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NOTE FROM THE FIELD

Measuring Social Outreach

A new social auditing tool offers insight into a microfinance institution



Photo Courtesy of Chemonics

Dr. Woller (right) and the operations director of Partneri Shqiptar ne Microkredi discuss the internal processes of the organization.

"The social audit provided some very useful information on a microfinance institution's internal processes that couldn't be gleaned from self-reported financial performance information," remarked Dr. Gary Woller.

Social auditing proved to be an extremely valuable process during a recent field test of a social performance measurement tool in Albania. Funded by the Microenterprise Development office of USAID, Chemonics is currently developing a tool to assess the social performance of microfinance institutions such as PSHM. Partneri Shqiptar ne Microkredi (PSHM) is a non-bank financial institution affiliated with Opportunity International that began operations in 1999 with support from USAID/Albania. Since its founding, PSHM has developed 13 branches nationwide, providing microloans worth over \$30 million to more than 14,000 clients.

Ms. Selin McCurdy of Chemonics International explains:

"As the microfinance industry matures, microfinance institutions are increasingly seeking debt and equity financing from private, commercial sources. Among these sources are socially responsible investors who are motivated by the 'double bottom' line. That is, these investors are seeking both a financial as well as a social return on their investment. In response to this interest, USAID is financing the development of a new social auditing tool under the Knowledge Generation task order of the Accelerated Microenterprise Advancement Project Indefinite Quantity Contract. The research is being led by Dr. Gary Woller, under a contract with Chemonics International.

"The social audit tool Woller is developing includes both objective and subjective assessments. The objective component assesses the microfinance institution's social performance using an indicator-based 'social performance scorecard.' The subjective component assesses the microfinance institution's social performance according to the auditor's best, informed judgment on the microfinance institution's commitment and capacity to achieve social return in five key internal processes. These are internal communication and management leadership, hiring and training, monitoring systems, incentive systems, and

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strategic planning. The microfinance institution's performance on the scorecard and in the five key internal processes form the basis for awarding the microfinance institution a social rating score, which indicates the microfinance institution's likelihood of creating significant social impact both now and in the future.

"Recently Dr. Anicca Jansen, who manages this research for USAID's Microenterprise Development office, invited Woller and McCurdy to field-test the tool while she conducted an evaluation of the same microfinance institution, PSHM. While in the field, Woller and McCurdy addressed the three components of the tool: the social audit component, the indicator-based scoring system, and the integration of the two components.

"Woller and McCurdy conducted the pilot test by collecting information to complete the 'social performance scorecard,' by reviewing internal operational and policy documents, and by interviewing senior management, loan officers, and office staff. Researchers asked a wide array of questions to assess PSHM's performance in the five key internal processes.

"Woller noted that, 'field testing the social audit tool with PSHM in Albania reinforced my original assumption that doing a social audit is possible. The social audit provided some very useful information on a microfinance institution's internal processes that couldn't be gleaned from self-reported financial performance information.'

"The research team awarded PSHM an AA rating, indicating that the organization is highly likely to create significant social impact now and in the future, has robust internal processes aligning its performance with its social mission, and engages in effective outreach. Counting strongly in PSHM's favor were an explicit and effective mission statement, consistent and effective communication of its social mission, strong organizational leadership, and an effective performance incentive system that rewarded loan officers for making loans to poor microenterprise owners. Jansen remarked, 'It is interesting to see the degree to which PSHM has been able to maintain a strong social mission and outreach while meeting the financing needs of somewhat larger enterprises.' Delving deeper into the social mission of PSHM, which would not have occurred in a normal program evaluation, revealed to Jansen some of the inner conflict staff face as they try to reconcile the difficulties of working with very poor clients, while maintaining a profitable portfolio."

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