



Social Performance Indicators Initiative

Auditing the Social Performance of Microfinance Institutions

Compatible with the
Social Performance
Standards reported
to MIX Market

OPERATIONAL GUIDE to the SPI QUESTIONNAIRE

Version 3.1

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QUESTIONNAIRE AND OPERATIONAL GUIDE AVAILABLE FOR FREE ONLINE
IN FRENCH, ENGLISH, SPANISH

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

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Introduction

Assessing social performance requires a thorough understanding of the concepts and indicators used. This operational guide was designed to accompany microfinance institutions (MFIs) and external auditors administering the Social Performance Indicators (SPI) tool.

It has two modules.

Module One provides the framework for understanding the “how” and “why” of social performance assessment.

Module Two describes the main components of the SPI questionnaire and is divided into two parts. Part One describes the first part of the questionnaire, which is essential for contextualizing the MFI and its social mission, so as to avoid a normative approach whereby every MFI would have pre-determined social objectives. Part Two details the dimensions, criteria and indicators that constitute this tool. Depending on the indicator, the description may include:

Rationale

Accurate interpretation of the indicators requires understanding their underlying rationale. In this sub-section, the reader will find a description of the fundamental principle for each indicator and how it is relevant to social performance.

Definition

Some indicators are based on important concepts. To avoid ambiguity, this sub-section defines key concepts and formulas.

Examples

Occasionally, examples are provided to give users a clear idea of how the indicator may appear in an MFI.

Guidelines

When the answer is not readily apparent, this sub-section provides guidelines to help find the response.

Sources of information

Data may come from five main sources:

- Statements made by management: collected in interviews or by requesting management to fill out the questionnaire (management may refer to the executive director and/or department directors/managers, depending on the indicator).
- Written documents: may include public documents (annual reports, audit reports, business plans, product descriptions, impact studies, etc.) or internal documents (work contracts, minutes from meetings, market studies, briefs, manual of procedures, etc.)
- Interviews with branch staff: due to differences between headquarters and branch operations, it is often suggested to supplement centralized data with input from branch managers and loan officers.
- Management Information System (MIS): Collection of quantitative information from the MIS. The lack of MIS, or an inadequate MIS may hinder data collection for several indicators.

- Focus groups: data source when using a participatory approach (see below for description of approaches). Focus groups discussions can be used to address specific questions or to collectively analyze the assessment's findings. Group discussions require the balanced presence of different stakeholders: executive management, middle management, branch staff. In member-based institutions (cooperatives/credit unions, village banks), groups must include elected representatives. Board members should be invited to participate where necessary. Depending on the objective, clients, donors, investors, representatives of other MFIs or local authorities may also be included.

Module 1: Framework

What is social performance?

Definition

Social performance is defined by the Social Performance Task Force (http://www.microfinancegateway.com/resource_centers/socialperformance) as “the effective translation of an institution's social mission into practice in line with accepted social values that relate to serving larger numbers of poor and excluded people; improving the quality and appropriateness of financial services; creating benefits for clients; and improving social responsibility of an MFI.”

Many MFIs have a double bottom line, both financial and social. For these institutions, social and financial performance are complementary and together reflect overall performance. The concepts of social performance and social responsibility represent a new element to complement financial assessments.

Social responsibility and social performance

Social responsibility refers to stakeholders' (MFIs, affiliated networks, investors, donors) commitment to being accountable for their actions and to ensure activities do not have negative effects on partners (employees, clients, community) or the environment. The notion of social performance goes a step further in that MFIs strive to fulfill a social mission that will bring social and economic benefits to clients and their families (CERISE, 2008).

The importance of social performance assessment

As microfinance has grown in scale, critiques of the sector have intensified. Recognizing and improving social performance has become crucial to the sector's credibility and sustainability.

In the early days of microfinance, social assessments were imposed by outsiders. Donors, NGOs and governments who saw microfinance's potential as a poverty reduction tool wanted proof of the link between microfinance activities and changes observed in target populations to justify their investments. The result was several long and costly economic impact studies in the late 1980s, ill-suited to practitioners.

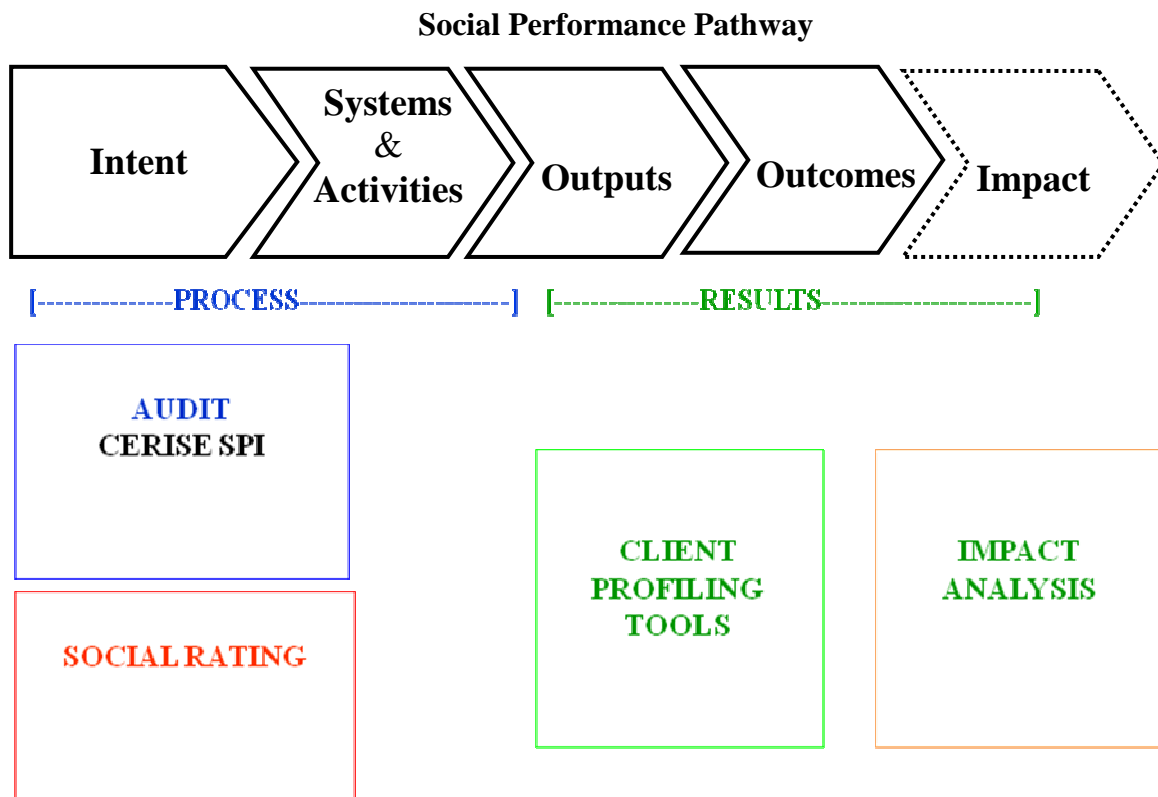
By the mid-1990s, concerns had shifted to growth and sustainability. The sector was focused on client outreach, profitability and subsidy independence. Now, with rising problems of delinquency, bankruptcy, massive client drop-outs and mounting critiques of the sector, the importance of qualitative analysis and client-centered services has come to the forefront.

