

Social audits in microfinance: what have we learned about social performance?



Note to trainers:

Trainers can add the logo of their organizations, workshop dates. Please keep the logo of CERISE and ProsperA in all slides.

CERISE – The microfinance exchange network

- **Core members:** five French org. (NGOs/center of research)
- **Working areas:** impact and social performance, governance, rural and agricultural finance.
- **Tools :** free access on www.cerise-microfinance.org

PROSPERA– PROMotion of Social Performance

- **Over 60 members** (June 2010): Networks, MFIs, TA providers, investors
- **Collective work** around Promotion of SP/ Use & improvement of SPI tool / SPM

www.cerise-microfinance.org/-prospera-network-



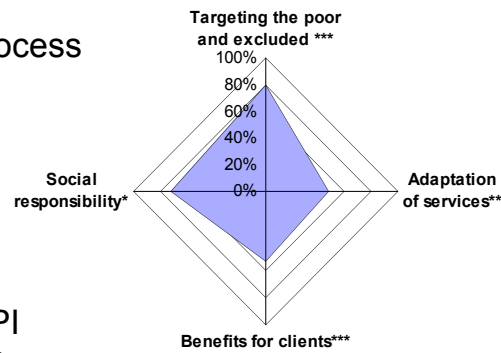
Additional talking points:

- CERISE groups together microfinance actors from around the world. CERISE developed the SPI tool, but SP is not CERISE's only area of expertise. For more information, visit the website: cerise-microfinance.org

Handouts: presentation CERISE

The SPI audit tool

- **SPI 3.1:** questionnaire and companion guide for internal or external audit
- Simple, can be a one day process
- 4 dimensions:
 - targeting and outreach,
 - products and services,
 - benefits to clients
 - social responsibility
- Widely used, permits peer analysis. Data from > 350 SPI audits in CERISE's database (June 2010)



HO: example of a 2-page summary with SPI

Who uses SPI and for what?

- **Microfinance institutions** (+ than 250 MFIs from 55 countries)
 - Internal or external assessment
 - Centralized (top management) or participative (staff, clients)
 - For diagnostic, communication, strategic planning and mainly for **improving practices**

- **MFI networks** (+ than 20 national & regional networks)
 - Give training, support, and peer control
 - Part of shared support services
 - Facilitates economies of scale, appropriation, sector reflections, exchange of experience, transparency and certification

- **Social investors** (Oikocredit, Kiva, GCAMF, Proparco, Unitus...)
 - Extern evaluation or control of internal evaluation
 - From MIV team during due diligences
 - Transparency, communication, deepen relationship/understanding of the MFIs, opportunities for technical assistance

Use for practitioners to improve their practices

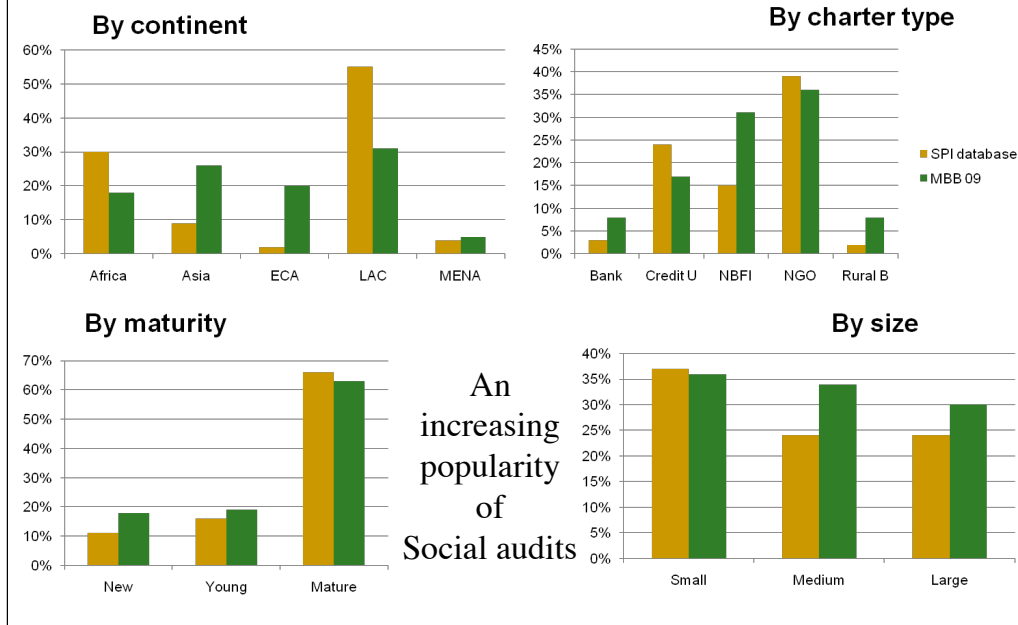
- SPI **assesses** the process: mission and strategy, systems & activities, products, but it **doesn't evaluate** the change in clients lives or impact

