
Social Performance, Impact and Governance: Framework for Evaluating and Supporting MFIs Reach Their Social Objectives

Cécile Lapenu (Cerise)

CERMi Seminar – March 5th, 2008

CERISE

- Network for exchanging practice in microfinance
- Made up of French organizations that specialize in studying, setting up and supporting MFI in the South;
- Works with an international network of partners, in particular ProsperA
- Main areas of activity: governance, impact & social performance, rural finance (agricultural finance, fair trade, etc.), intervention in microfinance
- <http://www.cerise-microfinance.org/>

Context of the microfinance sector

- A paradox: limelight, with the International Year of Microcredit in 2005 and the Nobel Peace Prize in 2006 but also sharp criticism regarding its role and its social impact (ex: Compartamos)
- Public exposure portrays a stereotyped image of microfinance
- Towards « inclusive financial system »: Need to change the scale, New actors (in particular from private sector), «Commercialization» of microfinance, Few leading MFIs and need to reinforce the «second tier»

New trends and strategies for the sector

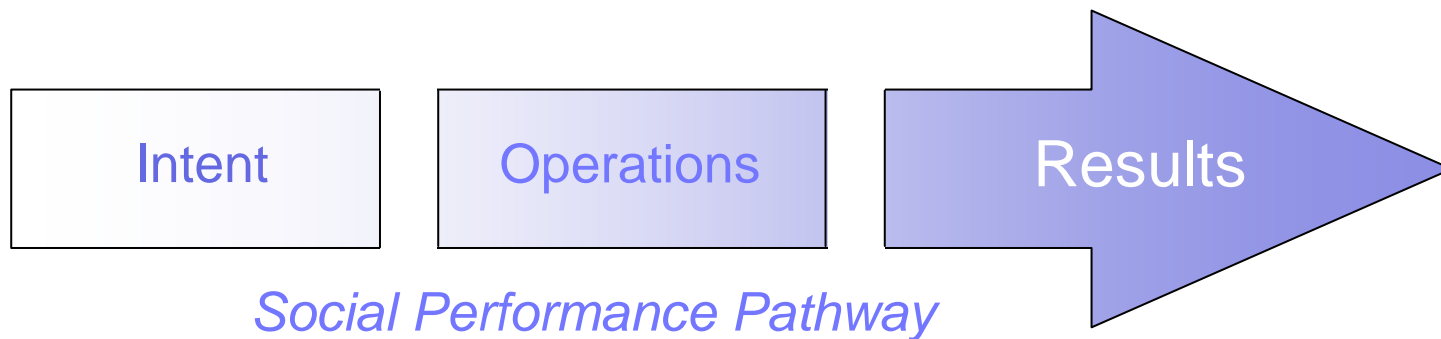
- **New focus on Social performance**
 - **Finding innovative ways to evaluate social results**
 - **Improving social utility**
 - **Encouraging better governance**
- ⇒ **These strategies are linked and Cerise proposes to test and strengthen a framework for evaluating and supporting MFIs reach their social objectives**

New Focus on Social Performance

- The needs and limits of « proving » impact
 - Impact on clients and their families is the « raison d'être » of microfinance
 - Proving impact is subject to methodological constraints
- The new approaches towards Social Performance Assessment
 - Focus on Financial performance for more than 10 years
 - Beginning of 2000's, new initiatives working on SP, now grouped within the Social Performance Task Force

What is Social Performance?

- **The effective translation of an institution's mission into practice in line with accepted social values that relate to:**
 - ❑ reaching poorer and excluded clients;
 - ❑ improving the lives of clients and their families;
 - ❑ widening the range of opportunities for communities.



What is Social Performance?

- **Intent: Clearly defined mission and objectives**

- Reach target market
- Deliver high-quality and appropriate financial services
- Respond to the needs of clients, their families, and communities
- Ensure responsibility of the MFI toward its employees, its clients, and the community it serves



What is Social Performance?

- **Operations: Actions and corrective measures**

- Align systems with mission

- Leadership
- Institutional culture
- Human resources
- Training
- Reward (financial and non-financial incentives)
- Marketing
- Service Delivery



What is Social Performance?