Private investors want to know the social value-added of their investments while donors and governments want reassurance that their regulatory efforts and financial support are truly benefiting the microfinance clients. Moreover, MFIs are aware that strong social performance may improve financial performance. Indeed, in an increasingly competitive environment, improving relationships with clients can limit delinquency and reduce client exits, as well as attract new investors and partners.

Thanks to recent developments in assessment methodologies, the sector is moving towards a more balanced approach that addresses the social as well as the financial performance.

Different facets of social performance assessment

Created in 2005 at the impetus of CGAP, the Argidius Foundation and the Ford Foundation, the Social Performance Task Force immediately set out to define a common framework for social performance and to promote the assessment and management of social performance.



The pathway illustrates the different facets of social performance. Different assessment tools address different facets. Some tools, like the SPI, focus on processes. Others focus on results. Together, these tools can answer questions like:

- Are activities and systems designed to meet those objectives?
- Who are the MFI's clients? Are their needs being met?
- Does the MFI have an effect on clients' living standards? Can changes be attributed to the MFI?

Social Performance Management

Social Performance Assessment is thus a measure of how well an institution uses its systems and operations to generate positive social benefits. Social Performance Management (SPM) is the use of this measure to make decisions and improve practices.

The principles of Social Performance Management can be summarized as follows:

- **Translate mission and values** into clear, measurable objectives to capture intentional social benefits.
- **Design and implement systems** for social responsibility, including client protection.
- **Track, understand and report** progress on achieving social objectives.
- **Align business processes** (marketing, human resources, governance) to achieve both social and financial objectives
- **Make decisions** on the basis of both social and financial outcomes.

Because the SPI tool assesses an institution's ability to align its social mission with its strategy, systems and operations on the basis of well-defined indicators, thus providing a baseline for tracking progress, it is an effective entry point for social performance management.

Using the SPI

Description

The CERISE Social Performance Indicators (SPI) tool assesses the social performance of microfinance institutions (MFIs) by evaluating their intents and actions. By analyzing internal systems and organizational processes, the SPI tool determines whether the institution has the means in place to attain its social objectives. The underlying assumption is that the soundness of internal processes is a reasonably reliable proxy for actual social performance.

The SPI tool focuses on process management, looking at the MFI's stated objectives and the effectiveness of its systems for achieving them. It analyzes social performance using a wide range of indicators (12 criteria grouped under four dimensions), thus giving MFIs an exhaustive overview of how their mission and actions size up against a number of common social objectives. The same criteria can be applied to all MFIs, making it possible to compare institutions, promote peer-group analysis of social performance and analyze the relationship between social and financial performance. On an individual level, an institution's results are analyzed against its own objectives, defined in accordance with its stated mission.

The advantages of SPI:

- It is standardized;
- It is adaptable to different types of MFIs and local contexts;
- It is easy to use and can be self-administered;
- Indicators are simple and directly attributable to the MFI;
- Indicators are based on readily available data, easily verifiable by an external auditor;
- Results can be compared to other MFIs and summarized with clear graphs (diamond/radar – see below).

The SPI:

- Makes an initial diagnostic of the quality of systems and processes, comparing them to the MFI's mission and objectives;
- Reinforces efforts to improve social performance and encourage internal dialogue on this issue;
- Increases transparency and improves credibility among clients, investors and donors;
- Reinforces governance;
- Maximizes financial efficiency by improving social performance;
- Enables MFIs to distinguish themselves from competitors by adopting an explicitly social approach.

SPI was designed using an open, collaborative and transparent approach. As of Dec. 2009, more than 250 MFIs around the world have used this tool. The third version of SPI has been updated after 3 years of use and more than 100 evaluations, to include compatibility with Social Performance Standard (SPS) to be reported to Mix Market and a better appraisal of current issues in the sector (interest rates, consumer protection, environment).

For MFIs that do not want to report the SPS on the Mix Market, some questions are optional.

SPTF's Social Performance Standards on the MIX market

A rich dialogue with MFIs and their networks, investors, donors, technical assistance providers and experts within the Social Performance Task Force has led to the Social Performance Standards (SPS), published on the MIX market information platform since early 2009. The SPS were designed to complement financial performance indicators, thus giving a broader understanding of MFI performance. They reflect current practice in social performance assessment and focus on data concerning processes, internal procedures and client characteristics. At the process level, indicators are based on simple questions regarding policies and daily operations. At the client level, indicators assess selection criteria of households, outreach and inclusiveness of microfinance services and observation of the clients' evolution over time. This version of the SPI (3.1) was updated to include the SPS process indicators. The reporting formats of the SPI and SPS are perfectly compatible for 18 out of the 22 SPS indicators (the 4 remaining SPS indicators are focusing on results – school attendance for children and changes in poverty).

Implementation of SPI tool

The SPI tool is designed to be simple enough to be used for self-assessment. With the SPI, MFIs can monitor their social performance while encouraging internal debate on social strategy, transparency, accountability. Results are represented graphically and can be studied and monitored on a regular basis. As a self-evaluation tool, the SPI helps MFIs identify their own strengths and weaknesses and find innovative ways to improve social performance. Because it exhaustively analyzes four key dimensions of social performance, the SPI is precise in highlighting areas for improvement, whether it be client monitoring, early-warning systems or communication with board members or external stakeholders.

However, an external auditor can also be called upon to help an MFI use the tool and make recommendations based on findings. If findings are to be released to stakeholders or the general public, an external auditor is required to validate results. The auditor can be someone from the MFI's affiliate network specialized in social performance and familiar with the SPI tool.

There are two ways to use the SPI tool:

- **Centralized approach.** The MFI designates an auditor to heads up the audit process, which involves top management only. This approach gives the MFI a quick overview of its social performance and identifies its strengths and weaknesses.
- **Participatory approach.** This approach involves various levels of MFI stakeholders (senior management, branch management, elected representatives, external partners, clients, etc.) in the audit process. By culling the opinions of different actors, this approach encourages dialogue and internal analysis of the MFI's practices. Experience shows that a participatory approach has many advantages; the assessment tends to be more representative of the institution as a whole and thus conclusions and operational recommendations are more likely to be appropriated by staff.

The tool is administered in three phases: preparation (½- 1 day), implementation (1½-6 days, depending on the stakeholders involved), and reporting (1 day).

Preparation Phase

1. Get familiar with the tool. If a centralized approach is used, this step will take place among top management. If adopting a participatory approach, the person in charge of the process may organize a workshop with the stakeholders to be involved.
2. Prepare the documentation and interviews for the questionnaire. SEE DOCUMENTATION LIST AND INTERVIEWS IN APPENDIX 2

Implementation Phase

3. Fill in the questionnaire and verify information. If an external approach is used, the auditor fills in the questionnaire alone, setting up interviews with top management when needed. In a participatory approach, the auditor (internal or external) conducts interviews with a large range of participating stakeholders (HQ, branch management, field staff, clients, donors, investors, etc. – SEE LIST IN ANNEX). Focus groups may be organized to gather feedback from staff and/or clients.

