

STUDY

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Social Performance Management in microfinance: Practices, results and challenges in sub-Saharan Africa

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LIST OF ACRONYMS

ADA	Appui au Développement Autonome
CIF	Confédération des Institutions Financières en Afrique de l'Ouest – Confederation of Financial Institutions in West Africa
FFRI-CAC	Fondo para las Finanzas Responsables e Inclusivas en Centroamérica y el Caribe
SPM	Social Performance Management
MFI	Microfinance Institution
MENA	Middle East and North Africa
MFR	MicroFinanza Rating
OER	Operating Expense Ratio
PAR	Portfolio-at-risk
RIFF-SEA	Responsible Inclusive Finance Facility for Southeast Asia
RMF	Responsible Microfinance Facility
ROA	Return on Assets
SPI4	Social Performance Indicators 4th generation
SPTF	Social Performance Task Force

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INTRODUCTION

Microfinance has an intrinsic social mission: it is generally described as a system which makes it possible to provide financial services to those who are vulnerable and have very few resources, and it has been developed to fill a need and to position itself as an alternative solution to the traditional banking and financial services, which do not serve this customer segment which is considered to be too risky or not sufficiently profitable. Therefore, microfinance's *raison d'être* is to meet with two objectives in terms of the results it hopes to achieve: first of all, a social objective by serving the categories of population which are excluded from the traditional systems, and a financial objective which will enable them to perform their mission on a sustainable basis.

However, the 2000s have been marked by several instances in which there has been a drift away from microfinance's initial mission and it became necessary for the sector to define a framework of good practices in order to avoid a proliferation of these cases. More generally, whilst microfinance's initial social objective has been clearly stated, it is not necessarily evident for the professionals in the sector how to identify the measures to implement to be able to achieve this objective, hence the need for this framework of good practices.

Consequently, on the basis of a consultative process to which 400 people representing all of the stakeholders in the sector contributed, in 2012, the Social Performance Task Force (SPTF) published the Universal Standards for Social Performance Management (SPTF, 2016), bringing together all of the management good practices which should enable financial service providers to accomplish their social mission. The Universal Standards have been created by, and for, the actors in the sector and their vocation is to serve as a resource to guide practitioners towards the achievement of their social goals. They also contain all of the client protection certification standards defined by the Smart Campaign.

Cerise created the SPI4 tool in 2014 to enable the practitioners to assess their practices and to see where they stand in relation to these standards and to the other actors in the sector. This is a social audit tool which is fully aligned with the SPTF's Universal Standards for Social Performance Management and the Smart Campaign's Client Protection Principles. The financial service providers which wish to assess their social performance management practices can apply the SPI4 tool on their own or can be supported in doing so, by an SPI4 qualified auditor. Regardless of the chosen method, the users of the tool are encouraged to share their results with Cerise, which has been consolidating the results for several years in a database comprised of all the SPI4 carried out.

In 2018, ADA and Cerise joined forces to carry out a global study of this database in order to establish a general review of the social performance management of financial service providers throughout the world since the launch of the SPI4 tool. The aim of this study is to shed light on the type of financial service providers which carry out a social performance audit, to identify the main strengths and weaknesses of these actors in terms of social performance management, and to analyse the potential complementarities of social and financial performances. Whilst the original study covers all of the audits submitted to Cerise¹, this document will focus exclusively on the sub-Saharan Africa region.

In this way, the objective is to encourage an increasing number of financial service providers to assess and to improve their practices and to provide information to the organisations which support them about their specific needs in terms of training, assessment and close support in relation to social performance management.

¹ The global study may be consulted here: <https://www.ada-microfinance.org/en/our-resources/media-center?media=207>

METHODOLOGY

THE DEFINITION OF THE CONCEPT OF SOCIAL PERFORMANCE

The concept of social performance is often understood and defined differently by the stakeholders in the inclusive finance sector, whether this be the financial service providers themselves, support organisations, public actors, investors, donors, researchers, etc.

The two main ways of understanding the concept of social performance are to look at the **results** on the one hand, and at the **management processes** on the other. Social performance in terms of the results for the financial service providers is generally assessed, notably by researchers, by examining the type of final beneficiaries: social performance, in terms of the results, will therefore depend on the poverty level of the organisation's beneficiaries or the proportion of women amongst these beneficiaries and often as the proportion of beneficiaries living in rural areas. Apart from the difficulty of measuring certain of these result indicators, notably the level of poverty of the beneficiaries given the lack of accurate information available on this subject, an organisation's results in terms of social performance depend on the way in which the organisation has defined its mission and its social goals. Not all financial service providers necessarily have the vocation to provide services solely to women or to the poorest segment of the population or to rural areas. Certain organisations may, for example, have set themselves the particular mission of serving young people in urban or peri-urban areas and these young people also belong to the categories of the population which are the most excluded from traditional banking and financial services.

Consequently, in order to take into account this diversity of missions and objectives, rather than focusing on the results, the SPTF's Universal Standards for Social Performance Management and Cerise's SPI4 focus on the internal management processes which are implemented by the organisations to enable them to accomplish their mission and to achieve their social goals. In this way, the results of the SPI4 audits are comparable with one another, regardless of the missions and the objectives of the organisations concerned.

This means that obtaining a high score in the SPI4 social audit does not necessarily mean that the organisation in question is providing services to the poorest populations or to a large number of women: rather it means that the organisation has put in place the necessary procedures and processes to achieve its mission, whatever this mission may be. An organisation whose mission is to target one or several groups of people excluded from traditional banking and financial services will obtain a higher score than an organisation which has not targeted an excluded group, but the score obtained in the audit does not depend on the effective proportion of the beneficiaries belonging to these group(s) amongst the organisation's clients.

By being based on the database of existing SPI4 audits, the study's main focus is, therefore, social performance in terms of management, rather than in terms of results.

The six dimensions of social performance management defined by the SPTF are presented in Figure 1 by way of a reminder.

THE SPI4 TOOL

The SPI4 social audit tool enables financial service providers to assess their practices against the six major dimensions of social performance management defined by the SPTF. These six dimensions are broken down into 19 standards which, in their turn, are broken down into 66 practices, which are then also broken down into 160 indicators, all of which need to be fed into the SPI4 tool.

Figure 1. The six dimensions of the Universal Standards for Social Performance Management



The tool, which is presented in Excel spreadsheet format, may be downloaded, free of charge, from the Cerise website². It takes the form of a questionnaire composed of a series of questions to which a qualitative response must be given (yes, no, in part, not applicable). These qualitative responses are then converted into quantitative scores (yes = 100; no = 0; in part = 50) and are used to calculate an average score out of 100 for each indicator, practice, standard and dimension. The average of the scores per dimension then gives the final score.

The institution can use these scores to identify its strengths and weaknesses and when the audit has been carried out with external support, recommendations are made to the institution to implement an action plan and to improve its practices. The SPI4 social audit is therefore the first stage in a process designed to improve social performance management.

As well as the questionnaire, the tool is also comprised of an information sheet about the organisation which needs to be completed with data related to the portfolio, financial data, information about the institution's statute and mission, etc. Unlike the responses to the questions posed in the questionnaire, which are compulsory in order to obtain the scores, it is still possible to obtain the scores if the information about the organisation is not provided fully. Consequently, certain information is missing for certain organisations and this explains why the number of organisations varies in the different tables and charts, according to the criteria considered in the study.

² The tool may be downloaded here: <https://cerise-spm.org/spi4/>

Similarly, whilst it is recommended that comments should be provided to explain the responses to questions, it is not compulsory to provide comments in order to obtain the scores.

THE DATABASE OF SPI4s

This study has been carried out on the basis of the database established by Cerise, which contains all of the SPI4s performed and submitted to Cerise since 2014, the year when the tool was created, up to 10 August 2018. The SPI4s performed and submitted to Cerise after that date are not considered in this study.

Only audits from the sub-Saharan Africa region are considered in this study.

Although the sharing of the results with Cerise solely implies the usage of the data in an aggregated manner in order to draw comparisons by peer group, and not the public sharing of individual information by financial service provider, all of the organisations which have used the tool do not systematically submit their results to Cerise. Consequently, the database is not necessarily representative of all of the users of the tool.

Furthermore, there are different types of users, as well as various levels of proficiency in terms of the usage of the tool, which leads to audits of variable quality. As a consequence, whilst the first part of the study, which sets out to describe the financial service providers which make use of the social audit, is based on all of the SPI4s contained in the database, the second part on the strengths and weaknesses in terms of social performance management, as well as the third part on the possible complementarities of the performances, are focussed solely on the high quality audits.

Cerise defines five quality levels on a scale of 0 to 4, which are assessed according to the degree of completeness of the responses given to the various questions set out in the questionnaire and the accuracy of the comments given to justify the responses. Moreover, the type of audit is also recorded, given that there are three types: an audit performed by an auditor qualified by Cerise, an audit supported by someone from outside the organisation, and self-assessment or an audit performed internally by someone within the organisation. For the second and third parts of this study, only audits which have achieved a quality score of 2 to 4 have been considered, as well as audits with a quality score of 1 which have been performed by a qualified auditor or someone from outside the organisation (self-assessments with a level 1 quality score have been excluded).

This means that a total number of 135 SPI4s were considered in the first part of the study, whilst 104 were taken into account in the second and third parts.

THE ANALYSIS

This study mainly consists in the analysis of the database of the SPI4s using descriptive statistics techniques. All of the described relationships are statistically significant with an error risk equal to 1%, unless otherwise specified.

Where the data is indicated per MFI, the figures are those recorded for the MFI at the time of the first audit if it has carried out several audits.

Certain data relating to MFIs which have performed at least one SPI4 are compared to the data of MFIs which reported to the Mix Market in 2017, so as to assess the representativeness of the MFIs which performed at least one SPI4, compared to those reporting to the Mix Market. Whilst the data from the Mix Market's publications are probably not, in themselves, representative of the sector, given that the data are reported on a voluntary basis, the Mix Market's database is still currently the most extensive database available for the microfinance sector.

