

Social Performance Rating

December 2007

We value what we measure: measure your social performance!

For most MFIs, **institutional sustainability is only a means to an end**: achieving their social goals. **Transparency** on financial performance, with the existence of clear financial performance standards, regular reporting, external evaluations and ratings, has played a significant role in the development of strong microfinance institutions. In order to further strengthen the sector, increased transparency and accountability on the capacity of MFIs to effectively achieve their social goals is needed.

Social Performance Ratings are now available for MFI that wish to **complement** their **institutional and financial rating** and provide a **comprehensive information** to their stakeholders (Boards, Management Team, Fund providers, Supervisory Bodies) for an optimal **decision-making**.

Social Performance Rating: A tool to improve your social performance

Social Performance Ratings include an audit of your **Social Performance Management** systems conducted with a **transparent methodology** and in an **interactive** mode to ensure an optimal appropriation of the conclusions of the audit

- Interviews with management team, board, field staff
- Verification and validation of social performance information and indicators
- Document review (communication documents as well as internal)

For institution where **social performance management** systems are only **incipient**, our Social Performance Ratings can be complemented by a **one-day training for MFI staff** on concepts and **best practices** currently being developed in the field of social performance management (**optional**)

Social Performance Management is defined as the processes through which you define and formalize your social goals, design the systems to put these intentions into practice, measure actual outcomes and use these results to refine systems and improve practice

Social Performance Rating: A tool to communicate about your social performance

Our Social Performance Rating **standardized and comprehensive rating reports** are designed to suit the information needs of all MFI stakeholders (Boards, Management Team, Fund providers, Supervisory Bodies)

- Socio-economic environment
- Outreach and microfinance service offering in the country
- Social performance indicators (with benchmarking)
- Concise and clear justification of conclusions



Social Performance Rating: Reduce risk, create opportunities

- Improve your social performance management systems thanks to a thorough identification of weaknesses and information about best practices
- Reduce reputation risks by demonstrating efforts made towards client satisfaction and client protection
- Attract skills or funds and enhance staff motivation thanks to an image of socially responsible institution that differentiates your MFI from competitors
- Increase transparency and comply with stakeholders information requests (fund providers, regulators, clients)

Social Performance Ratings: What do we rate?

Social Performance Ratings provide an opinion on the capacity of an MFI to achieve its social goals

Rating	Definition
5	Advanced: Long-lasting commitment to social goals; efficient management of social performance and social responsibility risks; institution very likely to achieve a positive social impact
4	Convincing: Clear commitment to social goals; reasonable management of social performance and social responsibility risks; institution likely to achieve a positive social impact;
3	In progress: Clear intent to reach social goals; social performance management systems being implemented
2	Incipient: Clear intent to reach social goals; low capacity to manage social performance
1	Intangible: Intention to reach social goals is non tangible; low level of management of social performance

Our opinion is based on an analysis of internal processes, documents and information and on socio-economic and sectorial national/regional data. For each of our evaluation areas (described below) we evaluate the intentions, implementations and results.

Intentions → clarity and consistency

- Clarity and visibility of intentions (translation into clear and binding documents)
- Relevancy given the MFI context and maturity
- Consistency of main decisions with stated goals and intentions

Implementation → efficiency

- Efficiency of processes
- Availability of necessary resources
- Integration of these processes in the control/ audit / verification cycle

Results → comparison with benchmarks

- Opinion on the reliability of indicators
- Comparison with national / international microfinance benchmarks
- Comparison with internationally approved Corporate Social Responsibility objectives (MDG; ILO; Global Compact; UN Charter)



▪ Social Performance Rating framework

Areas of investigation

What are we looking for?

▪ Institutionalization of the Social Mission

Social Mission and Strategy

- Does the institution have a clear social goal, shared by all stakeholders? How is it defined?
- Is the social mission integrated in the main decisions of the MFI?
- Is there a risk that the institution might lose its social focus?

The intent to achieve some social impact should be clear and translated into a vision and mission statement approved by shareholders and key stakeholders who may have an influence on decision-making.

The social mission should be taken into account in all key decisions, such as partnerships, branch openings, product development. The social mission should be integrated in the planning process with achievable goals and good identification of the challenges and constraints.

Social Performance Monitoring

- Has the institution put tools and systems in place to measure and track its social performance

In order to guarantee an efficient implementation with constant improvement of systems and results, social performance indicators should be defined in line with social objectives, integrated in the MIS and used in standard reports. Additional tools such as surveys, impact studies, workshops implemented and conducted according to best practices. Social performance indicators verified by the internal audit team and external auditors.

Staff Mobilization

- Are processes in place to involve/motivate staff in/towards the achievement of social goals?

Active staff participation is key to the achievement of social goals. Recruitment and induction process have to ensure that staff are committed to social goals and have the necessary skills. Incentive and evaluation systems have to foster behaviours likely to improve the institution's social performance. Staff input should be included in the definition of social strategies and staff should be informed about the social impact of their work.