Internal versus external approach

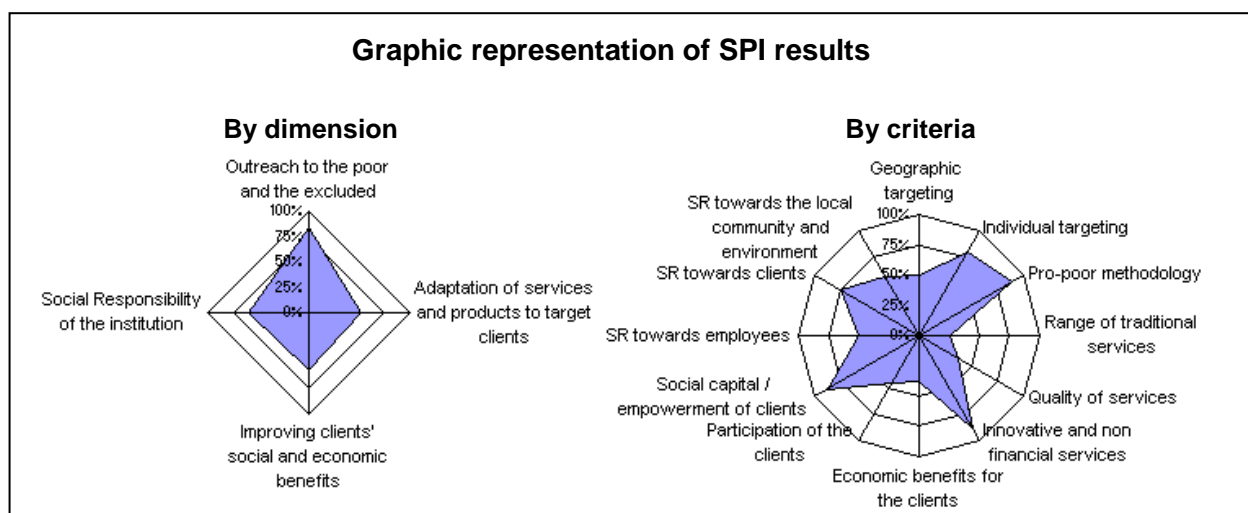
Purely self assessment: The MFI fills in the questionnaire alone

Accompanied self-assessment: The MFI fills in the questionnaire with support from an external reviewer. The external reviewer knows the SPI tool and can answer to the questions of the MFI. S/He conducts a consistency-check to verify the coherence between questions and specifications.

Self-assessment with external audit: The auditor verifies the quality of the information. At least one day for external audit

Purely external assessment: done by the external auditor

4. Enter data into the SPI Excel file and generate graphs.
5. Review preliminary findings. This may take the form of a meeting with top management, a written report drafted by the auditor, or a workshop with participating stakeholders. The graphic representation of results (the four dimensions are represented by a diamond graph and the 12 criteria by a radar graph, see figure below) offers a helpful overview of findings and highlights the strengths and weaknesses of the MFI's social performance. This step of the audit enables stakeholders to compare viewpoints in terms of expected and actual social performance, thereby strengthening a common vision of institutional strategy.



Reporting Phase

6. Disseminate findings. The first output of an SPI audit is the completed questionnaire and graphs. These must be sent to CERISE/ProsperA database, which consolidates SPI results¹ and generates a personalized analysis comparing the MFI's SPI score with its peer-groups: MFIs in its country, region, of similar size (clients, portfolio), age, operating area (urban, rural, mixed). The peer-group analysis, free of charge, is the second output. The completed questionnaire must also be provided to the MFI, to the person who was in charge of the SPI audit and to the top management.
7. External auditors are required to produce a two-page summary of results for each of the four dimensions and a graphic representation of the dimensions and criteria. The summary compares social performance with financial performance and gives recommendations for improving social performance. This two-page summary is recommended, but optional for internal audits.

ALL DOCUMENTS (WORD QUESTIONNAIRE, EXCEL REPORT, 2-PAGE SUMMARY) MUST BE GIVEN TO THE MFI.

Use of SPI results

Internally

SPI results are used first and foremost internally by the MFI to inform its board or management team of its social performance. The SPI audit offers an objective, concise and visual description of the systems in place to achieve an MFI's social mission, and the how the latter affects operational and financial performance. In addition, indicators can be monitored over time by management, to help inform strategic planning.

The support by CERISE/ProsperA

ProsperA (Alliance for the Promotion of Social Performance in Microfinance) is an operational network of MFIs, professional associations, TA providers, donors, investors, researchers, rating agencies and consultants. ProsperA promotes dialogue among members and coordinates activities around the SPI tool and member initiatives.

See: <http://www.cerise-microfinance.org/-prospera-network->

The MFI may want CERISE/ProsperA or any of the organizations that were in charge of the external audit to organize training workshops for employees on how to optimize their use of the SPI and its results. These workshops often lead to richer debates, more systematized results and concrete measures for improving social performance (formalized in a business plan).

Following the SPI audit, the MFI may be prompted to analyze its governance. A governance analysis assesses the decision-making chain affecting social performance. The goal is to determine which links of this chain--from planning to implementation and control--need to be enforced so that the MFI's actions are fully aligned with its social mission.

Externally

The summary report can be disseminated to publicize the MFI's social performance. It can also be used to enhance MFI reporting (in annual reports, performance reports or public relations material, for instance). Many MFIs use the SPI as a basis for discussion with their investment partners and donors. MFIs can report the Social Performance Standards (SPS) on the

¹ Results from 250 MFIs were catalogued as of 12/31/2009 Contact: cerise@cerise-microfinance.org

Mix Market, based on the SPI results and information on their results. Externally audited SPI can help for certifying the SPS information.

Increasingly, MFIs are lobbying authorities to create in conjunction with their affiliate networks, regulatory or self-regulatory protocols that take into account social performance. This drive for transparency is important for improving dialogue on social performance within the microfinance sector, consolidating relationships between the sector and government authorities and improving microfinance's image in public opinion.

MODULE 2 – SPI TOOL

Part One – Description of MFI, Context, Social Strategy

Why look at context and social strategy?

In Part One, the MFI (i) gives the basic information on its activities and financial performance and ii) explains its social strategy (so that strategy is not addressed in normative terms). The MFI can describe its historical, social, economic and cultural context, and analyze how this context facilitates or limits the implementation of its social strategy.

Each dimension of the SPI is evaluated on the MFI's own social objectives. It is important to understand the MFI's context so that it can justify its strategic choices. Information in Part One helps contextualize historically, geographically, and socio-economically the social performance indicators collected in Part Two and thus facilitates analysis.

