

Approach to Social Performance 2010

What is Social Performance?

The effective translation of an institution's mission into practice in line with accepted social goals such as:

- Serving increasing numbers of poorer and excluded people sustainably.
- Improving the quality and appropriateness of financial services available to target clients through systematic assessment of their specific needs.
- Creating benefits for clients of microfinance, their families and communities by:
 - Increasing social capital, assets and income
 - Increasing access to services
 - Reducing vulnerability
 - Fulfilling basic needs
- Improving the social responsibility of the MFI towards its clients, its employees and the community it serves.

Why is Social Performance important?

- Holistic assessment of the microfinance industry: Tracking financial indicators only provides a one-dimensional analysis of microfinance. Adding social indicators allows for a more holistic assessment of institutions
- Provide evidence about MFIs performance in outreach to the poor: Many individuals, donors, foundations, and governments invest in microfinance with the belief that microfinance helps poor people. To be accountable to these investors, we must be able to report on how (or whether) microfinance helps poor people.
- Give support to programs with a strong social focus: Investors use easily available information to decide where to invest. In most cases, this information is limited to financial indicators. MFIs with excellent social outcomes, but moderate financial returns do not receive the investments they may merit. Social performance rectifies this information imbalance so that MFIs with excellent social benefits receive support while they strive to increase financial returns at a more gradual rate.
- Improve actual social performance: Greater focus on Social Performance Management (SPM) will result in reaching a larger number of poor people, in improving services to clients and in positively contributing to the welfare of the communities where MFIs operate.

Social Performance Standards Report

- The Social Performance Standards Report was developed by Microfinance Information Exchange (MIX) to collect information from MFIs on 22 core indicators selected by the Social Performance Task Force.
 - The MIX MARKET™ is a global, web-based, microfinance information platform. It provides information to microfinance sector and the public on microfinance institutions (MFIs) worldwide.

Website: www.mixmarket.org

- The Social Performance Task Force (SPTF) consists of over 350 leaders from every microfinance stakeholder group. Created in March 2005, the Task Force has been charged with clearly defining social performance and addressing questions about measuring and managing social performance.

Website: www.sptf.info

Social Performance Standards Report

- Purpose of the Social Performance Standards Report is:
 - To provide standardized data.
 - To provide standardized reporting.
 - To allow comparability globally, regionally, nationally, by type of MFI, etc.
 - To provide transparency to donors, investors, MFIs, and other stakeholders.
 - To provide a simple, flexible practical tools for industry use.
- The Social Performance Standards Report is set forth as [Attachment 1](#).