I. THE ASSESSMENT OF SOCIAL PERFORMANCE MANAGEMENT: THE SITUATION IN AFRICA IN 2018

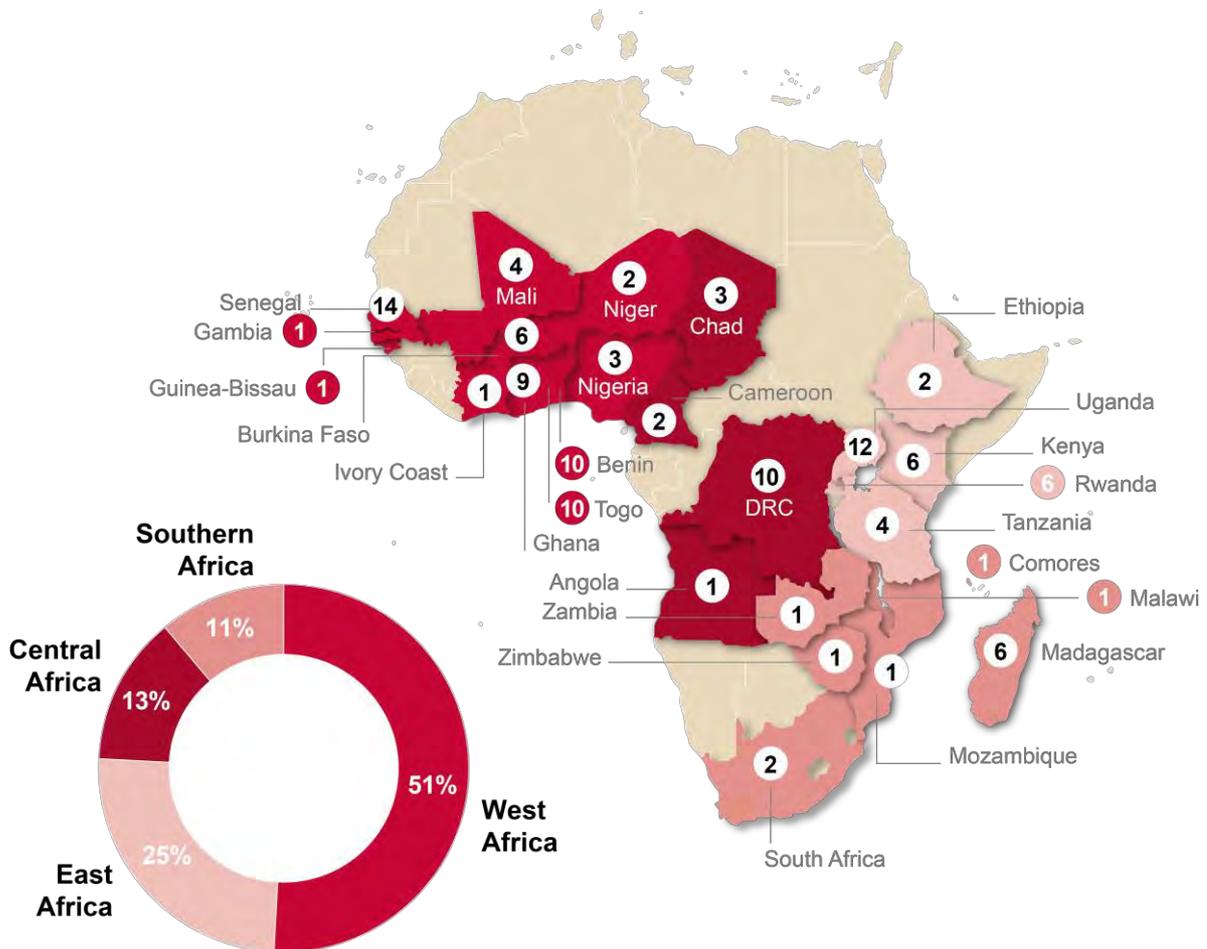
Since 2014, financial service providers have been able to make use of the SPI4 social audit tool to assess their social performance management and to see where they stand in relation to the Universal Standards and to the other sectors.

From 2014 to 10 August 2018, a total number of 135 SP14 audits have been completed and submitted to Cerise by 120 African microfinance institutions (MFIs) from 27 countries, with some organisations having performed several audits.

REGIONAL BREAKDOWN

The majority of audits carried out in sub-Saharan Africa have been performed in West Africa, as this sub-region accounts for 51% of the MFIs on the database to have performed at least one audit; East Africa is in second position, with a total of 25% of the MFIs on the database, followed by Central Africa (13%) and Southern Africa (11%). Nevertheless, some countries are more active than others with regard to the evaluation of their social performance management, such as Senegal, Togo or Benin in West Africa, as well as Uganda in Southern Africa and the Democratic Republic of the Congo in Central Africa, where at least ten MFIs have performed an audit.

Figure 2. Number of MFIs which have carried out and submitted at least one SPI4 per country



TYPE OF AUDIT AND QUALITY OF THE AUDITS PERFORMED

Out of the 135 SPI4s carried out, the majority are audits which have been performed with the support of an external person (47%), almost one third are self-assessments (32%), whilst only a minority (21%) of the audits have been performed by a qualified auditor. In relative terms, Central and West Africa have the highest number of audits performed with the support of a qualified auditor, whilst self-assessments are carried most frequently in Southern Africa.

Figure 3. Number and type of audits per region



When assessing the quality of the audits, Cerise takes into account the type of audit performed³: the audits supported by a qualified auditor are considered to be of a better quality than those supported by an unqualified external person, whilst this type of audit is considered to be of a better quality than those performed through self-assessment. Indeed, the auditors' independence and qualifications are considered to be a guarantee of quality.

Consequently, the average quality of the audits is variable according to the regions, with audits of a substantially lower quality in Southern Africa, where self-assessments are comparatively the most common. However, the average quality of the audits performed in sub-Saharan Africa is close to the worldwide average of 2.4.

Figure 4. Average quality of the audits per region



³ The details of the method used by Cerise to assess quality are set out in the section on Methodology.

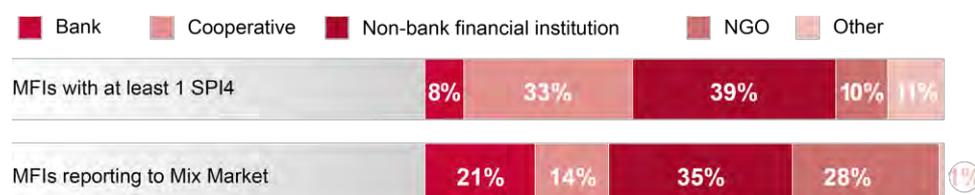
Whilst self-assessments enable financial service providers to take ownership of the SPI4 tool and the concepts related to social performance management, it is occasionally useful to complete these self-assessments with external audits which, as a result of the auditors' independence, allow for a more objective view of the social performance management of the institutions concerned. In turn, this facilitates the identification of the priorities related to the improvement of the practices. The use of qualified auditors could also be encouraged, notably in Southern and East Africa, where the proportion of audits supported by qualified auditors is the lowest.

PROFILE OF THE MFIs WHICH ASSESS THEIR SOCIAL PERFORMANCE MANAGEMENT

Data taken from the Mix Market are used as a reference to assess the potential representativeness of the MFIs which assess their social performance management in relation to the sector⁴. First of all, it should be noted that the number of MFIs from the sub-Saharan Africa region which have performed at least one SPI4 audit included in our data base (120 MFIs) is higher than the number of MFIs which reported to the Mix Market in 2017 (113 MFIs), which is not the case in other regions. This would suggest that MFIs in the sub-Saharan Africa region are particularly aware of the importance of social performance management.

By looking at the characteristics of the MFIs, we can see that those which have performed and submitted at least one SPI4 since 2014 have a different legal form compared to the MFIs reporting to the Mix Market: cooperatives in particular are more represented amongst the institutions which have carried out an SPI4 social audit (32.5%) than they are amongst the MFIs reporting to the Mix Market (14.2%), whilst the opposite may be observed for the banks⁵ and the NGOs (respectively 7.5% and 10% of the MFIs which have submitted a SPI4 compared to 21.2% and 28.3% of the MFIs which report to the Mix Market).

Figure 5. Legal form



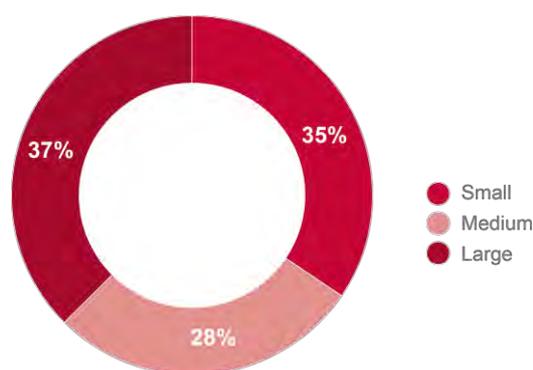
It would therefore appear that cooperatives (and, to a lesser extent, non-bank financial institutions) in Africa are more sensitive to issues related to social performance than other types of institutions.

In terms of portfolio size, all types of MFIs perform SPI4 audits, with similar proportions of small and large MFIs amongst those which assess their social performance management. Once again, this is something which is specific to the Africa region: indeed, at the global level, large MFIs are in the majority (50%) in terms of performing an audit, whilst the smaller MFIs are in a minority (24%). However, in Africa, small MFIs are as likely as other MFIs to assess their social performance management.

⁴ The Mix Market data may also not be representative of the sector, but this is the only other database available today and, furthermore, it is used to produce numerous figures about the microfinance sector in general.

⁵ Since the "Other" category is bigger for the SPI4 than it is for the Mix Market (which only includes rural banks in this category) it is not possible to draw many conclusions about the non-banking financial institutions, certain of which may well find themselves in the SPI4 "Other" category.

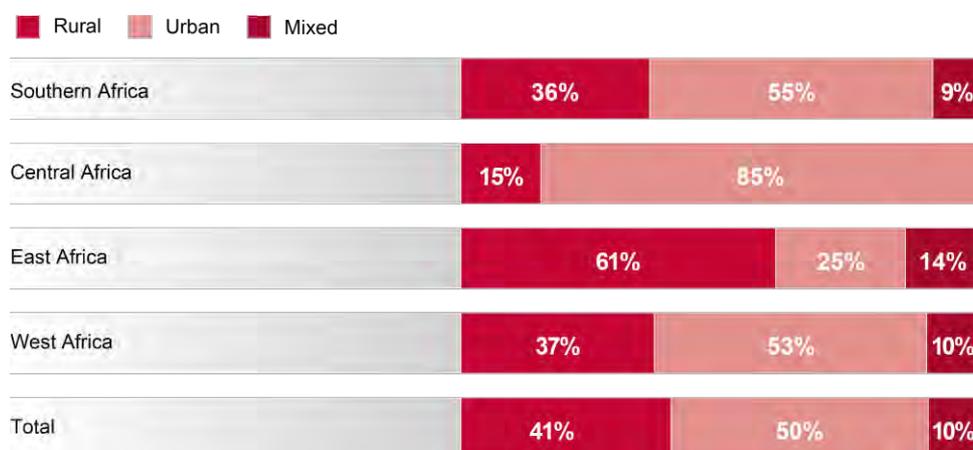
Figure 6. Size, in terms of portfolio value (USD) and number of clients



On average, the MFIs which have carried out at least one SPI4 audit have a number of borrowers equivalent to 30,949, and the average loan provided by the MFIs in the region is USD 831, which is slightly lower than the average loan granted by the MFIs in the region which report to the Mix Market (USD 991). Nevertheless, the average loan provided by the MFIs which have performed at least one SP14 audit is USD 743 in West Africa and USD 1,069 in Central Africa.

In terms of target area, the majority of the MFIs in the sample target urban areas (50%), whilst 40% target rural areas and 10% target both. However, these proportions vary from one region to another, with more MFIs targeting rural areas in East Africa (61%), whilst the opposite is the case in Southern Africa, where 85% of the MFIs target urban areas.

Figure 7. Target area



II. STRENGTHS AND WEAKNESSES OF MFIS IN SOCIAL PERFORMANCE MANAGEMENT

SAMPLE

To assess the social performance management levels of MFIs in the most reliable way, in this part of study only the audits of quality level 2 to 4 have been taken into consideration, as well as the five quality level 1 audits which have been performed by a qualified auditor or someone from outside the organisation (quality level 1 self-assessments have been excluded).

This means that the sample used in this part is smaller and contains only 104 audits, compared to the previous figure of 135. The composition of the sample is also slightly different:

- The proportion of audits from banks and for-profit institutions is relatively higher in this select sample than it is in the overall sample;
- The proportion of audits from cooperatives is relatively lower, which indicates that these audits were of a relatively lower quality than those mentioned previously.

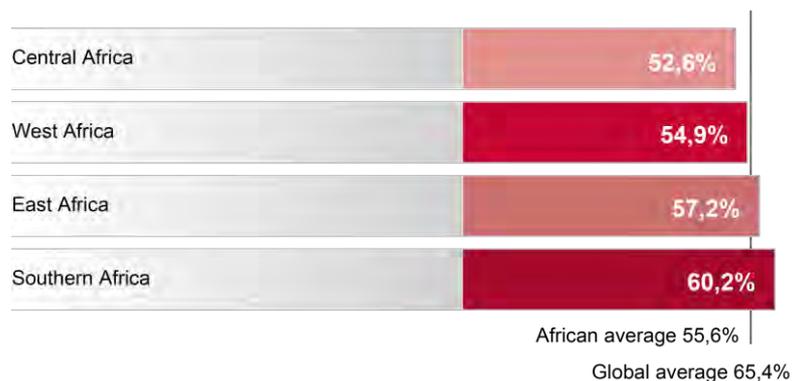
The details of the difference in the composition may be found in Annex 1.

