

SPI Report No. 1

Towards defining social performance of micro-finance institutions - Literature review and synthesis

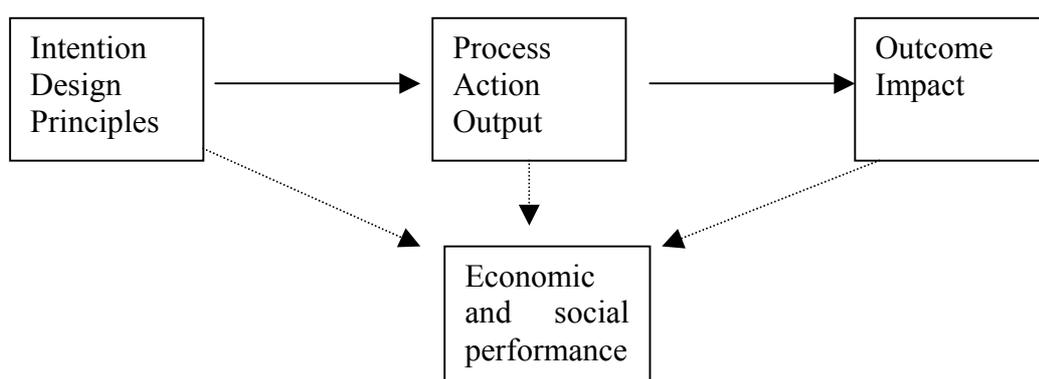
Cécile Lapenu
Manfred Zeller¹

How can Social Performances be defined?

Several definitions can be found in the literature. Some of them, the most relevant for micro finance sector, are reported here.

The social performance of an organization (whether a private-for-profit firm, cooperative or NGO) comprises the relations of the organization with its clients and with other stakeholder groups.

1. CHAIN OF MFI'S ACTIVITIES



Performances : optimal possibilities of the institution ; results obtained in terms of design, output and outcome.

Impact: change among clients and non-clients imputable to MFI activities.

The measure of impact is a subset of performances.

Different options are chosen for measuring performances (from an easier to a more complicated process of evaluation):

- evaluating principles and intentions;
- analysing processes and evaluating actions;
- understanding the relations between principles and actions (verifying that the organisation gives itself the means of its objectives without specifying in a normative way what its social mission should be);
- measuring outcomes.

¹ This report partly draws on a literature review and summary by Christa Buchendorfer, University of Göttingen.

Due to the methodological difficulty of reaching valid and relevant conclusions about causal relationships between access to MFI services and results on socio-economic condition of the clients and non clients, impact assessment requires in-depth analysis and complex survey protocol that MFIs cannot apply routinely.

2. EXISTING ANALYSIS OF SOCIAL PERFORMANCES OF ORGANIZATIONS

As reported by the Global Reporting Initiative (GRI, 2002), many trends have fuelled the movement towards measuring social performances:

- expanding globalisation and the risks of social inequalities: all parties – corporations, governmental and non governmental entities – are seeking new forms of accountability that credibly describe the consequences of business activities,
- search for new forms of global governance: the borderless global economy requires an equally borderless governance structure to help direct private sector activity towards outcome that are socially and environmentally, not just economically, beneficial. A key theme is a demand for higher levels of transparency,
- reform of corporate governance: investors and other stakeholders expect the highest standards of ethics, transparency, sensitivity and responsiveness from corporate executives and managers.
- Consumer, government, and financial market' interest in reporting on sustainability: companies are facing more clearly articulated expectations from customers and consumers, supported by growing media coverage, regarding their contribution to sustainable development; incentives and requirements from governments to enlarge the scope of conventional corporate financial reporting to include non financial information are rapidly unfolding; the financial industry slowly but steadily is embracing sustainability reporting as part of its analytical toolkit. Spurred in part by growing demand for social and ethical funds among institutional and individual investors, new “socially responsible” indices are appearing each year.