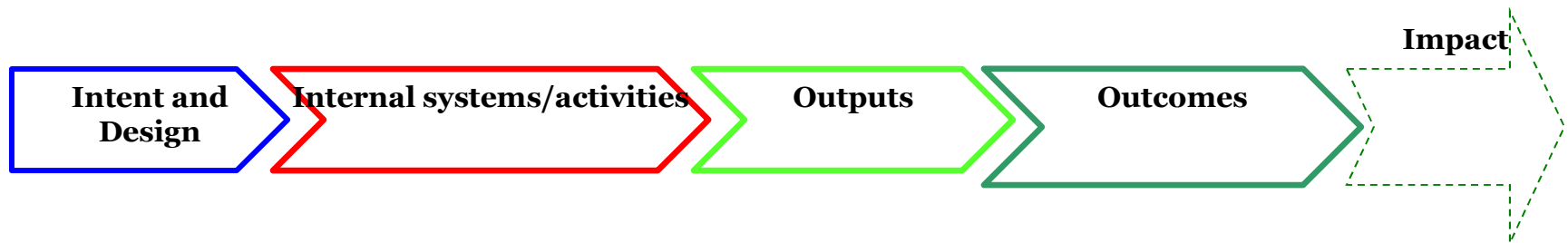
SOCIAL PERFORMANCE STANDARDS REPORT

This Social Performance Standards Report was created by MIX to collect information on the 22 core indicators selected by The Social Performance Standards Task Force. The whole document consists of 6 parts: 1. the social performance standards framework and description, 2. the social performance standards report Part I, 3. the social performance standards report Part II, 4. the table for poverty measurement, 5. the calculator for the effective interest rate, and 6. a glossary. Part I of the report contains 13 indicators which mainly focus on your MFI's mission, products and services offered, social responsibility to clients and to staff, and clients outreach. Part II contains 6 indicators which focus on employment outreach, social responsibility to community and to environment, and children education. Finally, the table for poverty measurement contains the remaining 3 indicators on poverty levels. MFIs that want to update their profile on MIX Market with the social performance indicators are expected to be able to report information on the 13 indicators contained in Part I of the report. The 6 indicators contained in Part II and the table containing the 3 indicators on poverty measurement have a higher level of complexity to report on, and for this year MIX considers Part II of the report and the indicators on poverty measurement as a pilot test. This means that MFIs that can partially or entirely report on them are encouraged to do so, but this does not represent a requirement. The indicators follow a specific framework that looks at the entire process by which social impact is created. The framework includes analysis of the intent of the institutions, the effectiveness of their internal systems and activities in meeting these objectives, related outputs, and success in effecting positive changes in the lives of clients. The MFI can provide any additional information related to each indicator in the column for comments. Finally, a glossary has been created to link those indicators which are most difficult to conceptualize and conform to a standard definition. The indicators linked to the glossary are underlined and their definition can be viewed by clicking on the hyperlinks provided.

INTENT → INTERNAL SYSTEMS & ACTIVITIES → OUTPUTS → OUTCOMES → IMPACT

DIMENSION	STANDARD	RELEVANCE OF THE STANDARD	POSITION IN THE REPORT
INTENT	Mission and social goals	Social performance is the translation of an MFI's mission into practice. What is measured in social performance is related to an MFI's mission and social goals. This indicator assesses the MFI's stated commitment to its social mission, its target market and development objectives.	Part I
	Governance	Governance is a process by which a board of directors guides an institution in fulfilling its corporate mission. This indicator assesses the way through which board members' responsibilities and terms of services are disclosed. It also assesses board composition and member's expertise and how the institution reinforces board members knowledge and commitment to social performance.	Part I
STRATEGIES AND SYSTEMS (Internal systems and activities)	Range of products and services	Once the target population is identified, the MFI has to work on the design of its financial products and services so that they can fit the needs and the constraints of clients. This indicator considers the integrated approach to microfinance by assessing both financial and non-financial products and services offered by an MFI.	Part I

The Social Performance Pathway



- These core indicators relate to the following areas:
 - Intent and Design: What is the mission of the institution? Does it have clear social objectives?
 - Internal Systems and Activities: What activities will the institution undertake to achieve its social mission? Are systems designed and in place to achieve those objectives?
 - Outputs: Does the institution serve the poor and very poor? Are the products designed to meet their needs?
 - Outcomes: Have clients experienced social and economic improvements?

Intent and Values Indicators

Mission and Social Goals

- This indicator assesses the MFI's stated commitment to its social mission, its target market and development objectives.

Governance

- This indicator evaluates:
 - The way in which the Board Members' responsibilities and terms of services are disclosed.
 - Board composition and Board Members' expertise.
 - How the institution reinforces Board Members' knowledge and commitment to social performance.

Internal Systems & Activities: Strategies and Systems Indicators

Range of products and services

- This indicator assesses both financial and non-financial products and services offered by the MFI to see if they fit the needs and constraints of the clients.

Training on Social Performance

- This indicator looks at which MFI staff have received training on any aspect of Social Performance and which in which areas of Social Performance they have received training during the reporting year.
- Social Performance training is important to ensure that staff understand how their work helps the organization achieve its social mission.
- Technical Assistance and Funding Support are offered by:
 - NMI PA Facility
 - Information Systems (IS) Fund endowed by CGAP and EU/ACP Microfinance Programme

Internal Systems & Activities: Strategies and Systems (Cont'd)

Staff performance appraisal and incentives

- This indicator assesses:
 - which areas of Social Performance are included in staff appraisals.
 - if and how the MFI has implemented a staff incentive system tied to progress on achieving Social Performance goals.