GLOBAL SCORE

On average, the global score obtained by the MFIs in the sample is 55.6%, which is lower than the world average (65.4%); the minimum score in sub-Saharan Africa is 11%, whilst the maximum score is 90%. Whilst certain financial service providers would appear to be already well advanced in terms of their social performance management in a general sense, for others there is still scope for improvement and, probably, a need for training and support on this subject.

This global score differs according to the characteristics of the MFIs⁶. However, the differences in scores by sub-region are not statistically significant.

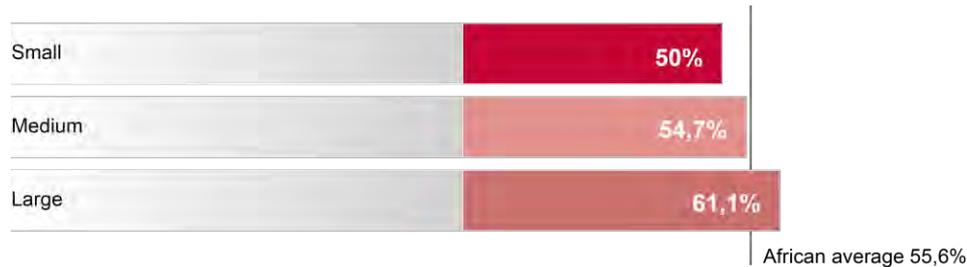
Figure 8. Global score per region



⁶ As mentioned in the Methodology section, all of the differences in scores mentioned are statistically significant at the 1% level

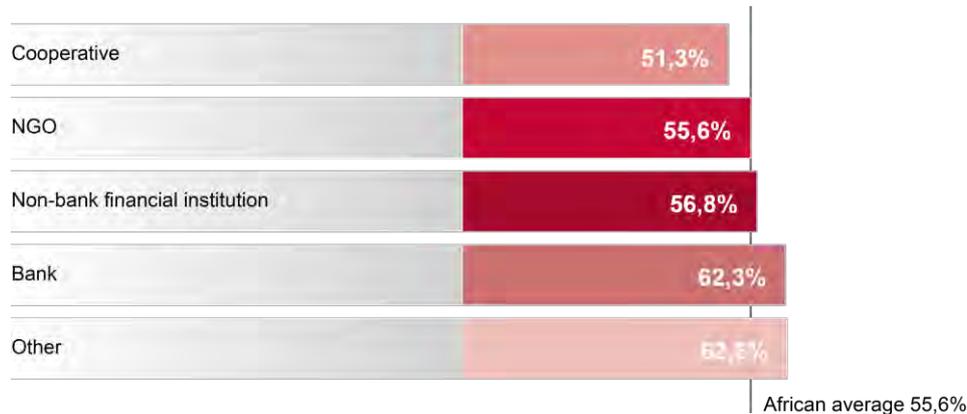
However, the large organisations (in terms of portfolio) obtain a significantly higher score than the other MFIs. In fact, obtaining good social performance management results is made easier by the existence of a certain level of formalisation, given that a certain number of good practices are related to the implementation of procedures. Very often, the highest levels of formalisation are to be found within the largest structures. Nevertheless, this does not mean that it is *necessary* to be a large organisation in order to apply good social performance management practices, since a certain number of practices do not require the mobilisation of substantial resources and can be implemented both easily and quickly.

Figure 9. Global score according to portfolio size



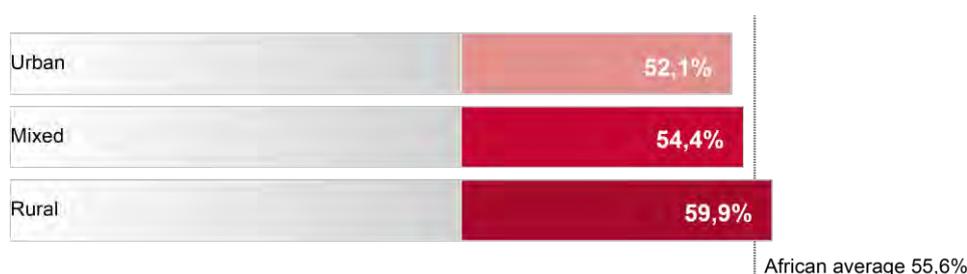
Cooperatives also achieve significantly lower scores. Here, once again, formalisation, the professionalisation of management methods, structuring and good governance practices are all key factors in the establishment of good social performance management; these factors may sometimes be missing in cooperatives. The analysis of the scores per dimension in the next section sheds more light on this point.

Figure 10. Global score according to legal form



Finally, the MFIs which target rural areas demonstrate a better management of their social performance than the other MFIs, which may be explained by the fact that they have a stronger social mission and also, probably, by a more substantial investment to ensure the achievement of this mission, notably by the adaptation of the services and products to meet with local needs. The analysis of the scores by dimension set out in the next section confirms this hypothesis.

Figure 11. Global score according to target area



All things being equal, these differences in the scores by region, legal form, size and target area are significant⁷: when they are from the same sub-region, have the same legal form and target area, the large institutions achieve a higher global score; similarly, for the same region and with the same size and target area, cooperatives obtain lower scores.

This means that it is the **cooperatives and the smallest MFIs which have the greatest need for support** in terms of social performance management. The next section analyses the strengths and weaknesses of the different types of organisation in greater detail so as to identify the potential needs for specific support.

SCORES PER DIMENSION

The global score represents the average of the scores obtained for each of the six dimensions of social performance management defined by the SPTF. Each of these six dimensions is not assessed in exactly the same way, given that certain dimensions include more indicators than others (dimension 4 has the highest number of indicators) and/or indicators which are easier to validate than others (such as dimension 6). Similarly, certain dimensions are fairly interdependent (notably dimensions 1 and 2, as will be explained further), whilst others are less interdependent. So, it is not possible to guarantee the exact comparability of these indicators given these differences and the qualitative nature of the indicators. However, an examination of the scores by dimension may make it possible to identify the main strengths and weaknesses and the priority areas for improvement, although it is still necessary to perform a more detailed analysis of the factors which explain the higher or lower scores per dimension⁸.

Figure 12. Scores per dimension



⁷ The global scores (which follow the normal distribution pattern) have been estimated on the basis of the linear regression model (the ordinary least squares method) which includes the region, size, legal form, status and target area as control variables, and the previously mentioned differences remain significant.

⁸ The scores per dimension may be consulted in annex 2.

Across all of the audits, the MFIs obtain the lowest average score (41%) for dimension 2, which refers to the commitment of all of the institution's stakeholders to the social goals. This dimension covers the practices which an institution may put in place to ensure that the board of directors, the management and the staff are all committed to the achievement of the institution's social goals. It takes into account, for example, the existence of criteria related to the social goals in the recruitment procedures, training, staff and management appraisals, as well as the results required by the board of directors.

This dimension is closely linked to the first dimension, which focusses on the definition and monitoring of specific social goals on the basis of the institution's mission. In fact, if an institution has not clearly defined its social goals with indicators and a process to monitor these indicators, then they cannot be included in the training and employee appraisal procedures and the board of directors cannot require the achievement of results related to these objectives. Therefore, a fairly low score for dimension 1 often means that the institution will obtain a similarly low, or even lower, score for dimension 2. Indeed, the average score for dimension 1 (53%) is lower than the average global score (55.6%) which contributes, in part, to the low average score for dimension 2.

On the other hand, MFIs obtain the highest score (67.2%) for dimension 6, which refers to the balance between social and financial results. This dimension focusses on the institution's decision making with regards to key financial areas (growth targets, objectives and distribution of profits, funding sources, staff remuneration), which are also elements which ensure the integration of the social mission within the institution's strategy. However, certain aspects of this dimension, particularly the criteria related to responsible pricing, are complex to analyse and there is therefore sometimes the chance that they will be over-estimated by the people performing the audit. On the other hand, the organisations which are prepared to perform a social audit are probably already aware of the importance of the balance between social and financial results, which makes it easier to achieve a better score for this dimension.

Dimension 3, which focusses on the different ways in which institutions can collect information on the needs and the preferences of their clients and adapt their products, services, and delivery channels accordingly, is also a dimension for which the MFIs obtain a score below the global average (52.6% compared to 55.6%). This dimension is, in fact, relatively demanding in the sense that achieving a good score requires the MFIs to have implemented a certain number of regular procedures and processes to collect and analyse information about their clients' needs and preferences. Its fits into the "do good" (for the clients) approach, which requires a certain level of involvement from the institution.

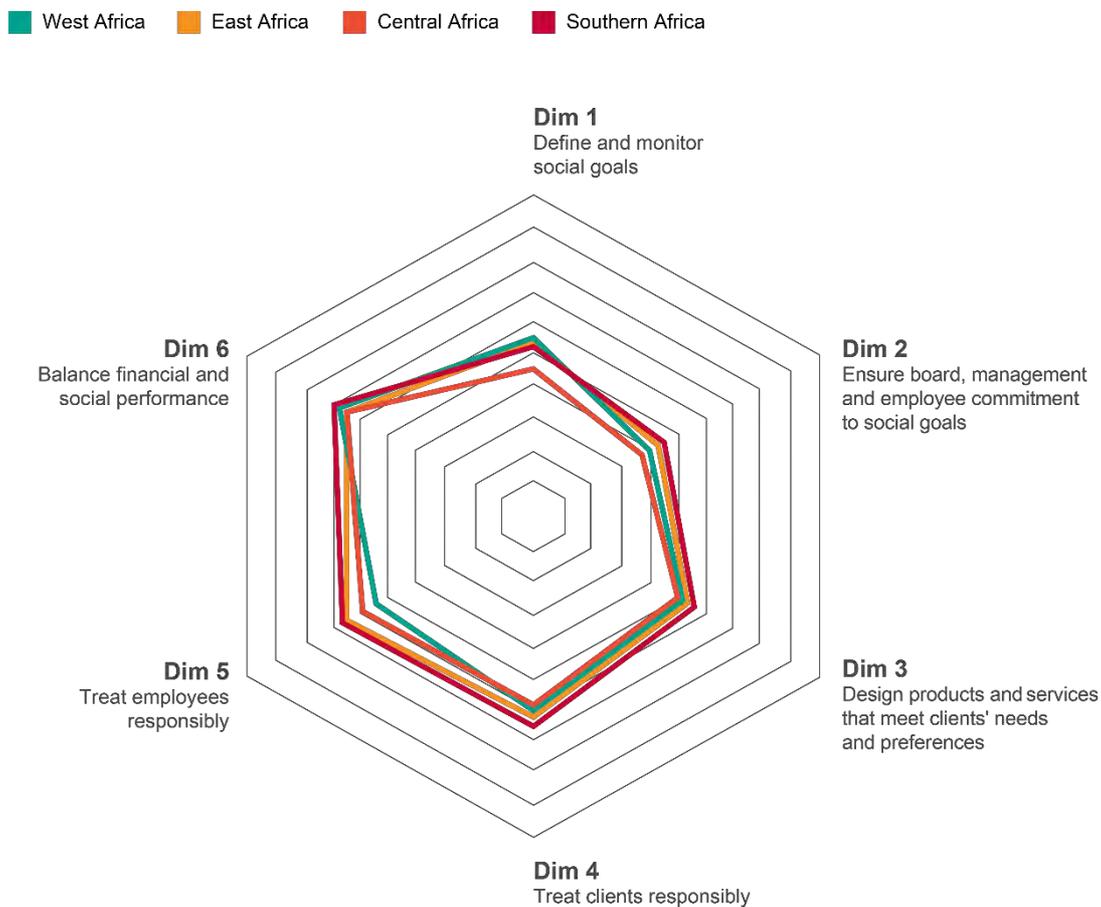
On the other hand, MFIs do better in terms of responsible treatment of the clients (dimension 4), which includes the majority of the Client Protection Principles set out in the Smart Campaign, (prevention of over-indebtedness, transparency, fair and respectful treatment of clients, privacy of client data and mechanisms for complaint resolution), as well as the responsible treatment of employees (dimension 5), for which the scores they obtain are higher than the average (60.4% and 59.5%). These dimensions fit more within the "do no harm" principle, which today constitutes the minimum requirement in terms of social performance management. It is therefore probably easier to obtain a higher score for these dimensions, particularly since certain of these criteria are sometimes included in the regulations of some countries.