<p>Contact information</p> <p>Name of the MFI: _____</p> <p>Country: _____</p> <p><input type="checkbox"/> Self-assessment (date: __/__/__)</p> <p><input type="checkbox"/> Accompanied self-assessment (date: __/__/__)</p> <p><input type="checkbox"/> Self-assessment with external audit (date: __/__/__)</p> <p><input type="checkbox"/> External audit (date: __/__/__)</p> <p>Name of the person in charge of the SPI audit in the MFI: _____</p> <p>Contacts: Tel: _____</p> <p> Email: _____</p> <p>Name of the person in charge of the external audit/review: _____</p> <p>Contacts</p> <p> Organization / Country: _____</p> <p> Tel: _____</p> <p> Email: _____</p>
--

Please fill in the Box on “Contact information” page 2 of the questionnaire, for easier track of the persons in charge of the questionnaire and potential follow-up on the audit.

How to fill out Part One?

Centralized approach: Statement by MFI management bodies (including board of directors)

External audit: Verification of documentation on the institution's strategy (strategic planning, annual reports, minutes from board meetings or general assemblies, financial statements, etc.)

Participatory approach: Interviews and/or focus groups with different stakeholders (board members, management, field staff, elected representatives, etc.) to gather different points of view.

Section 1: Basic details of the MFI

- a. Name of the MFI : _____
 b. Country of operations : _____
 c. Year microfinance operations began: _____
 d. Legal form: Bank, Rural bank, NBFi, NGO, Cooperative/Credit Union
 e. Report for Year ended (day – month – year): _____
 f. Number of loan accounts: _____
 g. Number of currently active borrowers (not loan accounts): _____
 h. Number of savings account: _____
 i. Number of currently voluntary savers (not savings accounts): _____
 j. Total number of members (if applicable): _____
 k. Total number of staff: _____

Section 2: Financial Performance

- a. Gross Loan Portfolio (in US\$): _____
 b. Savings (in US\$): _____
 c. Total Assets (in US\$): _____
 d. Return on Assets (%): _____
 e. Financial Expense Ratio (%): _____
 f. Operating Expense Ratio (as a % of average portfolio): _____
 g. Loan Loss Provision Expense Ratio (%): _____
 h. Write Off Ratio (%): _____
 i. Operational Self-Sufficiency (%): _____
 j. Portfolio at risk 30 days: _____ 90 days: _____
 k. Average loan size (US\$) (2a./1f.): _____

Complementary information for peer grouping

Financial intermediation	No voluntary savings	Voluntary savings < 20% of total assets	Voluntary savings > 20% of total assets	
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Outreach	Number of borrowers >30,000	Number of borrowers >10,000 and < 30,000	Number of borrowers < 10,000	
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Lending Methodology	Individual	Solidarity Group	Individual/Solidarity	Village Banking
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

[Optional table below if SPS report not filled up]

- Active borrowers receiving individual loans	
- Active borrowers receiving group loans	
- Women active borrowers receiving individual loans	
- Women active borrowers receiving group loans	

1. Status
- | | |
|--|--|
| Registered as a for profit institution | Registered as a non profit institution |
| <input type="checkbox"/> | <input type="checkbox"/> |
- m. Scale (Outstanding Loan Portfolio in USD)
- | | | | |
|-------------------|--------------------------|--------------------------|--------------------------|
| Latin America | > 15 million | 4 million to 15 million | < 4 million |
| | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Rest of the world | > 8 million | 2 million to 8 million | < 2 million |
| | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
- n. Zone of intervention
- | | | |
|--------------------------|--------------------------|--------------------------|
| Principally rural | Principally urban | Balanced |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

The data in these two sections frame the overall analysis and position the MFI in its peer group. The SPI uses the same peer group categories as those defined by the MIX Market, with one exception: it includes criteria on area of operations (rural, urban, mixed).

Most of the peer groups are self-explanatory.

Definitions for Lending Methodologies (SPS):

1. Individual loans: A loan made to an individual borrower who is solely responsible for its repayment.
2. Solidarity group: A loan group made up of approximately 3–10 people drawn from the same community and where group members collectively guarantee loan repayment
3. Village banking: As in solidarity groups, loan repayment is guaranteed by collective membership, but loan groups are bigger, made up of approximately 20–30 people (typically women).

Definition for Rural/urban (SPS):

Rural: Settled places outside towns and cities, such as villages, hamlets, where most livelihoods are farm based. Farm includes both crop and non crop agriculture, livestock, fishing, etc.

Urban: Areas constituting a city or town with higher density of population in comparison to the surrounding areas, where the majority of people do not dependent upon agriculture as main economic activity.

A small number of financial indicators are collected in Section 2, corresponding to key ratios published by the MIX Market².

² This information is entered in a database and used to study the relationship between social and financial performance. For more information, see the websites of CERISE and MIX market.

Section 3: Intent and social strategy

3.1. Ranking of the social strategy

a. What is your MFI's social mission?

b. In which year was the mission statement formulated (or updated)?

From the statement of the social mission, the MFI can explain which dimensions are a major objective or, given to context and history, are considered as important, minor or not an objective.

		<u>Comments:</u> How does the MFI environment and history facilitate or limit the implementation of a strategy in each dimension? Justify why each dimension is important or only a minor objective
<p>Dimension 1: Targeting and outreach</p> <p>Microfinance was developed to serve populations excluded from the conventional financial sector: is targeting the poor and/or excluded an important objective for the MFI?</p>	<input type="checkbox"/> 1. Not an objective <input type="checkbox"/> 2. Minor objective <input type="checkbox"/> 3. Important obj. <input type="checkbox"/> 4. Major objective	
<p>Dimension 2: Products and services</p> <p>Providing high-quality services that are well-adapted to clients requires innovative rollout techniques and a proactive strategy combining access to financial and non-financial services. Is this dimension important for the MFI?</p>	<input type="checkbox"/> 1. Not an objective <input type="checkbox"/> 2. Minor objective <input type="checkbox"/> 3. Important obj. <input type="checkbox"/> 4. Major objective	
<p>Dimension 3: Benefits to clients</p> <p>Economic benefits alone justify access to financial services, but MFIs may also seek to strengthen social networks, build client capacity or involve clients in governance. Are benefits to clients a core preoccupation for the MFI?</p>	<input type="checkbox"/> 1. Not an objective <input type="checkbox"/> 2. Minor objective <input type="checkbox"/> 3. Important obj. <input type="checkbox"/> 4. Major objective	
<p>Dimension 4: Social responsibility</p> <p>Social responsibility refers to an MFI's commitment to accountability and ensuring its activities do not have negative effects. Is this a current preoccupation for the MFI?</p>	<input type="checkbox"/> 1. Not an objective <input type="checkbox"/> 2. Minor objective <input type="checkbox"/> 3. Important obj. <input type="checkbox"/> 4. Major objective	

Rationale

The MFI's organizational culture (history, values, social objectives, culture of social performance) and context determine its strategic choices and shed light on its ability to achieve its social strategy. An MFI may implement its strategy easily in a favorable context, or on the contrary, struggle to attain social objectives in a more difficult one. This section analyzes the institution's strategy according to the four dimensions of the SPI questionnaire.