Market research on clients

- Market research is useful in identifying and meeting clients' needs, retaining clients and reaching new ones.
- This indicator looks at how and how often the MFI undertakes market research on clients.

Measuring client retention

- Client exit interviews are important to identify problems that lead to drop outs.
- This indicator measures the drop-out rate of the MFI.

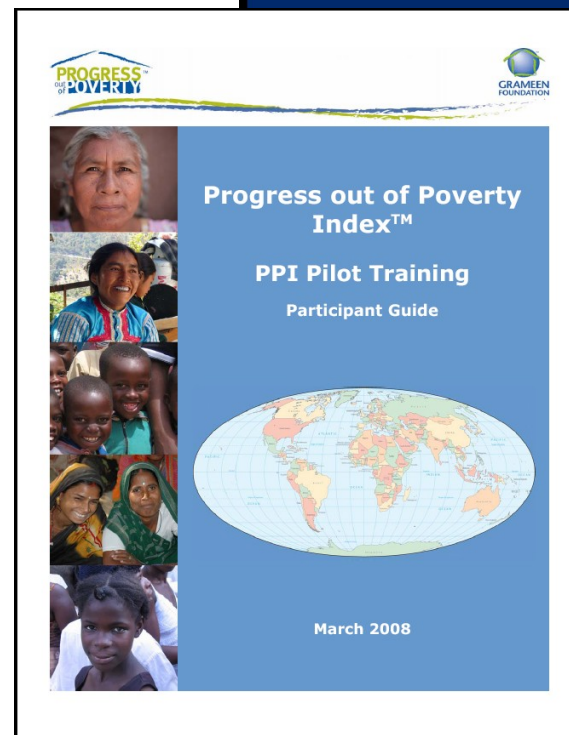
Internal Systems & Activities: Strategies and Systems (Cont'd)

Poverty Assessment

- This indicator looks at the tools adopted by the MFI to track the poverty status of clients.
- MFI should use a poverty assessment strategy that is appropriate for its clientele, development objectives and local operating conditions.
- Two recent assessment initiatives enable MFIs to directly measure household poverty.
- Very brief summaries of these tools are set forth in Attachment 2 and the following websites:
 - Progress Out of Poverty (PPI index): <http://progressoutofpoverty.org>
 - Poverty Assessment Tool (PAT): <http://povertytools.org>



MANUAL FOR THE IMPLEMENTATION
OF USAID POVERTY ASSESSMENT TOOLS



Internal Systems & Activities: Policies and Compliance Indicators

Social Responsibility to Clients

- This indicator is linked to *The Campaign for Client Protection in Microfinance*.
- [Attachment 3](#) sets forth the “Client Protection Principles” and more information can be found at: <http://www.centerforfinancialinclusion.org>
- Campaign has 6 Standards that supporters can adopt:
 - Avoidance of Over-indebtedness
 - Transparent Pricing
 - Appropriate Collections Practices
 - Ethical Staff Behavior
 - Mechanisms for Redress of Grievances
 - Privacy of Client Data
- Campaign unites microfinance providers to develop and implement industry standards for the appropriate treatment and protection of low-income clients.
 - NMI has pledged to support this Campaign.

Internal Systems & Activities: Policies and Compliance Indicators (Cont'd)

- With respect to the “Transparent Pricing” aspect of *The Campaign for Client Protection in Microfinance*, NMI should support dual mission of MFTransparency.org and become an “MR Transparency Endorser.” Two missions are:
 - Facilitate the collection and dissemination of transparent microcredit product pricing information.
 - Educate stakeholders and enhance their understanding of microcredit product pricing.
- MFTransparency.org is:
 - A venue for committing to transparency and integrity in microfinance.
 - A vehicle to provide essential information necessary for sound market conditions.
- See [Attachment 4](#) and for more information: www.mftransparency.org

Internal Systems & Activities: Policies and Compliance (Cont'd)

Cost of Services to Clients

- Interest rates should be set to ensure the sustainability of the MFI. At the same time MFIs should actively look for ways to reduce their costs to their clients
- This indicator assesses the effective interest rate for the main loan product offered and the estimated percentage of clients who are borrowing from other institutions or money lenders.