- **Results: Measurable outcomes and benefits**
 - Reaching target clients
 - Meeting client needs
 - Creating benefits for clients
 - Social responsibility



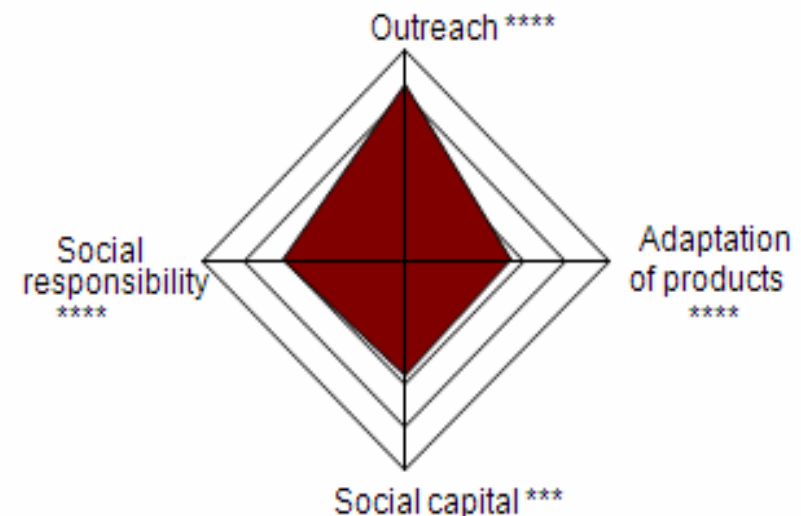
Initiatives for SPA & SPM at MFIs' level

<i>SP Assessment</i>	<ul style="list-style-type: none"> • SPI (CERISE / ProsperA) • CGAP & Ford Social Indicators (ODM) • Triodos Bank (GRI)
<i>Poverty assessment</i>	<ul style="list-style-type: none"> • USAID IRIS Poverty Assessment Tools • CGAP Grameen Ford Poverty Assessment Tool: PPI (Progress out of Poverty) • FINCA
SP management Governance	<ul style="list-style-type: none"> • Imp-Act, MicrofinanceCenter • Accion • CERISE governance tool
Rating	<ul style="list-style-type: none"> • USAID AMAP SP Audit Tool • M-CRIL Social Rating Tool • Planet Rating Girafe-S • Microfinanza Social Rating • CGAP Poverty Audit

SPI – Social Performance Indicators

A questionnaire to measure SP

- **Principles:** simplicity, internal info, standardization, external check, designed **with and for MFIs** (Finsol since 2001)
- **Contents:** a questionnaire and a companion guide (available on www.cerise-microfinance.org)
- **4 key dimensions :**
 - Outreach
 - Adaptation of products,
 - Benefits for the clients
 - Social responsibility



1. Finding innovative ways to evaluate social results

- Processes set up by MFIs to reach their social objectives
- Possible standardization
- Own responsibilities of the MFIs

- Hypothesis: impacts can reasonably be inferred from sound internal processes supporting social mission fulfillment

2. Improving social utility

- Financial performance remains the condition «sine qua non» for the MFIs
 - Usual idea of trade-off between poverty outreach and financial sustainability
 - Hypothesis: SP (wider definition) and FP can reinforce each other mutually in the long term
 - a deeper understanding of clients
 - better adapted services
 - greater trust and transparency between clients and MFIs
- ⇒ loyalty and improved repayment

3. Encouraging better governance

- Broadest sense of decision-making within an MFI / Stakeholder approach of governance
- Has long been neglected in MF sector, but considered now as one of the greatest threats to the sector
- Hypothesis: good governance is determinant of overall performance, and MFIs can improve their social and economic impact by improving their governance

How to test the Link SPA / Impact?

- Compare the results of Impact studies and SP assessment (SPI – internal, indepth process; social ratings – external, standardized process)

Impact studies and other tools

- Poverty assessment tools to test outreach
 - PAT “Poverty Assessment tools” USAID/IRIS
 - PPI “Progress out of Poverty Index” Grameen Foundation
- Impact assessment: overview on light methodologies
 - Based on SPI: 4 dimensions and centered on MFI own strategy

Main questions
Q1: Who are the clients?
Q2: Adaptation of the products ?
Q3: Benefits for the clients & families?
Q4: Fit with local community?

Process Intent - Activities
SPI-CERISE tool
Dim 1: Outreach
Dim 2: Adaptation of products
Dim 3: Improvement of the economic situation and social capital (participation and empowerment)
Dim 4: Social responsibility of the MFI

Results
Impact tools
Poverty Assessment Tools: PPI, Iris-Usaid, CGAP, others.
AIMS/SEEP tools: N°3 Use of services; N°5: client satisfaction; N°2: client drop-outs: Micro Save tool kit; QUIP (Imp-Act)...
AIMS/SEEP tool N°1; FINRURAL, household strategies (CERISE), ILS, etc. AIMS/SEEP tool N°5: Empowerment ; socio-anthropologic approaches; studies on participation / roles of elected members, etc.
Institutional sustainability; Wider Impact; socio-anthropologic approaches; consumer protection, over-indebthness

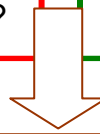
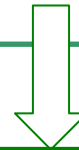
Two pieces...

What is the social strategy of the MFI? How is it achieved?