- For changes in practices, practitioners use SPI combined with:
 - Poverty assessment (ex. PPI, PAT) to **deepen their targeting**
 - With **governance** to improve the information management, decision taking and implementing
 - Monitoring and **dashboards** to improve social performance management from staff
 - With **impact** analysis to understand and contribute better to the development processes
 - Specific issues to improve: outreach in rural zones, service diversification, client protection, environment, etc.



evalúa en qué medida la IMF se da los medios necesarios para cumplir con su misión social a partir de informaciones internas de la organización

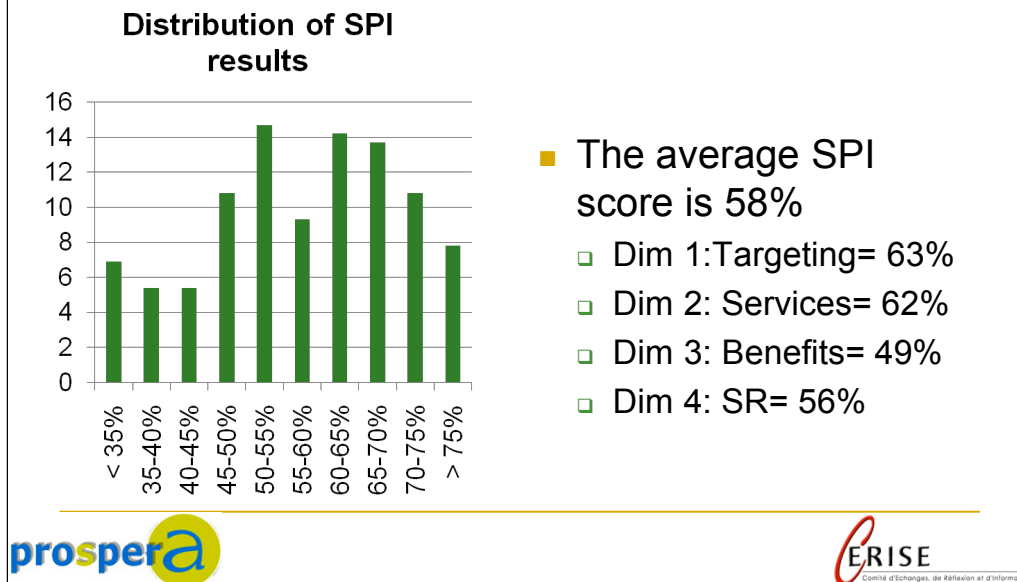
Overview of the users (compared to Mix)



Latin American and African institutions dominate the sample (55% and 30% respectively) due to the active involvement of MFIs' associations and socially responsible investment funds in these regions. Compared to MIX data, the sample is well represented in terms of age and scale. Only in the charter type category are NBFIs slightly under-represented.

We estimate that the vast majority of MFIs in Bolivia, Benin, Ecuador, El Salvador, Guatemala, Mali and Nicaragua have used the SPI tool. In other words, the first countries to adopt widespread use of the SPI are countries where microfinance has been called into question by governments and where willful default movements have emerged. In these countries, social audits have been used to dialogue with governments, justify changes to regulatory frameworks and public policies, and occasionally create distance from the irresponsible practices of "black sheep" MFIs.

Average SPI results

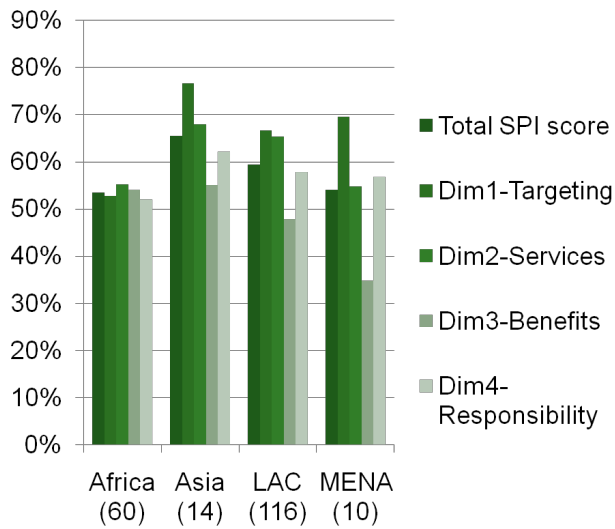


Fewer than one in eight MFIs obtain very poor results (less than 40%). Similarly, fewer than one in twelve score over 75%. Indeed, if we exclude the bottom and top quartiles, half of the MFIs score between 49% and 68%. The median is 57% and the average 58%.