Social Responsibility to Staff

- This indicator looks at the MFI's human resources policy, the systems in place to monitor employee satisfaction and the staff turnover rate.

Internal Systems & Activities: Policies and Compliance (Cont'd)

Social Responsibility to Environment

- Impact of microenterprises' activity on the environment can be particularly significant due to the low technology level, the general lack of regulatory supervision and the absence of supporting infrastructure and services in their country of operations.
- This indicator looks at whether the MFI has policies and initiatives in place to mitigate environmental impacts of financed enterprises.

Outputs and Outcomes: Achievement of Social Goals Indicators

Geographic Outreach

- This indicator measures the number of clients reached in the different geographical areas, particularly in the areas which are below the national average level of development.
- This indicator also assesses the ability of the MFI to serve clients in those areas where no other financial services are provided.

Women Outreach

- This indicator assesses the number of women clients (borrowers and savers) reached by the MFI.

Client Outreach

- This indicator evaluates the MFI's ability to reach its target market and measures client outreach by lending methodology.

Outputs and Outcomes: Achievement of Social Goals (Cont'd)

Outputs

- Indicator measures clients outreach in terms of the number of clients benefitting from non-financial services. It also evaluates, if available, any studies by the MFI regarding its effectiveness in the target market.

Employment

- This indicator assesses employment generation opportunities created by the MFI financed enterprises.

Children in School

- Increased earnings derived from microenterprises allow poor people to better plan and invest in their children's future.
- This indicator measures the number of clients' children who are attending school in countries/areas where school attendance is less than 90% at the secondary or primary level.

Outputs and Outcomes: Achievement of Social Goals (Cont'd)

Poor and Very Poor Clients at Entry

- This indicator assesses the poverty line(s) and poverty tool(s) used to estimate the percentage of entering/recently joined clients who are below and in the bottom 50% of the poverty line.