These differences per dimension are not specific to sub-Saharan Africa, since the same tendencies may also be observed at the global level. However, MFIs from sub-Saharan Africa achieve scores which are lower than the world average for each of the dimensions, which would tend to point to the need for specific support in the region around the question of social performance.

If we now compare the results of the MFIs from the sub-Saharan Africa region per dimension according to the region, legal form, the size or the target area, two main observations emerge:

- The first is that the MFIs which obtain the lowest global scores, namely the cooperatives, the small MFIs and the MFIs which target urban areas, obtain the lowest scores across all of the dimensions, which means that their global score is not dragged down by a particular dimension. Therefore, their need for support applies to social performance management in general, rather than to one specific aspect;
- The second is that dimension 2 continues to be the dimension for which the lowest scores are obtained, regardless of the region, the legal form, the size and the target area. This means that the greatest need for support is for this dimension and probably for dimension 1, which is closely linked to it.

Figure 13. Scores per dimension per sub-region



It is sometimes possible to see that the strengths and weaknesses of the MFIs vary according to the sub-region: whilst the MFIs from West Africa obtain the best scores for dimension 1 related to the definition of the mission and social goals, they achieve the lowest scores for dimension 5 regarding the responsible treatment of employees. This means that the priorities in terms of the support to be provided in the area of social performance may also vary.

Figure 14. Scores per dimension according to size

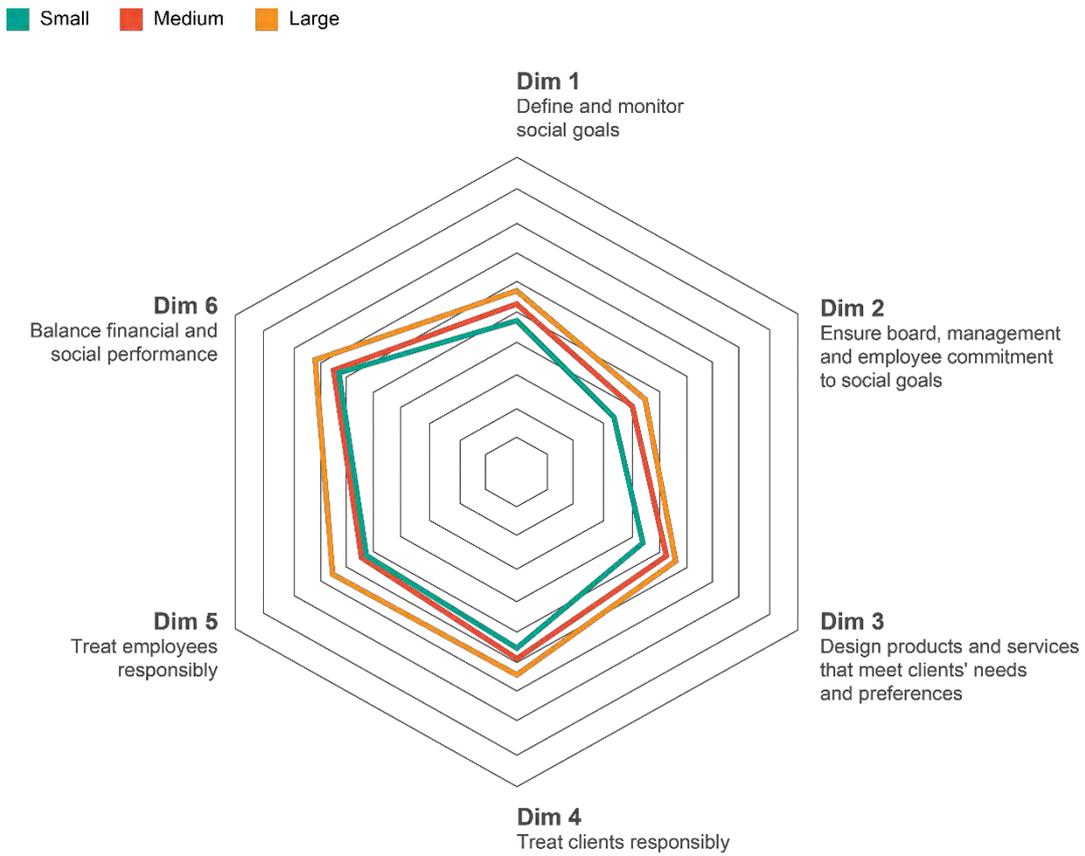
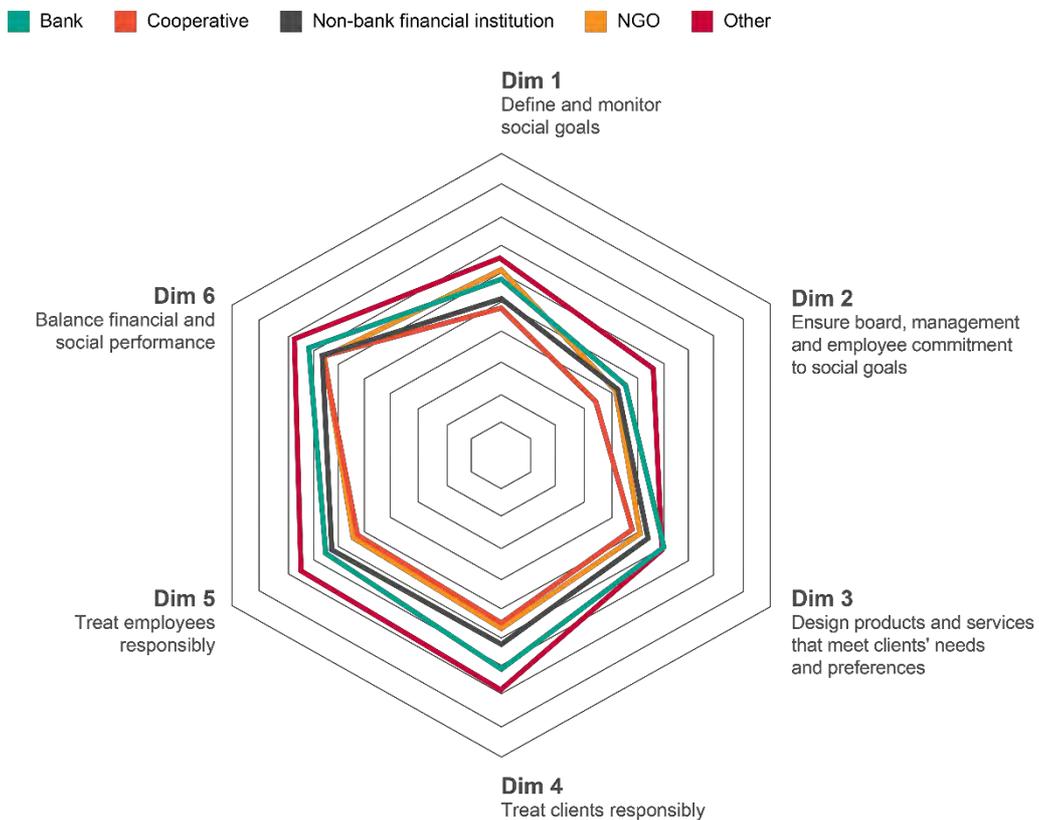
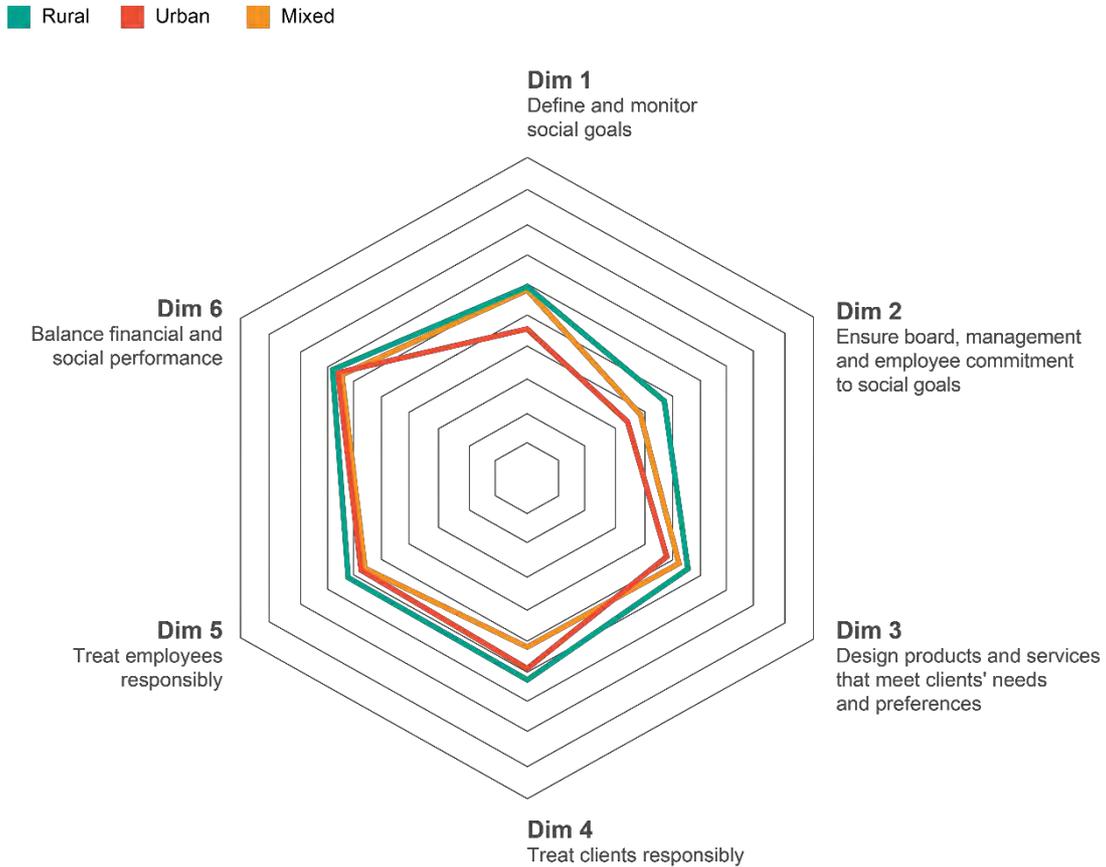


Figure 15. Scores per dimension according to the legal form



With regard to the difference in scores between cooperatives and the other structures, we can see that the biggest difference is for dimension 2; this would tend to confirm the previously proposed hypothesis that the cooperatives' weakness in terms of structure and good governance would seem to be a contributory factor to their lower level of social performance management in general.