Moreover, beyond external pressure, companies are engaged in efforts to define and integrate social responsibility into all aspects of their business, their experiences being bolstered by a growing body of evidence that corporate social responsibility has a positive impact on business economic performances²: reduced operating costs, enhanced brand image and reputation, increased sales and customer loyalty, increased productivity and quality, increased ability to attract and retain employees, access to capital, etc (Business for Social Responsibility website, 2003).

² One of the more recent analyses - a 2002 DePaul University study - showed that overall financial performance of the 2001 Business Ethics Best Citizen companies was significantly better than that of the remaining companies in the S&P 500 Index, based on the 2001 BusinessWeek ranking of total financial performance. The ranking was based on eight statistical criteria, including total return, sales growth, and profit growth over the one-year and three-year periods, as well as net profit margins and return on equity. The Best Citizens scored ten percentile points higher than the mean ranking of the remainder of the S&P 500 companies (Business for Social Responsibility website, 2003); Dow Jones studied socially responsible screened companies and concluded they provided higher return at lower risk: “there is an additional return even after risk adjustment” (Gartz *et al.*, 2002. More gain than pain with SRI: sustainability pays off. Dow Jones, *in* Tulchin, 2003)

2.1 General points on corporate social responsibility

The majority of Corporate Social Responsibility-related standards produced in recent years ask companies to voluntarily develop and implement policies and practices and commit themselves to specific performance standards on various CSR issues. More recently, a limited number of standards have been developed that, rather than providing substantive recommendations for implementation of specific CSR policies and practices, are designed to provide guidance for companies seeking to report on their social, environmental, and economic performance. In many cases, these performance standards and reporting standards are complementary.

Important work on indicators and reporting has been conducted by the Global Reporting Initiative. GRI is a reporting standard rather than a performance standard. It was established in 1997 with the mission of designing globally applicable guidelines for preparing enterprise-level sustainability reports including both social and environmental indicators. The GRI is convened by CERES (Coalition for Environmentally Responsible Economies) and incorporates the active participation of corporations, non-governmental organizations, international organizations, United Nations agencies, consultants, accountancy organizations, business associations, universities, and other stakeholders from around the world. The GRI first issued its Sustainability Reporting Guidelines in 1999 and is now a permanent, independent, international body with a multi-stakeholder governance structure. Its core mission will be maintenance, enhancement, and dissemination of the Guidelines through a process of ongoing consultation and stakeholder engagement. The GRI has begun to add sector-specific supplements, beginning with financial services (see SPI-Finance below) and tour operators. (<http://www.globalreporting.org/about/brief.asp>)

Other examples of corporate Social Responsibility standards

AccountAbility: Launched in 1999, AA1000 is an accountability standard designed to complement the Global Reporting Initiative's (GRI) Reporting Guidelines and to improve accountability and performance by learning through stakeholder engagement. The standard helps users to establish a systematic stakeholder engagement process that generates the indicators, targets, and reporting systems needed to ensure its effectiveness in overall organizational performance. (<http://www.accountability.org.uk/default.asp>)

Social Accountability 8000 is a standard that specifies requirements for social accountability to enable a company to develop, maintain, and enforce policies and procedures in order to manage those issues which it can control or influence; and demonstrate to interested parties that policies, procedures and practices are in conformity with the requirements of this standard. The requirements of this standard apply regardless of geographic location, industry sector, or company size. The standard is maintained by Social Accountability International and covers standards and monitoring programs for child labor, forced labor, disciplinary practices, nondiscrimination, wages and benefits, working hours, health and safety, freedom of association and collective bargaining, and management systems. (<http://www.sa-intl.org>)

United Nations Global Compact: The UN Global Compact was formally launched in September 2000. UN Secretary-General Kofi Annan called on world business leaders to voluntarily "embrace and enact" a set of nine principles in their individual corporate practices and to support complementary public policy initiatives. The standard includes specific practices that endorsing companies would undertake to enact, as well as a section describing the benefits to business for embracing each principle. (<http://www.unglobalcompact.org>)

Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises: The guidelines are recommendations addressed by governments to multinational enterprises and are voluntary principles and standards, not legally enforceable. Governments adhering to the Guidelines encourage the companies operating within the countries to observe the guidelines wherever they operate. The guidelines were first published in 1976 and updated most recently in June 2000. (<http://www.oecd.org>)

Principles for Global Corporate Responsibility: Benchmarks for Measuring Business Performance: The Interfaith Center on Corporate Responsibility (ICCR) has published "Principles for Global Corporate Responsibility," which is not a standard but a "collective distillation of the issues of concern" to religious-oriented institutional investors developed by groups in the U.S., Canada, and the U.K. The ICCR is comprised of more than 275 religious institutions that use their investments to promote social change. The principles cover the entire spectrum of CSR issues, including workplace, community, the environment, human rights, ethics, suppliers and consumers. The principles are published as a reference tool that companies (and investors) can use to benchmark or monitor their own policies, or those of the companies in which they invest. (<http://www.iccr.org/>)

The Caux Round Table (CRT) promotes principled business leadership and the belief that business has a crucial role in identifying and promoting sustainable and equitable solutions to key global issues affecting the physical, social and economic environments. The CRT is composed of senior business leaders from Europe, Japan and North America, and is based in Caux, Switzerland. The CRT has produced "Principles for Business," a document which seeks to express a worldwide standard for ethical and responsible corporate behavior for dialogue and action by business and leaders worldwide. The principles include the social impact of company operations on the local community, a respect for rules and ethics, support for multilateral trade agreements that promote the "judicious liberation of trade," respect for the environment and "avoidance of illicit operation," including bribery, money laundering, and other corrupt practices. (<http://www.cauxroundtable.org>)

The Global Sullivan Principles: Introduced in 1999, the Global Sullivan Principles expand upon the original Sullivan Principles, which were developed by the late Reverend Leon H. Sullivan in 1977 as a voluntary code of conduct for companies doing business in apartheid South Africa. According to Rev. Sullivan, "The objectives of the Global Sullivan Principles are to support economic, social and political justice by companies where they do business; to support human rights and to encourage equal opportunity at all levels of employment, including racial and gender diversity on decision-making committees and boards; to train and advance disadvantaged workers for technical, supervisory and management opportunities; and to assist with greater tolerance and understanding among peoples; thereby, helping to improve the quality of life for communities, workers and children with dignity and equality." (<http://globalsullivanprinciples.org/>)

The Keidanren Charter for Good Corporate Behavior comes from Nippon Keidanren, the Japan Business Federation. The 10-point charter states: "Corporations, in addition to being economic entities engaged in the pursuit of profit through fair competition, must be useful to society as a whole." Keidanren members agree to follow the spirit of the charter as "the criterion of their corporate behavior." The charter was revised in October 2002 to emphasize roles and responsibilities of corporate executives in an attempt to prevent the recurrence of corporate misconduct. (<http://www.keidanren.or.jp>)

Asian-Pacific Economic Cooperation (APEC) Business Code of Conduct: APEC is billed as "the primary international organization for promoting open trade and economic cooperation among 21 member economies around the Pacific Rim." The Code, issued as a draft in 1999, is an aspirational standard that draws significantly on a variety of other internationally recognized codes and standards. The drafting of the Code was initiated by business leaders from companies operating in APEC countries and is designed to supplement and support companies' existing codes of conduct. In addition to providing recommendations for specific "company action" on a range of issues, the Code addresses policy recommendations to APEC country governments.

