect or under-estimate financial sustainability.

Few financial indicators such as repayment rate, ROA, ROE, productivity of employees, self-sufficiency, etc. could be analysed with the results on social performance.





Not all financial figures available => sample reduced to 14 MFIs.
Still very difficult at this stage to observe any clear trend.