Areas of investigation

Targeting and Service Offering

Breadth of outreach

- Is the institution reaching out / likely to reach out to a significant number of poor or excluded?

What are we looking for?

The capacity of the MFI to reach out to a significant number of poor or excluded people is evaluated (based on current performance and development stage of the sector).

Client targeting

- Has the institution defined its target population?
- Has the institution put systems in place to know its clientele?
- Has the institution put systems in place to reach out to its target clientele?

Target clientele should be chosen after a careful analysis of the socio-economic situation of the country/region. Tools should be in place to evaluate the socio-economic situation of the clients (either on an on-going basis or occasionally depending on the type of targeting used). Tools to monitor desertion rates and reasons should also be in place. All tools should be easily understandable and usable by LO and their actual use should be controlled. Clear targets in terms of clientele composition should be defined with regular tracking and a good track record of goals being reached. When available, the proportion of poor and excluded people in the clientele is compared to internal targets.

Service design and client satisfaction

- Does the institution have a good understanding of the financial needs of its clients and does it have processes to tailor the products to these needs?
- Are services adapted to the various financial needs of the target population?
- Are client satisfied with the services?

Services should be been designed to address clients' financial needs thanks to surveys, general economic sector analysis and client activity analysis. Loan officers should be skilled enough to ensure that each client receives an adapted financial service. Exit surveys, clients satisfaction studies, retention rates should be used to understand the improvements needed. The MFI should try to provide all financial services a client can need (not only credit) directly or through partnerships.

Cost of the services

- Is the institution actively looking for ways to reduce the cost of the services for the clients?

Interest rates should be set to ensure the sustainability of the institution and long term availability of the service, but institutions should actively be looking for ways to reduce the cost for their clients (through efficiency gains notably). Effective interest rates are compared to international and national benchmarks for MFIs that provide similar services (in terms of methodology, term, amount). Transaction costs are also taken into account in the evaluation.



Areas of investigation

What are we looking for?

- Social responsibility

Client protection

- Are there systems in place to guarantee that clients will be treated with respect and dignity?

Service conditions should be transparent with full disclosure of loans conditions. Systems should be in place to guarantee an equal treatment of all clients with formal complaint system allowing clients to report staff misbehaviour. Risks related to financial services should be monitored (procedures in place to prevent over-indebtedness; provision of credit life insurance to the clients; security of financial operations)

Human resources policy

- Are all staff recognized equal rights?
- Are all staff receiving a fair compensation (financial and non financial) for their work?

Procedures should guarantee a fair treatment of staff: (fair hiring practises, transparent remuneration and incentive systems, evaluations and career paths, provision of trainings, are transparent; fair and respected contract conditions). Solutions should be found to reduce risks related to work conditions (health and security conditions). Employee representative should participate in decisions that have direct impact on their work conditions.

Social responsibility to the community

- Is the institution contributing to the community development with other means than financial services?

We evaluate efforts made by the institution to promote human rights and notably work against corruption, and support the development of access to basic health education and housing services for clients and workers, contribute to the public debate by expressing their views on matters that affect their clients.

Social responsibility to the environment

- Is the institution striving to minimize the negative impact of its activities on the environment?
- Is the institution trying to have a positive impact on the environment thanks to specific activities?

We evaluate efforts made towards reducing direct or indirect negative effects of the activity on the environment. We also take into account efforts made to have a positive impact on the environment.



▪ **Rating process**

- Because the sustainability of an institution is key to its social performance (by allowing it to provide service in a durable way), Social Performance Ratings are only conducted for MFIs that have already undergone an institutional rating (with Planet Rating or another reputable microfinance rating agency)
- Social Performance Rating missions can be conducted at the same time as GIRAFE rating missions, but it is not mandatory
- Combining both processes provides efficiency gains that are reflected in the prices
- The analyst spends **2 to 4 days** on site depending on the size of the institution and the type of information available
- The Social Performance Rating mission is conducted by **one rating analyst** specialized in Social Performance Ratings
- A draft of the Social Performance Rating report is provided to the institution for review
- The Social Performance Rating report is finalized within 45 days from the on-site mission

▪ **Planet Rating Social Performance Rating experience**

- Our methodology has been rigorously designed, thanks to our strong experience in the internationally recognized GIRAFE Rating Methodology (since 1999, over 300 missions in 60 countries)
- Our methodology has been refined through on-site testing and collection of feedback from actors of the sector (MFIs, investors, donors, social performance specialists) during 2005 and 2006. Testing and probing has been conducted with 8 MFIs from different regions, legal status and development stage.
- The draft methodology was used for the social performance evaluations of six MFIs in Mali in 2006 (three reports available upon request at rating@planetrating.com: Nyeta Musow, Soro Yiriwaso, Miselini)
- The final methodology has been used for four Social Performance Ratings in Ethiopia in July 2007 (three reports already available upon request at rating@planetrating.com: Buusaa Gonofaa, AVFS, SFPI)