This distribution is due to the fact that the SPI tool is standardized. It aims to be a relatively comprehensive assessment of the different dimensions of social performance. As such, we do not expect MFIs to score full points; rather, results should reflect the institution's self-defined mission and s

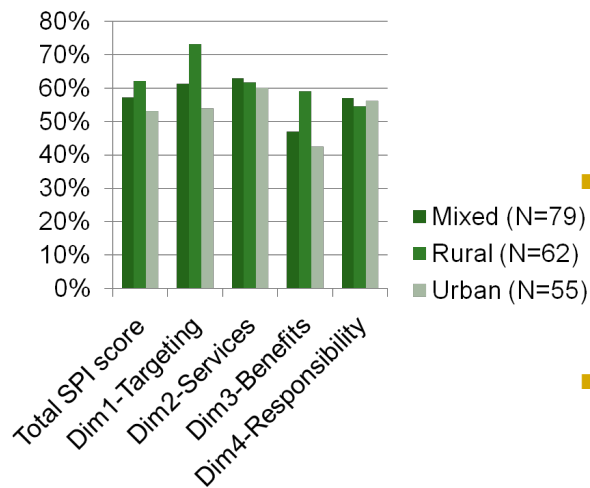
MFIs generally score highest on dimension 1, targeting and outreach (63% on average). This is indeed microfinance's main objective, one that has underpinned the creation of most MFIs. Next highest is dimension 2, products and services (62%), and dimension 4, social responsibility (56%). Dimension 3, which measures the economic and social benefits MFIs provide their clients, generates the lowest scores (49%). Indeed, this dimension implies that the MFI regularly monitors and evaluates its clients' situation, or involves them in governance—two aspects that tend to be neglected in the microfinance sector. strategy.

Results by continents



- Best scores in Asia (spec. Dim.1) but fewer audits
- LAC & MENA strong in Dim 1 & Dim2
- Africa, balanced results, strong in client participation

Rural MFIs score higher than urban MFIs

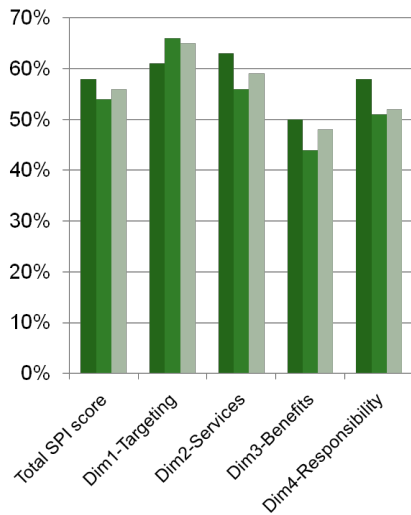


- Especially in dim.1 (targeting) and dim.3 (benefits)
- Stronger criteria: participation and non financial services
- Rural need more efforts to adapt to context?



Rural MFIs tend to score higher than **urban** or mixed institutions. This advantage is reflected especially in dimension 1 (targeting) and dimension 3 (benefits to clients), namely the criteria on participation and innovative/non-financial services.