Business for Social Responsibility: BSR is a global nonprofit organization that helps member companies achieve commercial success in ways that respect ethical values, people, communities and the environment. (<http://www.bsr.org>)

ORSE is a nonprofit French network begun in 2000 to study and promote socially responsible investment (SRI), corporate social responsibility and all the issues related to sustainable development. (<http://www.orse.org>)

In France, the "Bilan Sociétal" (Centre des Jeunes Dirigeants de l'Economie Sociale) tries to evaluate, beyond social relationships between managers and employees, the actions of the social enterprises towards quality of life, social cohesion, exclusion, the environment, etc. (Capron, M., Leseul, G., Pour un bilan sociétal des entreprises, *In Revue des études coopératives, mutualistes et associatives*, RECMA, 4e trimestre 1997, N°266, p 33.)

2.2 Current practice in measuring social performance in “macro-finance”

SPI-finance (www.spifinance.org)

The project developed key performance indicators for the financial industry covering the following areas of social performance:

- Internal social performance, including relationships with staff's families.
- Society in general, such as performance towards communities and countries in which business operates.
- Impacts of products and services on the clients, as well as on people who are indirectly influenced by financial services.
- Social performance of suppliers (towards staff and society), as well as the social performance of financial institutions towards those suppliers.
- Additionally, management performance indicators serve to describe the quality of implication on Corporate Social Responsibility (CSR Management).

The indicators are tailored to the needs of the banks. They still remain rather broad and need to be made more specific? to be applicable.

2.3 Initial approaches in measuring aspects of social performance in microfinance

Social Enterprise Associates for the MicroCapital Institute: Micro finance's Double Bottom Line

Micro finance's blend of financial return and social impact – called the Double Bottom Line – is a key attribute to attract capital. Social achievement should be presented in uniform and standardized format, such as the paper sample methods used in other industries for their approach to DBL measurement.

Most of the methods presented are tailored for business and do not focus on social performances (balance scorecard, Cost/benefit analysis, market efficiency audit³, wealth of nations sustainability index). These methods could be analysed when the indicators are identified to see how the information could be collected.

GRI (Global Reporting Initiative) focuses on socially responsible business (see above).

The use of Social Return On Investment tries to document the value created by social programs. But valuing social impacts in monetary terms is difficult (see FFH example).

Freedom From Hunger : “Lives saved” concept / social return on investment

From dollars invested to lives saved

The tool used by FFH starts from previous results: “In its impact studies, statistically significant improvements have been charted in children's health and nutritional status as well as in their mothers' economic and social status.”

The tool uses results from these previous impact analysis .

From this basis, it calculates a SROI:

- Lives saved: health education messages lead to the improved nutrition of children and save lives (results of impact studies). These improved conditions have a financial

³ The Subsidy dependence index developed by Yaron analyses similar elements and is specifically applied to MFIs...

value attributed to them (100 USD per member⁴), but to achieve these values, it is assumed that a woman must regularly attend the meetings. The global value will then depend on attendance to meetings.

- Net financial gain (cost of credit from FFH compared to informal borrower including interest and transaction cost)
- Net income to the social enterprise
- Investment costs (this takes into account the cost of the transfer of “Credit with Education” technology to the social enterprise (e.g. a credit union) but does not count for all the costs of operation of the social enterprise).

The objectives are not the same as for the SPI: it tends to demonstrate the financial return for those who invest in the social enterprise but does not evaluate social performances (they have been previously studied through impact studies; the variables that can change from one program to another are only attendance to meeting and local informal interest rates).

The tool only works for FFH programs (the concept of “lives saved” can only work for “Credit with Education” program) and for programs with borrowers only (cost savings to the borrowers compared to a loan from moneylender: how can the return to the client be evaluated if he/she only has savings?).

Accion Poverty Assessment framework

To understand and measure the poverty level of its clients, Accion International is undertaking a poverty assessment project. The first phase of the project involves comparing information on clients in the MIS against national household survey data. One interesting point of the project is the use of the information already collected by the MFIs which often represents an under-exploited database.