Impact studies specifically tailored to the MFI's social strategy

... of a same puzzle

Global performance of the MFI analyzing specifically the achievements of the MFI's social mission



Example in Bolivia (Finrural)

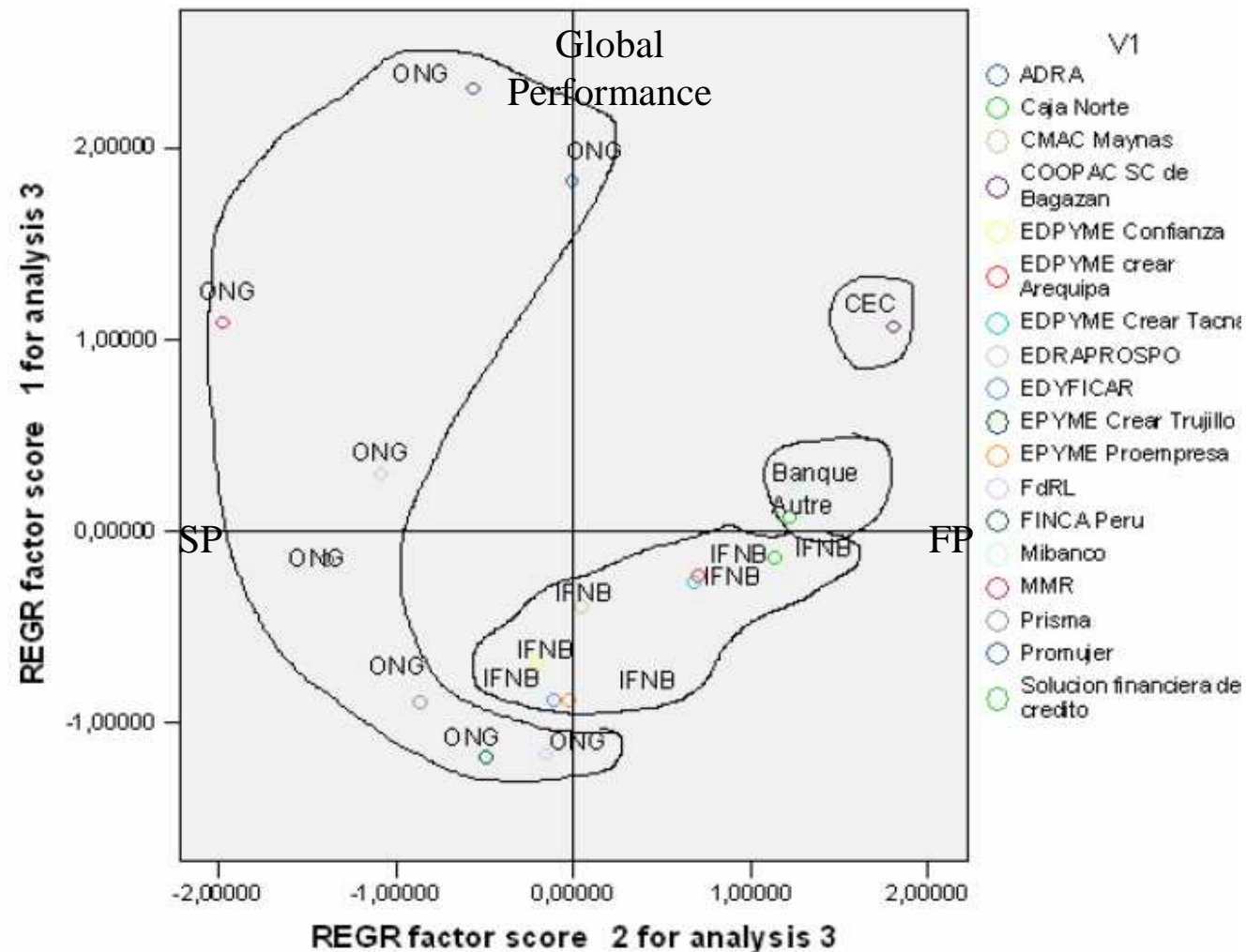
- Method: impact surveys (2002, 2006), client satisfaction surveys (2004), SPI (2004, 2006)
- Results:
 - D1/ differentiated effects depending on clients reached
 - D2/Positive impact: effect non financial services on empowerment; quality and diversification of services
 - D3/ Positive impact: clients satisfaction, loyalty
- Discussion
 - D1: in this case difficult to test (no surveys on new clients profile)
 - D4: needs wider analysis (socio-anthropologic approaches, impact on communities)
 - Need both approaches at the same time

How to test the Link SP / FP ?