No evidence of « mission drift » by maturity

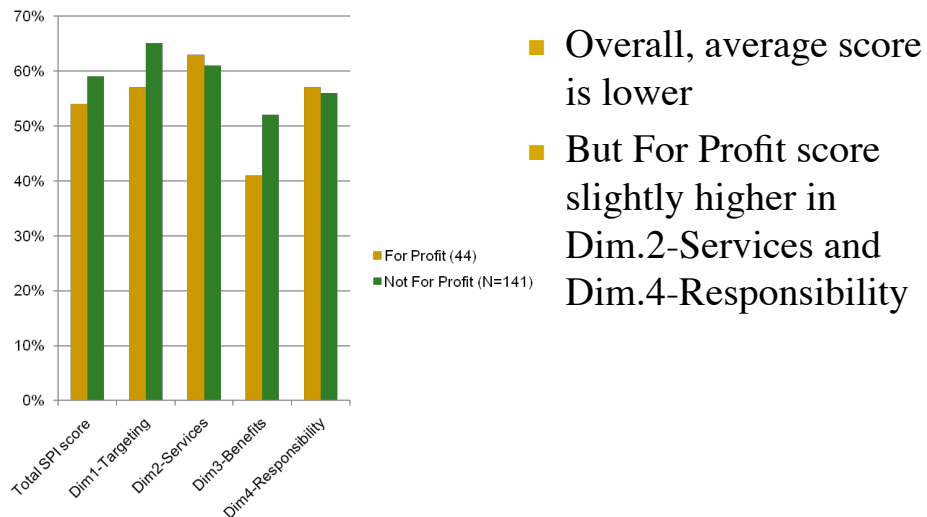


- Large MFIs generally target less the poor
- But they score well in the other dimensions: services, benefits to clients, and social responsibility



Analyzing the **size** of MFIs allows us to assess the trend toward mission drift. Findings suggest that large MFIs generally target less the poor and excluded than medium and small MFIs. However, they tend to score well in the other dimensions of social performance.

For profit MFIs score lower than non-profits



- Overall, average score is lower
- But For Profit score slightly higher in Dim.2-Services and Dim.4-Responsibility



Charter type appears to have an impact social performance: overall, for profit institutions score lower than non-profits. That said, if we analyze performance by governance type, banks and NGOs stand out as having similar overall scores. Banks score well in products and services and social responsibility while the NGOs emerge as targeting “champions.” NBFIs score the lowest, appearing to be caught in the middle, having left targeting strategies to NGOs, but with no clear policy concerning services or social responsibility.

Social and financial performance are compatible!

Spearman correlation test

	Borrowers/Staff	Portfolio at Risk (30 days)	Operating expense ratio	Total Portfolio
Number of MFIs included	167	162	166	175
Total Social Performance Score	.212**	-.016	-.058	.285**
Dim 1. Targeting and outreach	.270**	.014	.091	-.017
C1.1 Geographic targeting	.317**	-.087	-.033	.057
C1.2 Individual targeting	.108	.082	.187*	-.022
C1.3 Pro-poor methodology	.235**	-.023	.024	-.071
Dim 2. Products and services	-.069	.034	-.136	.450**
C2.1 Range of traditional services	-.134	.084	-.188*	.281**
C2.1 Quality of services	.094	-.037	-.130	.481**
C2.3 Innovative and non-financial services	-.024	.010	.053	.219**
Dim 3. Benefits to clients	.175*	.060	-.063	.118
C3.1 Economic benefits to clients	.055	.054	-.142	.206**
C3.2 Client participation	.163*	.035	-.033	-.003
C3.3 Social capital/Client empowerment	.142	.073	.008	.135
Dim 4. Social responsibility	.153*	-.215**	-.104	.459**
C4.1 SR to employees	.108	-.146	-.093	.380**
C4.2 Client protection	.041	-.152	.002	.304**
C4.3 SR to the community and the environment	.163*	-.126	-.122	.259**

- Poverty Outreach: Individual targeting associated with higher costs but geographic and methodological targeting are associated with higher staff productivity (participatory MFIs / C3-2)
- Social responsibility linked to higher productivity and better repayment
- Larger MFIs stronger in products adaptation and SR
- Correlations with OSS for MFI sub-groups (coops & NGOs)

Significant convergence between social and financial performance

Significant divergence between social and financial performance



Good social performance is generally associated with good financial results (green cells). More specifically:

In terms of poverty outreach, individual targeting is associated with higher costs but geographic and methodological targeting are associated with higher staff productivity; this is particularly true among participatory institutions.

Institutions with a diverse product mix have lower operational costs, but, by contrast, productivity is lower.

Participatory institutions tend to have higher productivity.

Institutions that score high in social responsibility tend to have lower default rates.

Larger institutions appear to better manage products and services, and social responsibility.

Current SPI data allows us to refine these findings by peer group. For example, the observation regarding the cost of individual targeting applies particularly to NGOs, and is even associated with low OSS. For NGOs, a diverse product mix is correlated with lower staff productivity. On the other hand, those with well-developed consumer protection measures have a lower portfolio at risk.

Conclusion

- Awareness and actions regarding social performance management have strongly progressed in the last few years
- SPI, created by and for practitioners, was in many cases an entry point for the institutions to reflect on their contribution to development and improve their practices
- It provides a wealth of information to apprehend the state of the microfinance sector, to identify trends, and understand relationship between social usefulness and financial viability
- MFI networks and MIVs are key actors to impulse, support and orient such processes