The selection of the MFI to test the framework is based on the availability of detailed information in MIS on borrowers and their families collected in the credit evaluation process for individual loans

- ⇒ Not all MFIs have such detailed information available;
- ⇒ what is the reliability of the information collected in the credit evaluation process?
- ⇒ how can we be sure that this information can be compared with national-level household surveys: are the national surveys available, recent, and reliable. This perhaps is easier in Latin America than in Africa with World Bank LSMS surveys, but it is obvious that this method cannot be used in all countries as not all countries do have recent household poverty surveys available. Another issue is the comparability across countries. While LSMS are comparable, some countries still use other surveys to define poverty (e.g. Bolivia).

Accion wants to know how the poverty level of its clients compares to the poverty level of the general population. If the analysis deals with all the clients, what conclusions can be drawn: if they are richer, does it come from a selection of richer people or from a positive impact of Accion’s financial services? If they are poorer, does it come from a selection of poorer people or from a neutral or even negative impact of the financial services?

This framework only focuses on poverty assessment and does not provide a full picture of social performances. As said in the introduction, poverty outreach is only one aspect of social

⁴ This financial value is not explained, but one can assume that it is open to question.

issues. Moreover, it relies on data that are not easily available and reliable: information on clients entered in the MFI MIS and national household survey data.

Poverty Assessment Tool by CGAP

Many development projects seek to reach the poorest via the provision of agricultural inputs, extension, credit, education, and many other services. However, low-cost and reliable methods for assessing whether a project reaches the poor are lacking at present. An operational method was designed during a two-year research project from 1999-2001 by IFPRI with the support of CGAP. The objective of the research was to develop and test a new method that could be later used by development practitioners to assess the poverty level of beneficiaries of development projects that target the poor in relation to the general population in the intervention area. The method constructs a poverty index using principle component analysis, and is based on a range of indicators that describes different dimensions of poverty for which credible information can be quickly and inexpensively obtained. To ensure the method's usefulness to a wide number of countries and projects, the method was tested in rural and urban areas in four countries: Nicaragua (urban and rural), Kenya (urban and rural), Madagascar (rural), and India (rural). Results are summarized in Zeller et al (2001). The method has a promising potential for monitoring and evaluation purposes of development organizations. Since 2001, the method has been used in over 20 assessments of MFIs. CGAP is now publishing the manual in English (Henry et al., 2002), and other languages. Here again, this tool only focuses on poverty.

3. WHAT DO WE WISH TO MEASURE AS SOCIAL PERFORMANCE OF MFIS ?

The preoccupations on measuring social performances in Western countries are now more and more present in business evaluation (see some examples of different initiatives above). The main dimensions taken into account are :

- business ethics : contractual agreements, fair practices with suppliers and customers, supplier diversity and company policies on the screening of suppliers, etc.
- community initiative : involvement in local communities, strengthened relationships and communication, contribution to the local economy, ensuring local wealth and skills;
- environment: protection of the natural resources, human health, etc.
- governance : democracy, transparency, fight against corruption, etc.
- human rights : child labor, forced labor, non discrimination, freedom of association, etc.
- workplace : wages and benefits, education and training, working hours, health and safety, financial and job security, etc.
- corporate philanthropy : donations, grant programs made or organized by companies, etc.
- social impact of products: the contribution of products and services to social welfare, equity, and the meeting of basic needs such as food, shelter, water and health care.

As for more specifically government and non-profit agencies, they are concerned to demonstrate that they are making progress on:

- creating employment opportunities for the underprivileged,
- strengthening social safety nets,
- ensuring the health and safety of communities.

These are just a few of the complex and ambitious issues they tackle but find difficult to access (Cabaj, 2001).

In a first stage of the evaluation of social performances (as applied to MFIs), we should focus on the core social issues, i.e. the relations of the MFI with the employees, beneficiaries and communities.