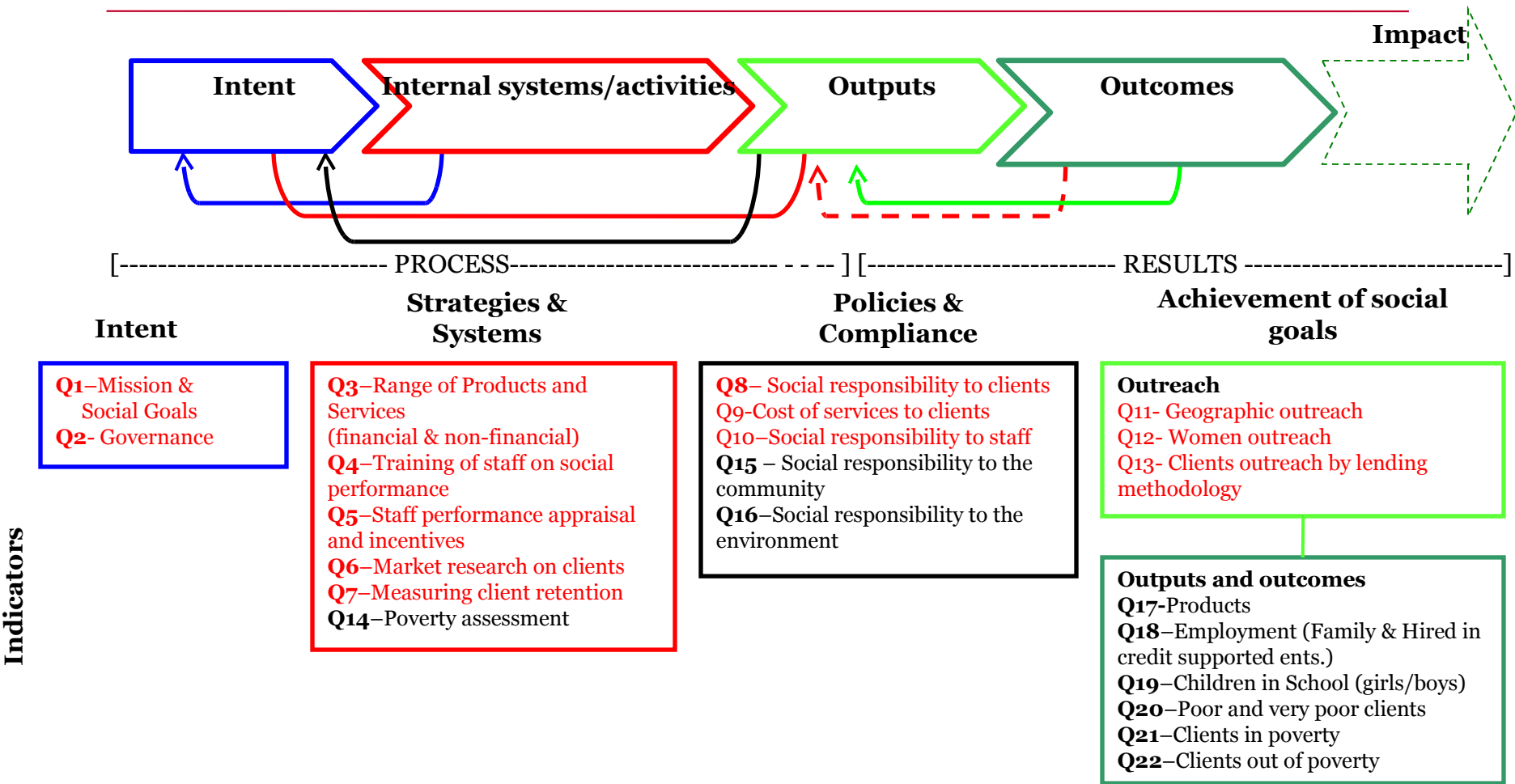
Clients in Poverty

- This indicator measures the estimated percentage of clients who joined the institution 3 or 5 years ago, that remain below the poverty line.

Clients Out of Poverty

- This indicator measures the percentage of active clients who were poor when they joined the institution 3 or 5 years ago, that are estimated to have moved out of poverty.

Social Performance Indicators Framework



MFIs that want to update their profile on MIX Market with the social performance indicators are expected to be able to report information on the 13 indicators contained in Part I of the report (indicators highlighted in red).

Social Performance Management Principles

- The Social Performance Management (SPM) Principles are aimed at making microfinance more effective in achieving its social mission.
- The SPM Principles reflect a consensus among a wide range of stakeholders.
 - [Attachment 5](#) sets forth the SPM Principles as set forth by the SP Task Force.
- Effective SPM is a continual process of translating mission and values into practice which includes:
 - Setting clear objectives and creating a deliberate strategy to achieve them.
 - Monitoring and assessing progress towards achieving objectives.
 - Using information to improve overall organizational performance.
- An MFI that manages Social Performance will:
 - Translate its mission and values into clear, measurable objectives to capture intentional social benefits.
 - Design and implement systems for social responsibility, including client protection.
 - Track, understand and report on whether it is achieving its social objectives.
 - Align its business processes to achieve both social and financial objectives.
 - Ensure that decision-making considers both social and financial outcomes.

NMI's Approach to Social Performance and SPM

- A flexible, pragmatic approach to SPM.
 - Taking into account the circumstances and capacities of MIV Managers and MFIs.
 - Recognizing that Social Performance and SPM may need to be implemented gradually and will require training and planning.
- Encouraging and supporting MIV Managers to measure and report on Social Performance and SPM for their investment portfolios.
 - Providing SPM information and knowledge about industry best practices for MIV Managers and MFIs.
 - Establishing SPM reporting standards and periods for MIVs.
 - Considering MIV social ratings.
 - Assisting portfolio MFIs with SPM training through the NMI PA Facility.
- Encouraging and supporting portfolio MFIs to measure and report on Social Performance and SPM.
 - Providing SPM information and knowledge about industry best practice for MFIs.
 - Providing SPM training through the NMI PA Facility.
 - Encouraging reporting to the MIX Market using SP Standards Report.
 - Encouraging regular reporting on SPM issues to the Board and investors.
 - Encouraging periodic social ratings.

NMI's Approach to Social Performance and SPM (Cont'd)

- Adopting and supporting SPM Principles.
- Adopting and supporting Microfinance Client Protection Principles.
- Adopting and supporting Microfinance Transparency.