- Use the database on SPI (today, 80 MFIs) to test the links with the FP
- Methodological work by Simon Cornée with Data Envelopment Analysis and Principal Component Analysis
- In the future, data from the MIX Market

Data envelopment analysis method & Principal component analysis

Cornée, 2006 – Test with Peruvian MFIs



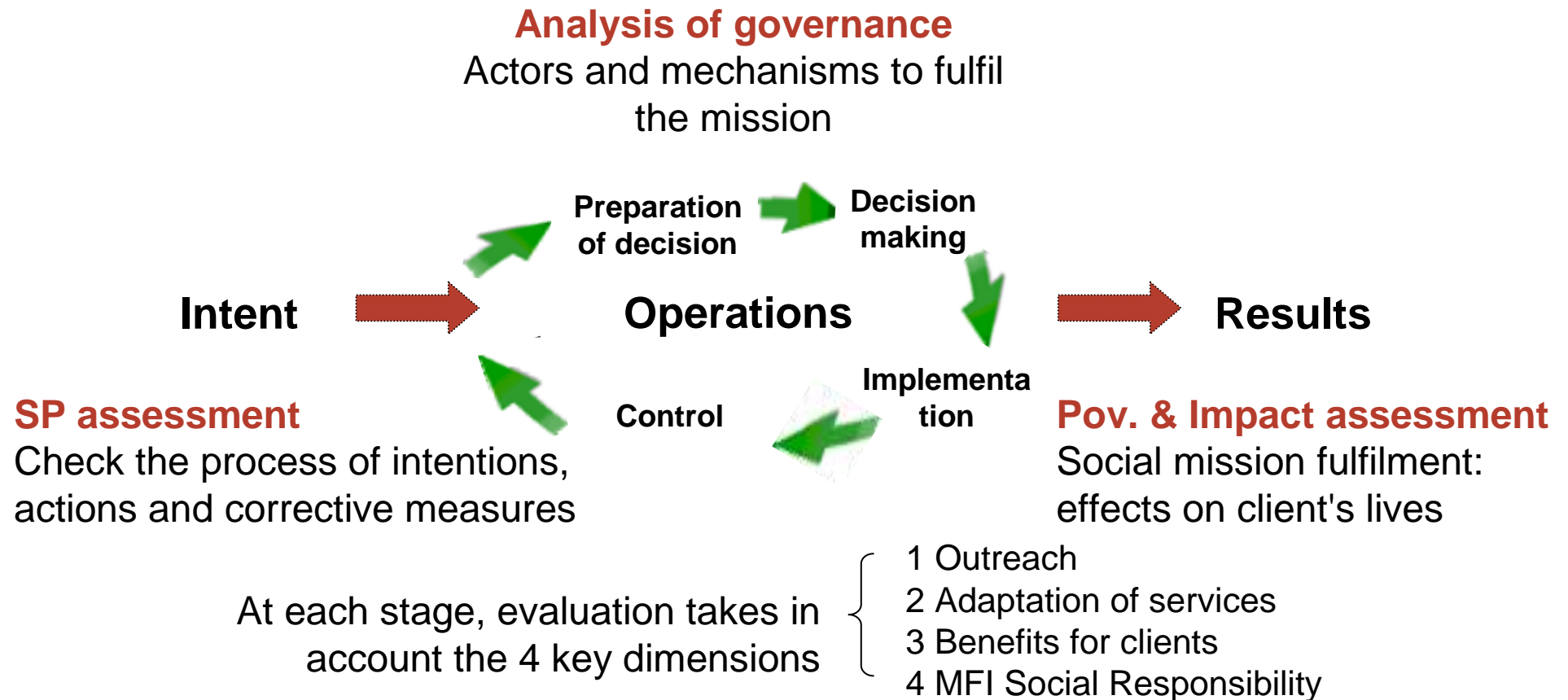
How to test the link between global performance and governance ?

- Verify the coherence between results, actions and decision-making power in the MFIs
- SPA gives a picture on whether, and the extent to which, internal systems and activities align policies and behavior with the organization's social mission
- The work on governance gives a key to enter into the processes and to improve them (ex: Microbanks, Mexico; Cooperatives in West Africa)

Governance assessment

- **Who has decision-making power?**
 - The institutional form: who are the formal owners? (Relations between formal ownership and decision)
 - The financial structure: who finance(s) the institution (Relations between financial structure and decision)
 - The practice: who make(s) the decision?
- **How is this power exercised?**
 - Define mission
 - Prepare a decision
 - Take a decision
 - Implement a decision
 - Control the execution
- **How are problems and crises managed?**

Assessment and decision tools on Social Performance



Next steps

- Concrete studies to test the hypothesis with partners MFIs
- Strengthening the practices of the MFIs to improve their social impact
- Convincing the stakeholders of the sector regarding the importance of a balanced approach between financial and social performance

Where To Go For Further Information?

- **Social Performance Resource Center**

http://microfinancegateway.com/resource_centers/socialperformance

- Management training
- Technical Assistance
- Tools
- Rating, audit and other forms of assessment

- **CERISE's website**

<http://www.cerise-microfinance.org>

- SPI tool
- Governance tool
- Learn more about ProsperA