Table: Economic and social performances and impact for MFIs

		Core social issues	Economic/financial issues
Global performances of the institution	Performance monitoring (intentions and actions of the MFI)	<ul style="list-style-type: none"> - Who are the clients ? Poverty outreach - Services and products targeted to the excluded population - Empowerment : participation in MFI decision making; “voice” for those being served to avoid “mission drift” - Social responsibility of the MFI 	<ul style="list-style-type: none"> - Portfolio quality - Efficacy and productivity - Financial management - Profitability - Quality and diversity of the financial services offered
	Impact assessment (outcome)	<ul style="list-style-type: none"> - Employment creation for the excluded population - Empowerment : position of individuals in their family and communities; social capital building - Health improvement - Child education 	<ul style="list-style-type: none"> - Change in income and expenses - Change in assets and living standard - Food security - Employment creation at community level

The distinction between Performance monitoring and Impact assessment does not mean that the social dimensions of impact are not important, but as they cannot be routinely and reliably measured through simple indicators, the matrix should only take into account information that can be gathered easily.

It is also important to emphasise that social performances cannot be reduced to poverty outreach. As visualised in the table, poverty outreach is one aspect of social assessment.

Institutions have different objectives and constraints. One may focus more on reaching women, another on scale, another on reaching remote areas, another on empowerment, etc. Social performance assessment should take into account these different dimensions of social concern.

To achieve performance assessment that can be used by a wide range of MFIs, two points must be taken into account:

- Performance assessment system derives its legitimacy and relevance from the underlying value system. To be “universal”, it should rely on “universal” values: eradicating poverty, equality, democracy (voice for the excluded), social cohesion/solidarity, etc. As expressed above, these different values should be included in social performance assessment.
- Data available: the type of information available is closely related to the type of organisation, particularly its lending technology. The indicators must be based on

“universal” information which are easily available for all MFIs or can be captured through rapid surveys/interviews.

Measuring variables

As stated by C.Vlek, University of Groningen (project leader “Towards a comprehensive model of sustainable corporate performance”⁵), “indicating and structuring relevant [indicators] still is a *relatively* easy part of the job. The difficult part comes when you actually want to start measuring things and summarising the results”.

From a shortlist of things needed for practical measurement and data analysis that he provides, the focus should be on several points as follows:

- select, order and list measurement variables that are theoretically and/or empirically justified, necessary and sufficient,
- draft a clear and unambiguous variable description,
- indicate the sources and quality of data desired for actual measurement,
- define protocols for actual data collection,
- prepare various ways in which collected data is to be analysed
- anticipate the ways in which final results and conclusions will be presented and may be interpreted.

The objectives of the social performance initiative is to design a matrix of indicators that could be used regularly by MFIs to monitor their activities and to report to donors or to peers.

- ⇒ *What are the limits of the surveys we want to apply for the SPI? Only directly available information computed from the MIS? Information gathered from staff (managers and sample of loan officers?)? Information gathered from surveys with clients, non clients, drop-out clients? Internal evaluation or external audit? We suggest for operational reasons that the information should mainly come from the management information system of the MFI plus self-reporting by MFI managers and/or loan officers. Thus, at the initial stage, it is mainly an internal evaluation that is used anonymously. Info on social performance can be supplemented for example by detailed analysis of poverty outreach (PAT or measures of absolute poverty) and by impact analysis.*
- ⇒ *What is the final objective of the tool: descriptive function (assessment, reporting, basis for debating performance results) or normative (evaluation against objectives or standards)? We believe that a useful rating system is one that is broadly accepted by practitioners as well as external evaluators. Thus, the descriptive and comparative function must be emphasized in the second phase of the SPI project. Setting standards is a possibility for the distant future (a third phase?) once measurement of social performance is widely known, applied and recognized in the MFI industry.*

Based on this review, social performance of MFIs was defined in four dimensions (See report N°2 on questionnaire to MFI practitioners.)

⁵ Comments on GRI draft 2002 Guidelines for sustainability reporting