Figure 16. Scores per dimension according to the target zone



Finally, the analysis of the scores per dimension according to the target area also confirms the previously mentioned hypothesis regarding the financial service providers which target the rural areas: the gap between their scores for dimensions 1 (definition of the mission and monitoring of the social goals), 2 (commitment to social goals) and 3 (adaptation of products, services and delivery channels to their clients' needs and preferences) and those of the MFIs which target urban areas, is wider than it is for the other dimensions. The good global social performance management score recorded by the MFIs which target rural areas is therefore due, at least in part, to the greater efforts they have undertaken to translate their social mission into social goals and to ensure the achievement of this mission through the adaptation of their products and services to the local needs.

III. POTENTIAL SYNERGIES BETWEEN THE PERFORMANCES

The definition of the Universal Standards for Social Performance Management and the development of the SPI4 tool remind us that, as well as ensuring the required level of financial performance and sustainability, microfinance institutions are also expected to provide themselves with the means to achieve their social mission. However, as the sector develops, the expectations placed on financial service providers tend to expand and multiply. Looking beyond social performance management, there is an increasing demand, for example, for the institutions to be as transparent as possible.

This then raises the question of the potential synergies or complementarities between these different objectives and performance requirements: is an MFI which has good social performance management practices also more transparent and able to perform better at the financial level, or are there imbalances between these different performance levels, or perhaps even contradictions which require compromises to be found?

In this section, the analysis will focus on the links between social performance on the one hand and transparency and financial performance on the other.

SOCIAL PERFORMANCE AND TRANSPARENCY

Transparency is a major challenge for the microfinance sector; as well as price transparency, which is promoted, notably, by Microfinance Transparency, microfinance institutions are expected to demonstrate their integrity.

In order to meet with this expectation, in 2018 ADA and Cerise developed a transparency index on the basis of the SPI4 tool. This index has been established by drawing on 46 indicators from the SPI4 which make it possible to assess an MFI's level of integrity. The index, which represents the average score obtained for these 46 indicators, may be consulted on a dedicated dashboard, which can be accessed from the SPI4 tool welcome page.

The average transparency score of the MFIs in the sample is 63.1%, whilst the global average is 69.7%. There is very little difference between the four sub-regions of sub-Saharan Africa in terms of the global transparency score.

Figure 17. Transparency scores per sub-region



The transparency index is closely correlated to the global social performance score, which is not surprising given that it is an extraction of it. Thus, the weakest MFIs in terms of social performance management also appear to be the least transparent according to this index: the cooperatives and the smallest MFIs obtain the lowest scores for transparency, whilst the MFIs which only target rural areas achieve the highest scores⁹.

⁹ However, the differences in the scores are only statistically significant at the 10% threshold.

Figure 18. Transparency scores according to the legal form

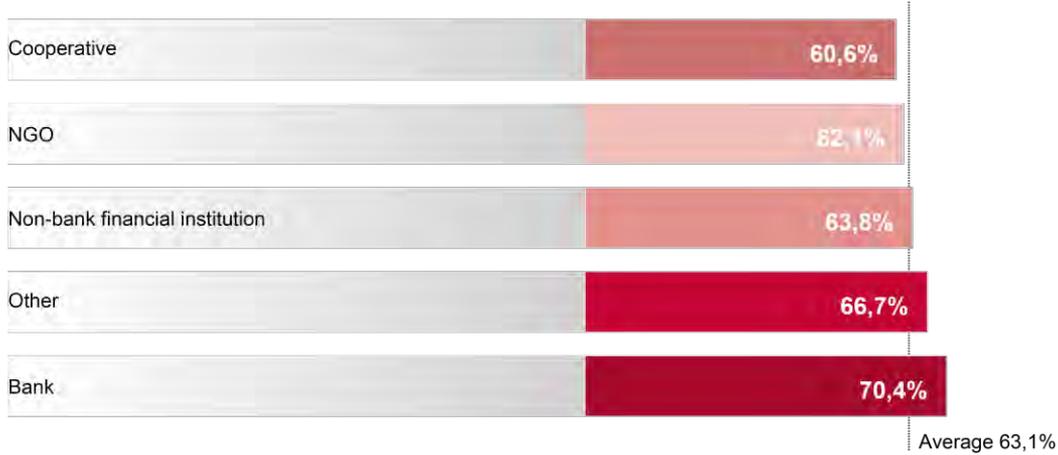


Figure 19. Transparency scores according to portfolio size

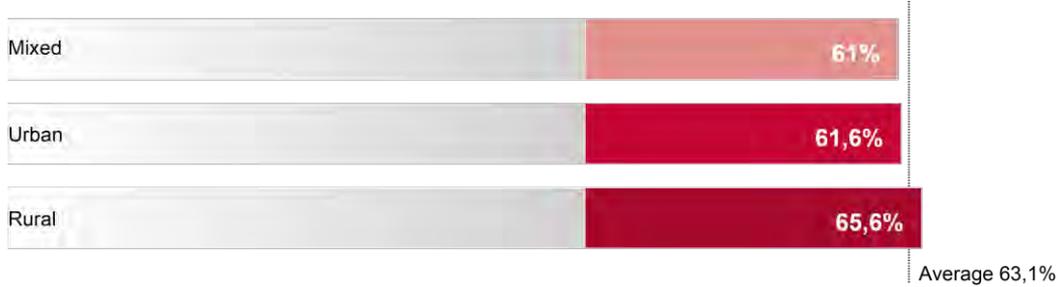
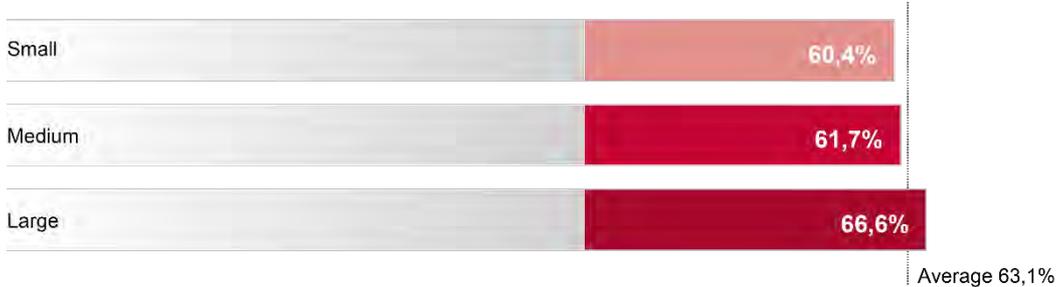


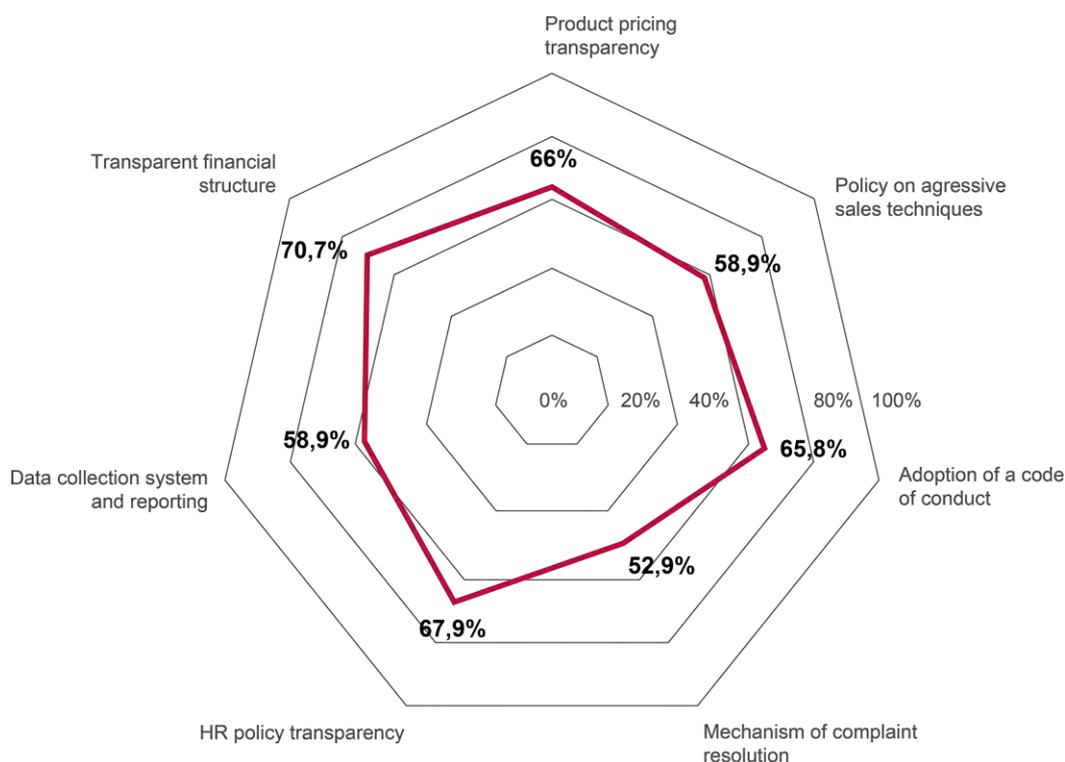
Figure 20. Transparency scores according to the target area



The index may be broken down into seven components. As is the case for the dimensions of social performance management, these components have not been established in exactly the same way and therefore their comparability is limited. Nevertheless, looking at the scores for each of these seven components of the index (Figure 21) can, once again, help to identify the transparency practices which are the most widespread and those which appear to be more difficult to implement and which may therefore require specific support.

The MFIs are more transparent, in particular, with regard to their audited accounts and their human resource policy than they are with regard to their complaints resolution mechanisms. This may be explained by the fact that the first two components are more likely to be subject to a legal obligation, whilst the third requires the formalisation of policies and procedures, as well as the implementation of specific provisions within the MFIs.

Figure 21. Transparency scores per component



Breaking down the scores per component per type of MFI reveals even wider differences.