Guidelines

The MFI must define its strategy by prioritizing the four dimensions (see example below) and analyzing each one in terms of its economic, legal, social and cultural environment. The prioritization may come from how much resources are allocated to each dimension, how many persons responsible of these issues, etc.

Example

Albanese MFI	1. Not an objective	2. Minor objective	3. Important objective	4. Major objective
Dimension 1: Targeting and outreach	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Dimension 2: Products and services	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Dimension 3: Benefits to clients	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Dimension 4 : Social responsibility	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

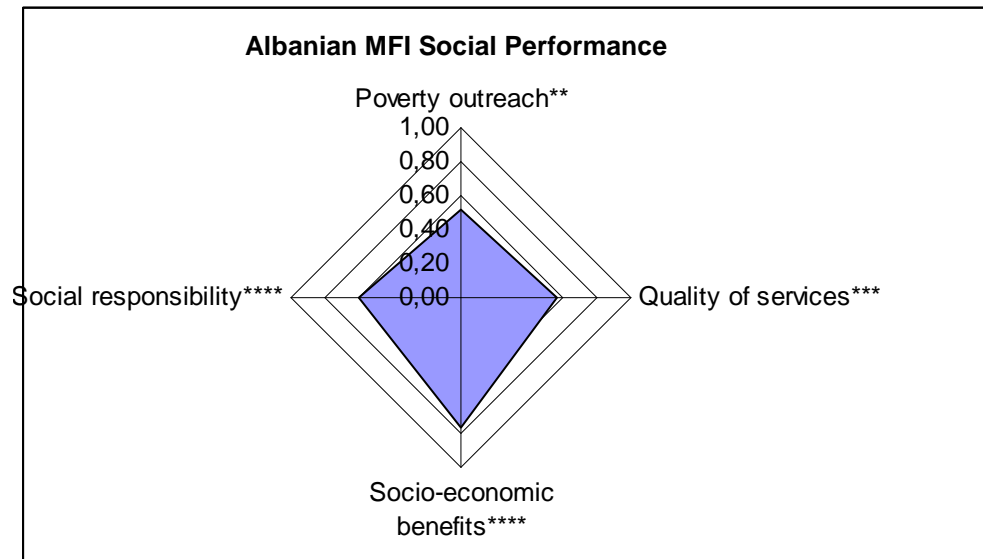
This MFI operates in a country marked by forty years of communism. Agrarian reform led to the distribution of one hectare of land and one or two cows per rural household. It is not in the interest of this MFI to target the poorest of the poor, but rather bolster the rural economy (by funding a milk processing unit, for instance) and reconstruct the social fabric that existed in rural communities before communism. The MFI thus ranks Dimension 1 a "minor objective", and Dimensions 3 and 4 "major objectives" (to reflect its sense of social responsibility to the community).

Sources of information

Statements from management

Use of information

The MFI's prioritization of the four dimensions are represented graphically on the SPI Diamond in the form of asterisks (*= not an objective; **** = major objective)



In the Albanian example, the institution scored relatively low on Dimension 1: Targeting and outreach, classified as a “minor objective” by the institution. The highest score was for Dimension 3: Benefits to clients, classified as a “major objective”. The low scores for Dimension 2: Products and services (“important objective”) and Dimension 3: Social responsibility (“major objective”) suggest these are areas for improvement.

3.2. Mission and social goals (optional section if SPS report is not filled up)

SPS
1c-g

c. What is the poverty level of the clients that your institution aims to reach (Check all that apply):

- Very poor clients
- Poor clients
- Low income clients
- Not a specific focus/all population

d. If you checked the boxes " very poor or poor clients", which reference point/benchmark do you consider appropriate for estimating the poverty level of your clients? (Check all that apply):

Very poor clients:

- Persons in the bottom 50% of those living below the poverty line established by the national government
- Persons living on less than the US\$ 1.00 a day international poverty line
- Other (please specify): _____

Poor clients:

- Persons living below the poverty line established by the national government
- Persons living on less than the US\$ 2.00 a day international poverty line
- Other (please specify): _____

e. What is the target market of your institutions (Check all that apply):

- Women
- Adolescents and youth (below the age of 18)
- Indigenous people and ethnic minorities
- Clients living in rural areas
- Clients living in urban/semi-urban areas
- No specific target/all population
- Other (please specify): _____

f. What kind of enterprises does your institution support? (Check all that apply):

- Microenterprises
- Small enterprises
- Medium enterprises
- Large enterprises

g. Which development objectives does your institution specifically pursue through its provision of financial and non financial products and services? (Check all that apply):

- Poverty reduction
- Employment generation
- Development of start-up enterprises
- Growth of existing business
- Income and productivity growth
- Adult education improvement
- Children schooling
- Health improvement
- Gender equality and women's empowerment
- Other (please specify)): _____

Rationale

Social performance is evaluated on the MFI's own social objectives. This section records the official objectives set by the MFI.

Social Goals: The MFI must check which ones apply to its social mission. The goals are the same as those in the SPS.

Definitions (SPS)

1.Very poor: Clients living below an absolute extreme poverty line. Common extreme poverty lines include (1) persons in the bottom 50% of those living below the poverty line established by the national government, or (2) persons living on less than US \$1.00 per day (technically \$1.08 per day per capita at 1993 Purchasing Power Parity - PPP) or on less than of US \$1.25 per day at 2005 PPP. 2.Poor: Clients living below a poverty line. Common poverty lines include (1) persons living below the poverty line established by the national government, or (2) persons living on less than US \$2.00 per day in daily per-capita expenditures at 1993 PPP. 3.Low income: Clients above the poverty line but below the national average income. For any update about poverty lines and PPP visit: <http://www.povertytools.org/>

1.Microenterprises: enterprise having 5 or fewer employees. 2.Small enterprises: enterprise greater than 5 employees and less than 50. 3.Medium enterprises: enterprises greater than 50 employees and less than 250. 4.Large enterprises: enterprises greater than 250 employees. These numbers include both self-employed (client and family members) and non-family hired employees.

Sources of information

Prioritize explicit and formal statements that appear in documentation available to and recognized by staff and managers. May include legal by-laws, mission statements, rules and regulations or public relations material.

3.3 Governance / Stakeholder involvement in social performance (optional section if SPS report is not filled up)

a. Are Board members' responsibilities and terms of services specified by the Institution's by-laws? (Check all that apply):

Yes
 No

b. If not, in which ways are the procedures documented?