Figure 22. Transparency scores per component according to the region

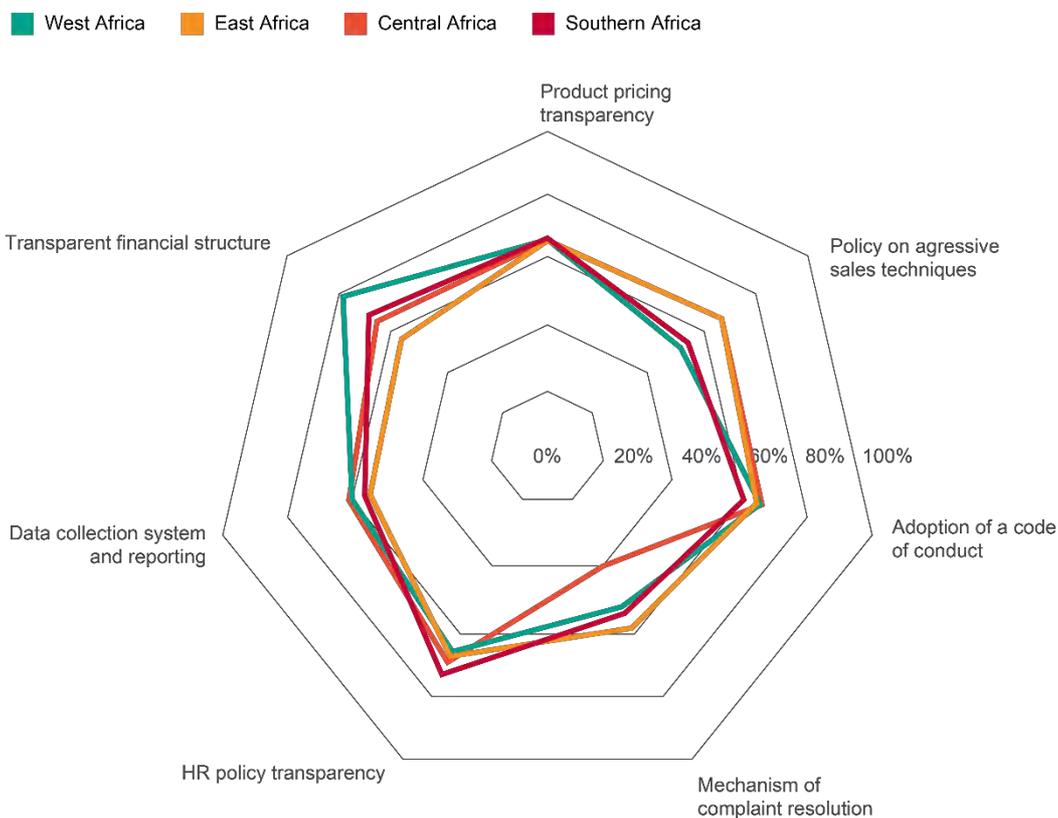


Figure 23. Transparency scores according to the portfolio size

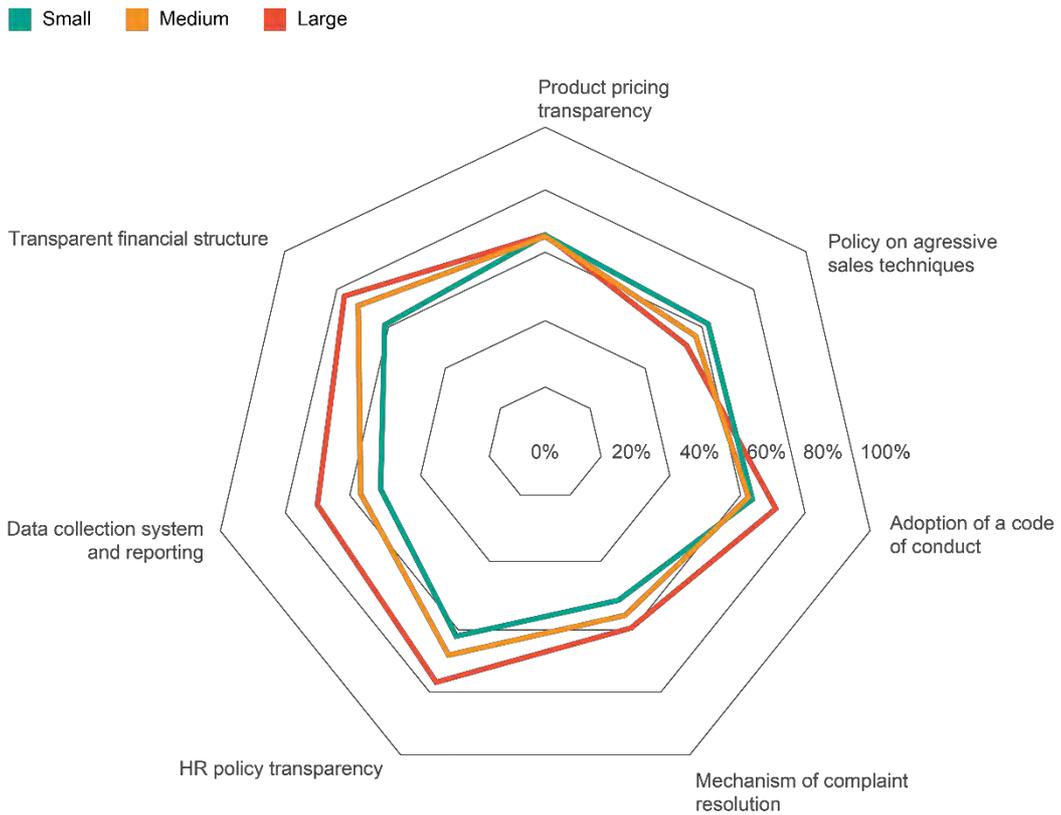


Figure 24. Transparency scores according to the legal form

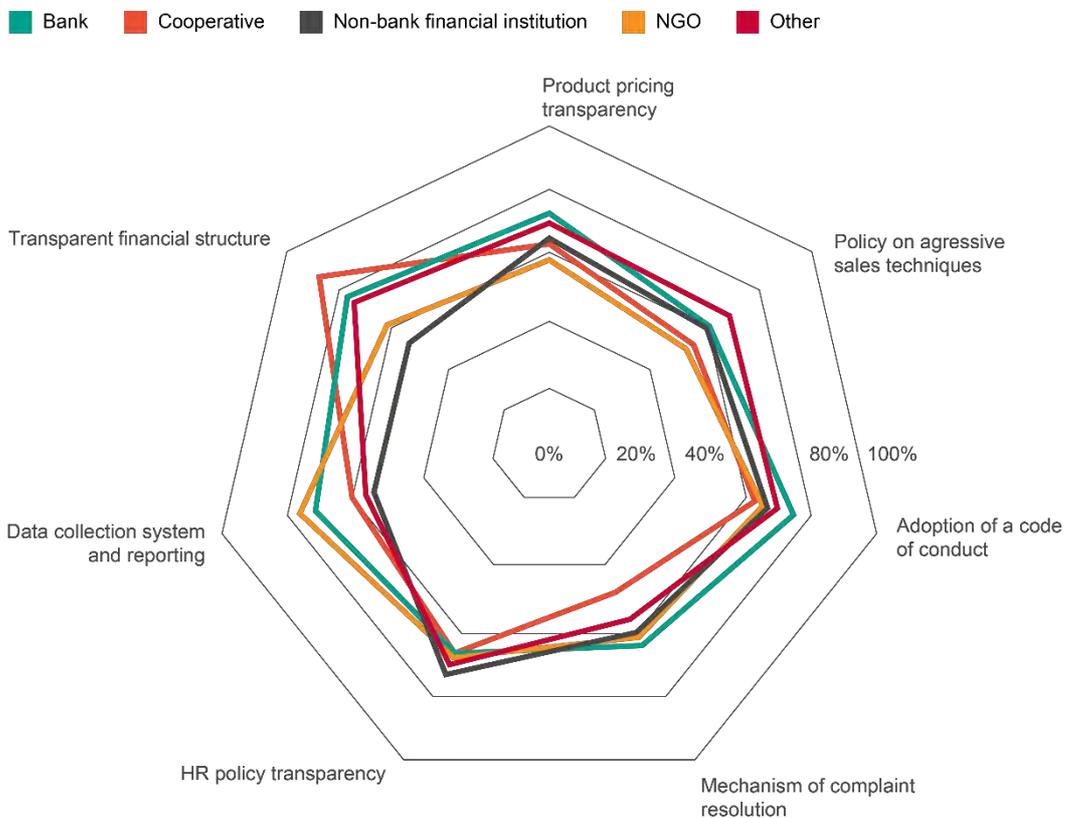
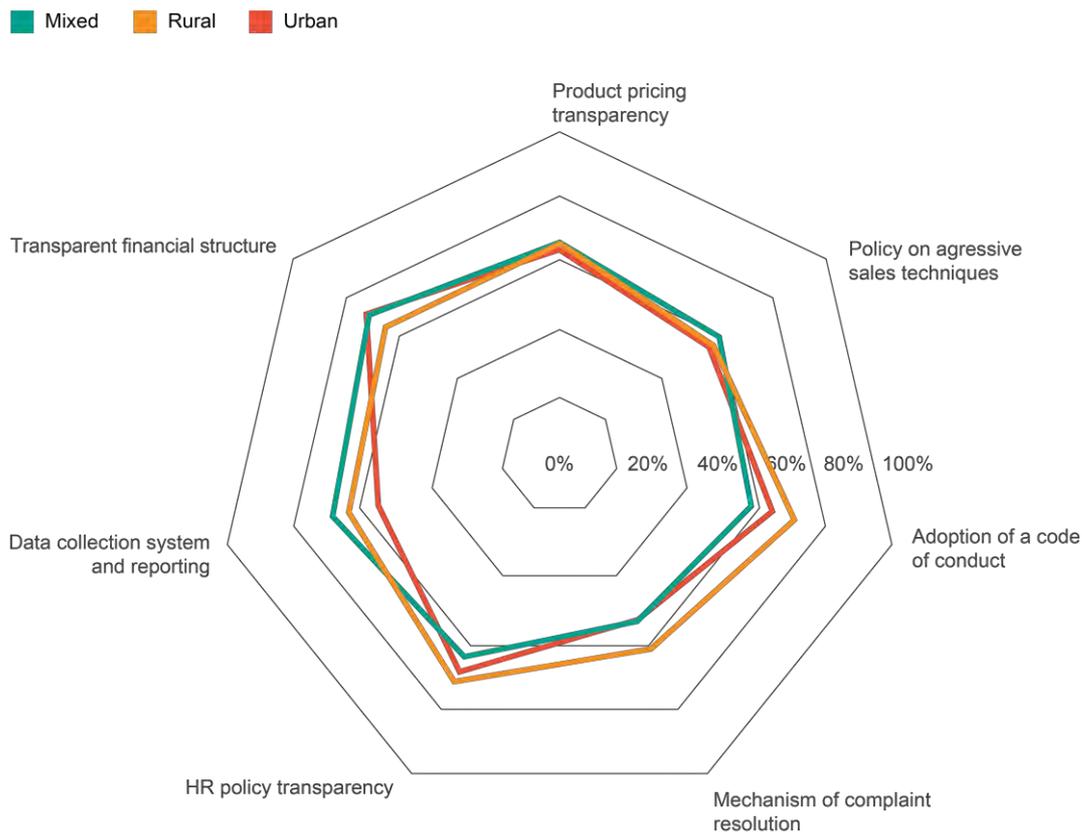


Figure 25. Transparency scores according to the target area



We can see that there are fewer differences between the MFIs with regards to price transparency and the adoption of a code of good conduct and the prevention of aggressive sales, than there are in relation to mechanisms of complaints resolution, the reporting of social data or the sharing of audited accounts.

In particular, there are major differences between the MFIs in West Africa and those in East Africa with regards to the sharing of audited accounts, with the former being more transparent than the latter. Similarly, whilst the MFIs in the Central Africa sub-region achieve scores which are average or slightly above average for the majority of the components, their score for mechanisms of complaint resolution is significantly lower.

Turning to the NGOs, they score well for the reporting of social data and mechanisms of complaint resolution, although they are weaker in the areas of price transparency and the prevention of aggressive sales. For their part, cooperatives are amongst the most transparent with regards to their audited accounts, whilst they are fairly weak across all of the other components.

Thus, whilst the strengths and weaknesses of the MFIs in terms of social performance management are globally the same, regardless of the sub-region, size and legal form, even though the global levels of performance are different, in this instance, **the strengths and weaknesses in terms of transparency do differ according to the type of MFI**. Any efforts to raise awareness about transparency should, therefore, address specific issues according to the sub-region, the legal form and the size of the MFI, taking into account the fact that regulation in each country probably has an impact on practices related to transparency.

SOCIAL PERFORMANCE AND FINANCIAL PERFORMANCE

By its very nature, microfinance has a dual objective to achieve both social and financial results. However, whilst this debate on the synergies or contradictions between social performance and financial performance in the microfinance sector is not new, no definitive conclusions have yet been reached. Whilst the majority of studies, particularly academic studies, explore the links between financial performance and social performance in terms of results, by defining, for example, the level of social performance by the poverty level of the clients or the proportion of women in the institution's portfolio, this analysis is part of a different, more applied, school of studies, which consider social performance in terms of management and of process.

Four studies in particular have already been published on the links between social performance management and financial performance¹⁰, although none of them have used the Universal Standards for Social Performance Management as a basis to define social performance management. Bédécarrats, Baur, & Lapenu (2012) base their work on an old version of the SPI tool, which is not aligned with the Universal Standards defined in 2012 nor integrated within the SPI4 tool released in 2014. Therefore, the present study is the first to examine the potential links between financial performance and social performance management as defined in the Universal Standards, which are today considered to be the point of reference in this field.