Board Minutes
 Committees Minutes
 Manuel of procedures
 Other (Please specify): _____

c. How is your institution's Board composed?(Check all that apply):

Government representatives and community leaders
 Representatives of not for profit organizations
 Representatives of private financial institutions
 Clients
 Other (Please specify): _____

d. What are the areas of expertise of your institution's Board members?(Check all that apply):

Financial and Banking
 Legal
 Development / Social services
 Other (Please specify): _____

e. What is the total number of your Board members? _____

f. What is the number of women on your Board? _____

g. If you have representatives on your Board of your target market (as reported in question 1e) which categories of clients are represented? _____

h. How does your institution reinforce Board members' knowledge of, and commitment to, social performance? (Check all that apply):

We have a standing social performance committee that regularly reviews social performance issues
 We organize staff and client visits to help Board members understand how operations are achieving mission
 We ensure that social performance issues are identified as components of the MFI's strategic and business planning
 Other (Please specify): _____

SPS
2 a-h

Rationale

Social performance depends not only on having an explicit strategy (assessed in 3.1 and 3.2); stakeholder commitment to social objectives is also critical. Despite its importance, however, this aspect is difficult to evaluate fully and objectively. This section aims to identify a few key elements that reflect stakeholder involvement in social performance.

Definition (SPS)

Governance is a process by which a board of directors guides an institution in fulfilling its corporate mission. This indicator assesses the way through which board members' responsibilities and terms of services are disclosed. It also assesses board composition and member's expertise and how the institution reinforces board members knowledge and commitment to social performance.

Guidelines

Governance is a process by which a board of directors guides an institution in fulfilling its corporate mission. This indicator assesses the way through which board members' responsibilities and terms of services are disclosed. It also assesses board composition and member's expertise and how the institution reinforces board members knowledge and commitment to social performance (SPS report).

This section identifies the governance procedures and the main internal and external stakeholders (with decision-making influence) and areas of expertise.

Sources of information

Centralized approach: statements by management

External audit: review of documentation and interviews with stakeholders

Participatory approach: focus group with stakeholders to discuss social mission

Part Two – Social Performance Indicators

Dimension 1: Targeting and outreach

Rationale for Dimension 1

Microfinance was developed to serve populations excluded from the conventional financial sector. MFIs may aim to reach socially excluded populations, the poor, persons rejected by banks (but who are not necessarily poor or socially excluded), or simply to offer financial services in unbanked regions. Dimension 1 examines the MFI's strategy for targeting and outreach and the systems in place to make sure the strategy is working.

Criteria for Dimension 1

Dimension 1 criteria reflect the three main strategies for reaching the poor and excluded:

Criteria 1 – Geographic targeting

This criteria evaluates whether the MFI provides services in poor or isolated areas, or in areas where no other formal financial services are available.

Criteria 2 – Individual targeting

This criteria evaluates whether the MFI selects or screens out clients based on poverty level or exclusion (to serve the poor clients).

Criteria 3 – Pro-poor methodology

This criteria examines the specific design of services that target the poor or excluded, including guarantees and loan/deposit size. The assumption is that people who are not targeted will not seek out pro-poor services as they do not meet their needs.

Total score for Dimension 1: 25 out of 28 points

The total points is 28 (9 for geographic targeting, 10 for individual targeting, 9 for pro-poor methodology), but because an MFI cannot cumulate the three targeting strategies (*i.e.*, operate in the poorest areas and target the poorest of the poor with extremely small loan amounts), the total possible score is 25. The questionnaire accounts for the use of multiple strategies, but it is not necessary (nor useful, or even possible in terms of financial sustainability) to use all these strategies.

Criteria 1 – Geographic targeting (9 points)

1.1 Does the MFI select operating areas based on criteria of poverty/exclusion?

- 0 = not a criteria
- 1 = one of the criteria but not the most important one
- 2 = one of the most important criteria, reflected in the strategic planning of the MFI

If score is 1 or 2, specify the indicators the MFI takes into account to assess whether a geographic area is “poor” or “underdeveloped”: _____

Rationale 1.1

Geographic targeting requires a clear definition of the criteria used to select operating areas. This indicator is based on the MFI's *intention*.

Definition

Poor or excluded areas: areas with a percentage of poor people that is higher than the national average; areas that lack access to basic services such as water, electricity, education, health, sanitation, infrastructure; areas with basic services but that are far removed from urban centers. In rural zones, these are areas characterized by poor infrastructure (roads, markets), lack of access to public services, and subsistence farming. In urban zones, these are areas characterized by a high concentration of poor people, lack of access to public services, high unemployment (such as migrant settlements).

Guidelines

The indicator establishes to what extent geographic criteria influence the MFI choice of where to operate.

Sources of information

Centralized approach: interviews with management

External audit: business plan

Participatory approach: interviews with other actors (regional managers, elected representatives, board members)

1.2 What percentage of clients come from underdeveloped areas?

- 0 = do not know/less than 10 % of the total number of active clients
 1 = less than 50 % of the total number of active clients
 2 = more than 50 % of the total number of active clients

If score is 1 or 2, specify the source of information_____

Rationale 1.2

Effective geographic targeting requires knowledge of the operational zone, which implies the MFI can determine the percentage of clients in areas considered underdeveloped (based on clients' address).

Definition

See 1.1

Guidelines

This indicator expresses geographical targeting in terms of clients reached in underdeveloped areas.

Active clients: Individuals with credit or savings accounts (excluding remittances or other financial transactions). Institutions who only maintain accounts data (savings and credit) need to avoid double counting.

Sources of information

Centralized approach: Official/national poverty data for the administrative regions where the MFI operates. If not available, the MFI may use its own objective criteria such as those described in indicator 1.1. MIS may provide data on clients per area or some other geographic category. In the absence of empirical data, statements by management or relevant staff. Specify source of information.

External audit: verify origin and quality of the data on poverty.

1.3 How does the MFI verify the poverty level of areas where it operates?

- 0= no verification is done
- 1= informal verification (e.g. feedbacks from staff or stakeholders)
- 2= formal surveys on poverty conditions and exclusion in the areas or use of national data confirming poverty levels

If score is 1 or 2, specify method of verification _____

Rationale 1.3

Effective geographic targeting requires verifiable and accurate poverty criteria.

Definition

See 1.1

Example

Enda Tunisie and poverty mapping: NGO *Enda Tunisie* has developed a mapping tool to visualize the vulnerability level of the Tunisian population. The level of vulnerability is based on a composite indicator that includes economic data for each “delegation” (geographic unit of roughly 700 km² that is the operation area for one branch). *Enda* uses the tool for strategic planning, making decisions on opening new branches and designing new products³.

Guidelines

Informal verification refers to discussions with resource persons who know the area, observations of loan officers or other MFI staff, indirect information at the national level.

Formal surveys refer to poverty studies in operating areas, either conducted by the MFI or specialized institutions (national statistic bureaus, universities, etc.).

Sources of information

Centralized approach: statements by management

External audit: past surveys, MFI publications and national poverty rankings for the administrative regions where the MFI works

Participatory approach: focus groups to assess poverty in areas where the MFI operates

³ See European Dialogue N°2, publication of the European Microfinance Platform, 2009 (<http://www.e-mfp.eu/>).

1.4 Does the MFI serve clients in rural areas?

SPS
11a

- 0= do not know/less than 30% of total number of active clients
 1= yes, more than 30% of total number of active clients in rural areas

If score is 1, source of information: _____

Give the precise definition used by the MFI for rural, urban and semi-urban

Please specify: Number and percentage of clients:

living in urban areas _____

living in semi-urban areas _____

living in rural areas _____

Rationale 1.4

Rural areas, in particular where agricultural production and food crops are the main income sources, are the most underserved by financial services. Financial services can help rural inhabitants develop their activities.

Definition

Urban and rural areas: Official definitions of urban and rural areas refer to population density and characteristics that differ from one country to the next. In developing countries, an area considered rural (less than 5000 inhabitants) is usually sparsely populated by persons working primarily in agriculture. Urban areas are densely populated, with more than 20,000 inhabitants, of which 85%-95% do not work in agriculture. Areas situated in between are considered semi-urban and secondary towns (Lipton and Ravallion, 2005).

The rural/urban definition also extends to activities (SPS):

Rural areas: Settled places outside towns and cities, such as villages, hamlets, where most livelihoods are farm based. Farm includes both crop and noncrop agriculture, livestock, fishing, etc.

Semi-urban areas: Residential areas on the outskirts of a city or town with strong presence of non-farm economy.

Urban areas: Areas constituting a city or town with higher density of population in comparison to the surrounding areas, where the majority of people do not depend upon agriculture as main economic activity.

MFI should specify how it defines rural, urban and semi-urban areas.

Guidelines

Indicator expresses geographical targeting in terms of clients served in rural areas.

Active clients: Individuals with credit or savings accounts (excluding remittances or other financial transactions). Institutions who only maintain accounts data (savings and credit) need to avoid double counting.

Sources of information

Centralized approach: MIS, or, by default, statements by management or relevant staff

External audit: verify definitions and how percentages are calculated

1.5 Does the MFI have regular service points located in areas where there are no other MFIs or bank branches?

- 0= No branch or less than 5%
- 1= Yes, less than 30 % of the branches
- 2= Yes, more than 30% of the branches

SPS
11b-f

Please specify:

Number of service points in areas without other banks/MFIs: _____

Percentage of service points in these areas: _____

Percentage of clients served in these areas: _____

Rationale 1.5

Operating in areas that lack financial institutions is an important strategy for reaching excluded populations.

Definition

Service point: Any decentralized mechanism the MFI uses to give clients access to financial services. Includes branches, mobile banking agencies or delivery devices that serve clients at least once a week.

Average distance/time: A decentralized service point is located 50 km or 2 hours travel time from the nearest bank or MFI branch. Use the distance measure when clients have access to private vehicles or frequent public transportation. Use time measure when the branch office is under 50 km, but clients do not have vehicles, rely on infrequent public transportation or go by foot. In this case, establish the average time for a client to reach the branch.

Guidelines

The indicator establishes the percentage of service points in areas where no other MFIs or banks operate. Specify the number of decentralized services points and the total number of service points. Specify the percentage of clients managed by these service points. This percentage does not affect the score, which could lead to an under-estimation of the MFI's efforts to reach isolated areas (This percentage is likely low.); nonetheless, it provides qualitative information on these service points.

Sources of information

Centralized approach: statements from management or relevant staff/departments (local branches, regional offices, etc.)

External audit: compare geographic distribution of MFI's branches to official data on countrywide geographic distribution of commercial banks, cooperatives, other MFIs

Criteria 2 – Individual targeting (10 points)

1.6 Does the MFI use a targeting tool to select poor clients?

- 0= for less than 10% of new clients over the last year
- 1= for less than 50% of new clients over the last year
- 2= for more than 50% of new clients over the last year

Please specify: *If score is 1 or 2, specify the targeting tool:* _____

Number of new clients targeted with a targeting tool over the last year: _____

Total number of new clients over the last year: _____

Percentage of “screened” clients: _____

Rationale 1.6

Using targeting tools to select clients reaches the target population more effectively and precisely.

Definition

Targeting tool: any method that collects data (via visual assessments, quantitative or qualitative surveys, interviews) before accepting new clients. Targeting tools improve outreach to the poor by screening out the “rich” or selecting the “poor” for loan requests. It is not considered “targeting” if the MFI measures poverty after selecting the client (see indicator 1.8).

Examples

- PPI, Housing Index, Participatory Wealth Ranking, Means Test, resource surveys.
- Indicators based on the client’s situation: family (number of children, number of working adults, etc.), illiteracy, housing index (size of house, access to electricity, water, sanitation services), assets (productive or durable goods like household appliances, vehicles), pledges (savings, jewelry), arable lands, etc.;
- Estimated household incomes;
- Participatory wealth ranking: community members rank themselves based on their own definitions of wealth and poverty

Guidelines

The indicator focuses on new clients (those joining the MFI over the last year) to assess this strategy.

Sources of information

Centralized approach: statements by management and MIS for the percentage

External audit: verify targeting tool and how it is used; manual of procedures for the loans

Participatory approach: interviews with loan officers on the targeting tool and how it is used

1.7 How does the MFI ensure that the tool is properly used by loan officers?

0 = Nothing is done

1= All loan officers are trained in the tool and/or accuracy and reliability verified through cross checking of information collected by loan officers

If score is 1, specify method of verification_____

Rationale 1.7

Effective individual targeting requires verifying the targeting tool’s quality and proper use.

Definition

See 1.6

Guidelines

Accuracy: Do the selection criteria distinguish the poor and the rich? Identify the excluded? Is there a risk of eligible people being overlooked and non-targeted people selected?

Reliability: Is the targeting tool administered to all new clients? Are loan officers trained in its use? Is there a risk of loan officers filling out the tool with approximate data, without client input?

Formal cross-checks: Does the MFI do cross-checks with selected and rejected clients to check for errors in the selection process?

Sources of information

Centralized approach: statements by management

External audit: verify existence of training sessions and quality control procedures; information from loan officers regarding their understanding of the tool, trainings they have participated in, quality control procedures for the tool

Participatory approach: focus groups with MFI staff on usefulness and reliability of targeting tools

1.8 Does the MFI measure the poverty levels of its entering/recently joined clients (less than one year in the program)?

SPS 14a

- 0 = Nothing is done to measure poverty levels
- 1= Yes, either a sample survey was conducted (less than 2 years ago) or systematic client surveys are carried out regularly

Optional, needed for SPS If no do you plan to do so in the future? _____

Please specify: Which methods does the MFI use to measure the poverty levels of entering/recently joined clients (Check all that apply):

- Progress Out of Poverty Index (PPI)
- Poverty Assessment Tool (PAT)
- Per Capita household expenditure
- Per Capita household income

Poverty levels that are not benchmarked:

- Housing Index
- Participatory Wealth Ranking (PWR)
- Means test
- Food security index
- Per Capita household expenditure
- Per Capita household income
- Own Proxy Poverty Index
- Other (please specify)

Rationale 1.8

Measuring the poverty level of new clients is a way to verify user profiles. Information can serve as a baseline to measure changes in standard of living over time.

Definition

New clients: Ideally, clients who have just received their first loan. If the MFI tends to measure poverty levels after this point, the term may apply to clients receiving their first loan within the last six months. If the number of new clients is too small for a representative sample, the term can apply to clients receiving their first loan within the last year.