With regard to the definition of financial performance, as is the case in the majority of studies on the subject which have been previously mentioned, several indicators are used to assess an MFI's financial performance:

- The operating expense ratio (OER¹¹), which is an indicator of efficiency;
- The portfolio at risk at 30 days (PAR30¹²), which is an indicator of the quality of the portfolio;
- Operational self-sufficiency (OSS¹³), which makes it possible to estimate sustainability;
- The return on assets (ROA¹⁴), which makes it possible to estimate profitability.

The underlying hypotheses of the analysis are, on the one hand, that the application of good social performance management (SPM) practices may be costly and therefore have a negative impact on the MFI's financial performance in the short term, but on the other hand these good practices may also enable the MFI to understand their clients better and to provide them with a more appropriate response to their needs; in the medium term this should have a positive influence on the institution's financial performance as a result of a better match between supply and demand, the establishment of a trusting relationship with the clients and increased attractiveness.

When applied to the performance indicators used in this analysis, the hypotheses show that a good score in terms of social performance management may be associated not only with a high operating expense ratio due to the costs incurred in putting the good practices in place, but also with a better quality portfolio thanks to a better match between supply and demand and better customer relations. It is difficult to predict what the effect on viability (OSS) and profitability (ROA) will be in the longer term.

¹⁰ Bédécarrats, Baur, & Lapenu (2012); Gonzalez (2010); Husain & Pistelli (2016); Perez-Rocha, Hoepner, Spaggiari, Lapenu, & Brusky (2014).

¹¹ OER = operating expense ratio/gross loan portfolio

¹² PAR30 = outstanding balance on arrears over 30 days and renegotiated loans/total outstanding loan portfolio.

¹³ OSS = financial products/(financial costs + allocations to provisions for bad loans + operating costs)

¹⁴ ROA = net income/average value of assets.

Initially, the different financial performance indicators of the institutions in our sample are observed according to the social performance management score¹⁵.

Figure 26. Average OER according to the SPM score



Figure 27. Average PAR30 according to the SPM score

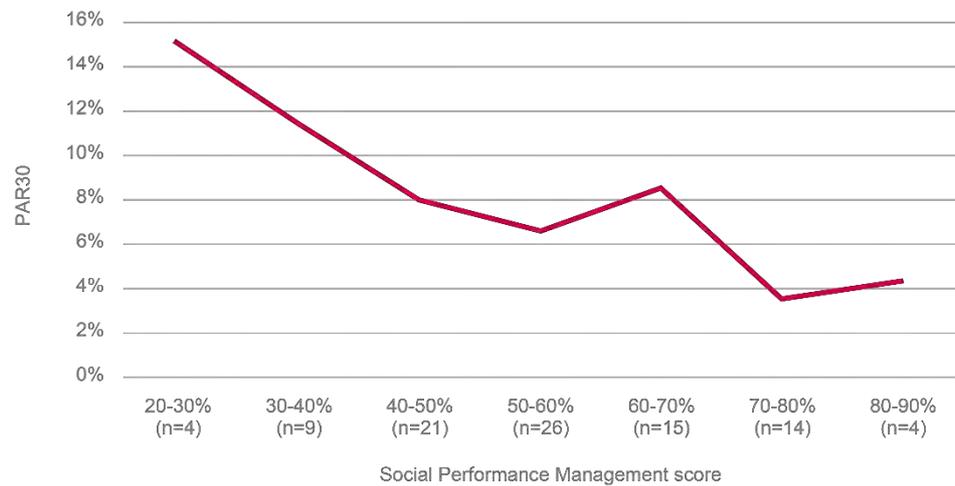
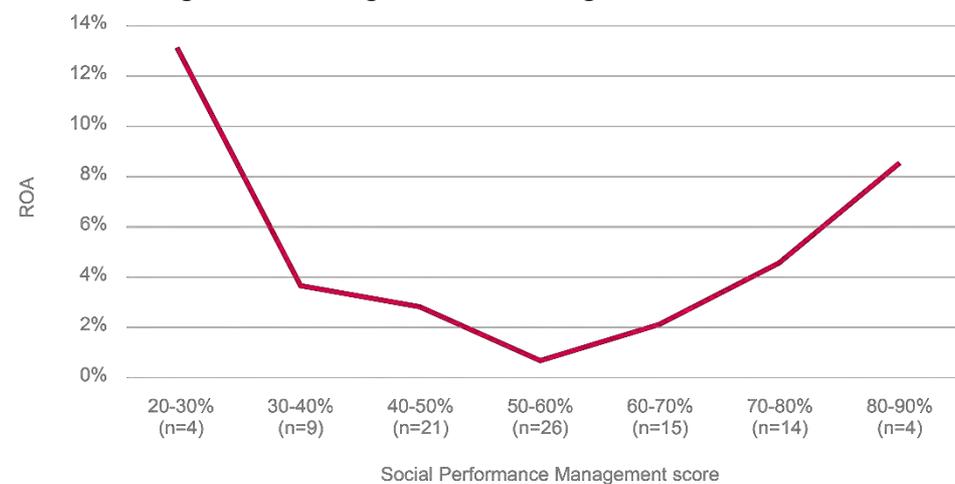
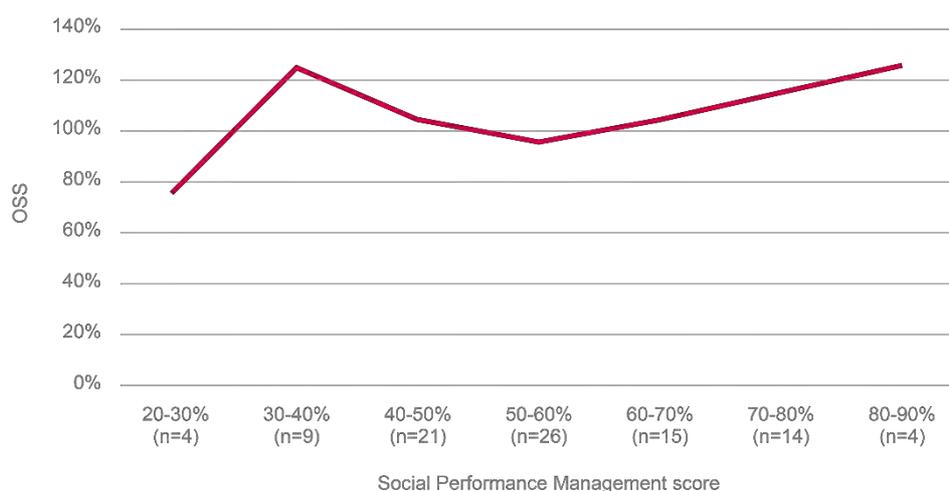


Figure 28. Average ROA according to the SPM score



¹⁵ The two audits which contain the minimum and maximum scores have been excluded in order to maximise the representativeness of the sample.

Figure 29. Average OSS according to the SPM score



The efficiency (OER), sustainability (OSS) and profitability (ROA) indicators change in a variable way with the social performance management scores. We can therefore see that there may be institutions which have high levels of ROA or OSS at several levels of good social performance management practices, and that the institutions with the highest level of operating expenses are not those which have the highest SPM scores. There does not seem, therefore, to be any linear relationship in one direction or another between good social performance management practices and these indicators, which are affected by other factors.

On the other hand, it is more evident that the portfolio at risk indicator (PAR30) decreases as the social performance management score increases: amongst the institutions in our sample, those which have the highest portfolio at risk are also those which obtain the lowest social performance management scores, whilst the institutions which have a better quality of portfolio obtain the best scores.

However, all of these descriptive statistics combine institutions which are very different. In order to refine the analysis of the links between social and financial performance, it is possible to analyse the potential correlations between social performance and financial performance, taking into account a certain number of factors which are probably other key elements of financial performance, thanks to an analysis by multivariate linear regression¹⁶. This is also the approach adopted by the authors of the previously mentioned studies.

Nevertheless, the lack of longitudinal data means that it is not possible to analyse the direction of any causal link which may exist between social performance and financial performance or the temporal dimension of the potential effects; in order to do this, it would be necessary to observe the institutions' financial and social performances several times over a period of time. However, thus far, very few institutions have performed and/or submitted several SPI4s to Cerise. Furthermore, data on the investments made by the institutions to improve their practices, which would be useful for this study, do not exist.

The analysis is therefore limited to the examination of the potential correlations between the social performance management score and the ROA, the OSS and the PAR30. In fact, our database does not allow us to undertake a sufficiently rigorous analysis of the operating expense ratio: it is highly likely that the loan methodology (individual or group) has an impact on this indicator, although this variable is not available in the database.

¹⁶ The linear regression models of the analysis are estimated using the ordinary least squares method. This is also the most common method used in the other, previously mentioned applied studies.

Social performance management and sustainability

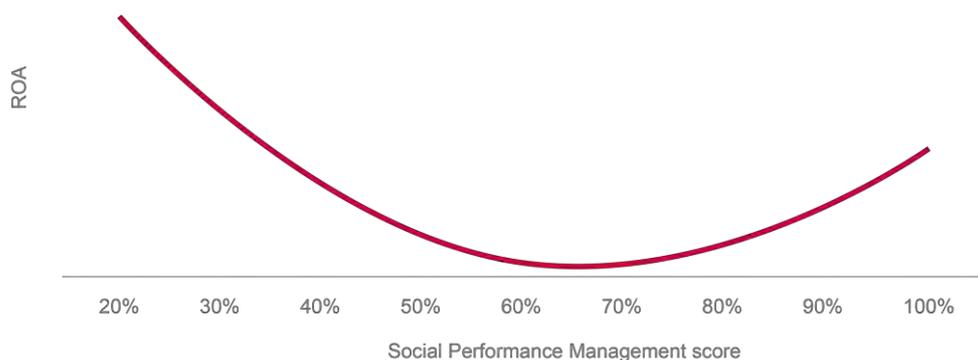
As a first step, the links between the institution's social performance management and its sustainability are analysed taking into account the potential effect of other factors which may determine the institution's profitability, namely the age of the institution, the size of its portfolio, the size of its average loan as a percentage of the GNI per capita, the sub-region, the legal form, the target.¹⁷ These factors are therefore included as control variables in the estimation of the OSS, in accordance with what the authors of the other studies on this subject do.

The results of the analysis by linear regression show that, all these other factors being equal, namely the same portfolio size, the same average loan size, the same age, the same region, the same legal form and the same target area, the SPM and OSS scores are not correlated: the effect of the SPM score on the OSS is not significant. This may mean that other factors have a more significant influence in determining an institution's sustainability than social performance management practices. More generally, there is certainly a need for a more precise appreciation of the type of good practice to be encouraged and the amounts to be allocated to these practices according to different cases, so that the investment is of true benefit to the institution's sustainability.

Social performance management and profitability

In the second step, the same analysis is performed with the profitability indicator. The ROA is estimated by linear regression, with the size of its portfolio, the size of its average loan as a percentage of the GNI per capita and the sub-region used as control variables¹⁸. This time the results show that, all of these other factors being equal, namely the same portfolio size, the same average loan size, the same age, the same sub-region, the same legal form and the same target area, social performance management does seem to be correlated with the ROA: the effect of the global social performance management score is statistically significant¹⁹. However, as shown in Figure 30, which represents the effect of the SPM score on the ROA, net of the effect of the control variables, the observed relationship is not linear. The same result may be observed in the study carried out by Perez-Rocha et al. (2014).

Figure 30. Profitability according to SPM score (predictions)



¹⁷ The status has not been included since it is closely correlated to the legal form.

¹⁸ Amongst the various models tested, this proves to be the most informative.

¹⁹ The coefficient of the SPM score is significant to 10%.

Thus, the estimation of the ROA indicates that, for low SPM scores (below 70), the ROA increases as the SPM decreases. This may be explained, in part, by the fact that MFIs which have a very high ROA probably put their financial goals before their social goals and therefore give little consideration to social performance management. This situation may also be interpreted as follows: investing in social performance management may initially be expensive when starting from scratch.

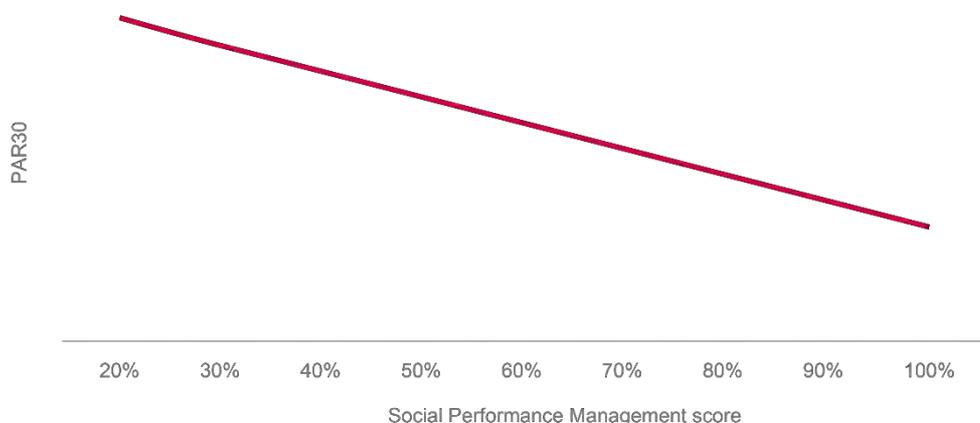
However, this time, for the MFIs which have an SPM score over 70%, the higher the score, the more the ROA increases. This could indicate that, from a certain level of social performance management, the good practices which have been put in place have positive effects on the institution's profitability. This may also indicate that the best managed organisations at all levels benefit from both a high ROA and a better social performance management score. Once again, the absence of longitudinal data means that it is not possible to identify the direction of the relationship, but this result does indicate that profitability and good social performance management practices can go together.

In order to more closely analyse the hypothesis that SPM may be expensive for an MFI, which may explain the partly negative relationship between the ROA and SPM below a certain level of SPM, it would be interesting to examine the relationship between SPM and OER. Unfortunately, as previously mentioned, our database does not enable us to carry out this analysis. We can, nevertheless, assume that certain good SPM practices are, in fact, expensive in the short term and that certain practices, such as the introduction of training, client surveys, etc., are more costly than others, whilst the positive effects only become visible in the medium term.

Social performance management and the portfolio at risk

In order to determine whether the relationship observed in terms of descriptive statistics between social performance management and portfolio quality withstands the integration of control variables, the risk portfolio is estimated using the same method used in the analysis of the ROA, using portfolio size, the average loan size as a percentage of the GNI per capita and the sub-region as control variables²⁰. The results confirm the hypothesis that, all things being equal, in other words for the MFIs which have the same characteristics, the higher the SPM score, the lower the risk of the portfolio. The relationship is statistically significant ²¹ and linear.

Figure 31. Portfolio at risk (PAR30) according to SPM score (predictions)



²⁰ Amongst the various models tested, this proves to be the most informative

²¹ The coefficient of the SPM score is significant to 10%.

Even though the absence of longitudinal data means that this analysis does not allow us to draw any definitive conclusions regarding the causal link, the most probable interpretation regarding the positive relationship between good social performance management practices and the quality of the portfolio is that good social performance management practices have a positive impact on the portfolio at risk; over time, this should have a positive effect on the institution's financial performance in a broader sense and, therefore, upon profitability. This could explain the positive relationship observed between SPM and ROA from a certain level of SPM.

This interpretation could be improved in the future by complementary analyses performed on the basis of longitudinal data.

CONCLUSION

Since the Universal Standards for Social Performance Management were defined by the SPTF in 2012, the actors in the microfinance sector have made good progress in their efforts to take ownership of these standards: the integration of the standards within the SPI4 social audit since 2014 is enabling a growing number of financial service providers to assess their social performance management against these standards and to identify possible avenues for improvement, so as to ensure that their practices help them to achieve their social mission.

However, at present, the analysis of the existing database of SPI4 audits which have been performed and submitted to Cerise, reveals a certain number of challenges to which the sector should quickly respond:

- **The need for support** on questions related to social performance management remains significant, both in terms of the assessment of SPM on the one hand, and the improvement of practices on the other. Indeed, the proportion of audits carried out with the support of a qualified auditor remains low, especially in East Africa, whilst the proportion of self-assessments is particularly high in Southern and Central Africa, even though independence continues to be a guarantee of quality. There would therefore appear to be both a need to support the financial service providers so as to improve their ability to take ownership of the audit and the related resources, so that they are able to perform regular audits internally, and also to train resource persons so that audits can be performed externally; although the external audits may take place less frequently, they will, nevertheless, guarantee a greater degree of transparency. Furthermore, the MFIs in sub-Saharan Africa achieve the lowest scores compared to the rest of the world and it would appear that certain SPM practices are more difficult to put into place than others: here, once again, there is a need to provide institutions with support in their efforts to improve their practices, notably for the small institutions and the cooperatives, which obtain the lowest scores. The regional RMF facility established by the SPTF for Africa²², provides at least a partial response to these needs by delivering training and providing co-financing to carry out audits and/or to improve post-audit practices. Further initiatives which have similar intentions could be introduced to complement this approach in a coherent manner by carefully identifying the unmet needs. Moreover, as is already the case in certain countries, good social performance management practices could also be reinforced by incentive regulation: by introducing at least certain aspects of SPM in their requirements, the regulatory and supervisory bodies could encourage both the evaluation and improvement of the practices.

²² Further information about these facilities is available here: <https://sptf.info>, under the Resources tab

- **The collection and analysis of data** on social performance management continues to be a major challenge to our efforts to gain a better understanding of the practices and of what is really at stake. Today, the existing database is incomplete and there is a risk that it may not be truly representative, given the bias inherent in its selection, which is due to the fact that the information is shared with Cerise on a voluntary basis. Guaranteeing the confidentiality of the information is, of course, a major challenge that has to be managed, but it is not incompatible with the production of knowledge on the subject, which is something that the sector currently clearly requires. In fact, the lack of data, and particularly of longitudinal data, means that, today, it is not possible to accurately analyse the implications of the implementation of good social performance management practices in terms of operational costs or the evolution of financial performances (and, notably, any causal links, should they exist); regardless of the results, this data would make it possible to improve the preparation and support provided to the institutions on this subject. From a more general point of view, the fact that the database is not exhaustive means that it is not possible to accurately assess the degree of ownership of the standards and the implementation of the good practices, which means that these aspects are probably underestimated and therefore appear to have less of a ripple effect than might actually be the case. The future digitalisation of the SPI4 tool, which should allow for the more systematic collection of information on social performance management, is a first step towards improving the conditions for the production of knowledge; the future on-line platform for social and financial performance data, which has been developed by the MFR²³, on which the institutions will be able to report and centralise their information, is a step in this direction. Nevertheless, these initiatives continue to be dependent on the willingness of the financial service providers to share their data and, from this point of view, a great deal of work still needs to be done to raise awareness of the importance of transparency and the production of knowledge, both about, and for, the sector.

²³ For further information about this online platform, go to: <https://www.mf-rating.com/products/data-platform/>

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ANNEX 1. DIFFERENCES IN THE COMPOSITION OF THE DATABASES

The sections regarding the analysis of the scores and the potential complementarities between the performances are based on a select sample composed of audits of quality level 2 to 4 and level 1 quality audits performed by a qualified auditor or an external person. The details of the differences in the composition of the sample are set out in the table below. The statistically significant differences are marked with asterisks.

Table 1. Differences in composition between the entire sample and the quality sample

	Entire sample (1)	Higher quality sample (2)	Lower quality sample (3)	Difference between (2) and (3)
Region				
West Africa	46.70%	49.00%	38.70%	-0.103
East Africa	27.40%	26.00%	32.30%	0.0630
Central Africa	13.30%	15.40%	6.50%	-0.0893
Southern Africa	12.60%	9.60%	22.60%	0.130
Legal form				
Bank	13.30%	4.80%	41.90%	0.371***
Cooperative	28.90%	35.60%	6.50%	-0.291**
Non-bank financial institution	37.00%	36.50%	38.70%	0.0217
NGO	9.60%	11.50%	3.20%	-0.0831
Other	11.10%	11.50%	9.70%	-0.0186
Size				
Small	33.00%	38.10%	14.80%	-0.233*
Medium	26.60%	26.80%	25.90%	-0.00878
Large	40.30%	35.10%	59.30%	0.242*
Status				
For-profit	62.20%	52.90%	93.50%	0.407***
Not for profit	37.80%	47.10%	6.50%	-0.407***
Target area				
Mixed	10.30%	10.40%	10.00%	-0.00417
Rural	44.40%	39.60%	60.00%	0.204*
Urban	45.20%	50.00%	30.00%	-0.200
Average loan (USD)				
	797	840	647	-192.6
<i>Observations</i>	135	104	31	
* $p < 0.05$. ** $p < 0.01$. *** $p < 0.001$				

ANNEX 2. SCORES PER STANDARD

Table 2. Scores per standard

 > 70%  [40% - 50%]  < 40%

Dimension	1	DEFINE AND MONITOR SOCIAL GOALS	53.0%
Standard	1 A	The provider has a strategy to achieve its social goals.	63.8%
Standard	1 B	The provider collects and discloses accurate client data specific to its social goals.	42.2%
Dimension	2	ENSURE BOARD, MANAGEMENT AND EMPLOYEE COMMITMENT TO SOCIAL GOALS	41.0%
Standard	2 A	Members of the board of directors hold the provider accountable to its mission and social goals.	34.3%
Standard	2 B	Senior management oversees implementation of the provider's strategy for achieving its social goals.	38.0%
Standard	2 C	Employee recruitment and evaluation is based on both social and financial performance criteria	50.7%
Dimension	3	DESIGN PRODUCTS, SERVICES AND DELIVERY CHANNELS THAT MEET CLIENTS' NEEDS AND PREFERENCES	52.6%
Standard	3 A	The provider understands the needs and preferences of different types of clients.	38.3%
Standard	3 B	The provider's products, services and delivery channels are designed to benefit clients, in line with the provider's social goals.	66.9%
Dimension	4	TREAT CLIENTS RESPONSIBLY	60.3%
Standard	4 A	Prevention of Over-indebtedness	63.7%
Standard	4 B	Transparency	68.7%
Standard	4 C	Fair and Respectful Treatment of Clients	68.4%
Standard	4 D	Privacy of Client Data	52.2%
Standard	4 E	Mechanisms for Complaints Resolution	48.8%
Dimension	5	TREAT EMPLOYEES RESPONSIBLY	59.5%
Standard	5 A	The provider follows a written Human Resources policy that protects employees and creates a supportive working environment.	59.6%
Standard	5 B	The provider communicates to all employees the terms of their employment and provides training for essential job functions.	70.4%
Standard	5 C	The provider monitors employee satisfaction and turnover.	48.5%
Dimension	6	BALANCE FINANCIAL AND SOCIAL PERFORMANCE	67.2%
Standard	6 A	The provider sets and monitors growth rates that promote both institutional sustainability and social goals	69.4%
Standard	6 B	Equity investors, lenders, board and management are aligned on the provider's social goals and implement an appropriate financial structure in its mix of sources, terms, and desired returns.	68.5%
Standard	6 C	The provider sets prices responsibly.	73.7%
Standard	6 D	The provider compensates senior managers in a way that is appropriate to a provider with stated social goals.	46.5%

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