Poverty surveys generally focus on the household rather than the individual (household assets, family composition, etc.) For surveys that focus on the individual, the MFI must be able to isolate assets and income directly attributable to the client.

Guidelines

Surveys may be based on a client sample (when administered after the client has taken a loan) or all clients (usually the case when data is collected at the time of loan application).

Future projects are not taken into account in SPI. Optional question only needed if the MFI wants to report on the SPS/Mix market.

Tools (definition SPS):

1. Progress Out of Poverty Index (PPI) CGAP-FORD, Grameen: the PPI is a composite of 10 easy-to-collect, non-financial indicators such as family size, the number of children (attending school), type of housing and assets, linked to a poverty likelihood score, according to

different poverty lines. Each PPI is specific to its particular country characteristics as each is based on a recent national household survey that covers expenditure or income. **2. IRIS/USAID Poverty Assessment Tool (PAT)**: also based on recent national household surveys that cover expenditure or income, PAT is a country-specific questionnaire of 15-18 indicators that are benchmarked to different poverty lines. (Initially designed to report on the % of clients who are 'very poor' according to the legislative definition of 'extreme poverty' for the country in question). **3. Per capita household expenditure**: sum of total household expenditure (for consumption or non-consumption) divided by the number of members living in the household **4. Per capita household income**: aggregate income from all household income from work, capital and government transfers, cash and in-kind - divided by the number of members living in the household). **5. Housing index**: the Housing Index uses the structure of the house and sometimes the compound, the material used for building the house, the number of rooms, the presence of running water and bathroom facilities to differentiate between economic levels of households and identify those who are poor. **6. Participatory wealth ranking (PWR)**: PWR relies on criteria that communities themselves define to conduct assessments of who within their communities they deem to be poor and who relatively better off. PWR lets communities themselves define what constitutes poverty and relative well being and lets communities then classify households according to relative levels of poverty. **7. Means Test**: the means test uses a very simplified household survey to determine poverty levels of households. A small number of relatively easily verifiable and generally asset based indicators are used, including land ownership, livestock ownership, ownership of radio, television, etc. Other indicators that may be used are educational levels or social indicators. A composite score is then derived to rank households. **8. Food security index**: it is a quantitative assessment of the availability, stability and access to food supplies in each country, as well as the nutritional outcomes that result from food insecurity. **9. Own Proxy Poverty Index**: any other poverty indicator used by your institution.

Sources of information

Centralized approach: statements by management

External audit/participatory approach: discussions with loan officers on loan conditions, the loan application process, and loan application forms; cross-check with data available in MIS; for occasional (rather than systematic) surveys, verify survey reports, questionnaires, survey methodology

1.9 What percentage of all entering/recently joined clients is estimated to be below the poverty line, at the end of the reporting year?

- 0= does not know / less than 10% of the new clients are poor
 1= more than 10% are poor
 2= more than 30% are poor

SPS
20

What poverty line(s) does your institution consider when measuring the poverty levels of your entering/recently joined clients? (Check all that apply):

- National Poverty line
 US\$ 1.00 a day international poverty line
 US\$ 2.00 a day international poverty line
 Other (please specify): _____

Please specify, what exact percentage of all entering/recently joined clients are estimated to be below the poverty line, at the end of the reporting year? _____

What percentage of all entering/recently joined clients are estimated to be in the bottom 50% of the poverty line, at the end of the reporting year? _____

Specify – see list in 1.8 – which poverty tool(s) is used to calculate this data: _____

Was this data gathered from a sample of clients / all clients? If from a sample, provide details on the size, period and sampling methodology: _____

Rationale 1.9

The MFI can measure the poverty levels of clients by using international definitions, or national poverty lines.

Definition (SPS)

1. Very poor: Clients living below an absolute extreme poverty line. Common extreme poverty lines include (1) persons in the bottom 50% of those living below the poverty line established by the national government, or (2) persons living on less than US \$1.00 per day (technically \$1.08 per day per capita at 1993 Purchasing Power Parity - PPP) or on less than of US \$1.25 per day at 2005 PPP.
2. Poor: Clients living below a poverty line. Common poverty lines include (1) persons living below the poverty line established by the national government, or (2) persons living on less than US \$2.00 per day in daily per-capita expenditures at 1993 PPP.
3. Low income: Clients above the poverty line but below the national average income. For any update about poverty lines and PPP visit: <http://www.povertytools.org/>

Guidelines

Establish the portfolio percentage going to new clients classified as poor, using data on all new clients or a sample of borrowers. Data must be less than two years old.

Specify the poverty definition used by MFI. This will determine the poverty line used to analyze the MFI's results (national threshold, 50% below national threshold, 1 USD/day, 2 USD/day, MFI's own definition).

To answer indicator 1.9, use the poverty line (national threshold, 2 USD/day or MFI's own definition), rather than the extreme poverty line (50% below national threshold, 1 USD/day).

Sample details (number of clients, selection criteria) indicate accuracy of results.

Sources of information

Centralized approach: MIS (if data systematically collected, processed and analyzed)

External audit: verify recent survey reports on new clients' poverty profiles

1.10 What percentage of clients are women?

- 0=does not know/less than 10% of the total number of active clients
- 1=less than 50% of the total number of active clients
- 2=more than 50% of the total number of active clients

Number of women active borrowers: _____

Percentage of women active borrowers: _____

Number of women voluntary savers: _____

Percentage of women voluntary savers: _____

Women clients = (women bor+wom savers)/total clients: _____

SPS
12a-d

Rationale 1.10

Women are often excluded from financial services. Women's access to credit can have a direct impact on a family's well-being. Specifically targeting women requires adapting services to their constraints and needs (see indicator 3.14)

Guidelines

Determine the percentage of active clients are women (women borrowers + women savers/total active clients). SPS indicator calculated percentage of savers and percentage of borrowers.

Source of information

Centralized approach: MIS

External audit: verify how information is collected in the MIS

1.11 What percentage of clients is from socially marginalized and/or vulnerable groups?

- 0=does not know/less than 10% of the total number of active clients
- 1=less than 30% of the total number of active clients
- 2=more than 30% of the total number of active clients

Specify number of clients who are indigenous people or ethnic minority, if applicable:

Specify number of clients from indigenous people/ethnic minority: _____

Specify other target groups and number of clients:

Target group: _____ *Number of clients:* _____

Target group: _____ *Number of clients:* _____

Target group: _____ *Number of clients:* _____

Target group: _____ *Number of clients:* _____

SPS
13c-e

Rationale 1.11

Effective individual targeting requires knowledge of clients' profiles. This indicator focuses on "exclusion" and "vulnerability", not poverty.

Definition

Marginalized/vulnerable groups: May be defined by race, caste, ethnicity or religion, and may include persons with disabilities, homeless, internally displaced persons or refugees. Also may include persons often excluded from microfinance such as farmers or young people between 16-25 years of age.

Guidelines

Determine the percentage of clients (savers and borrowers) considered as marginalized groups.

Source of information

Centralized approach: MIS or recent studies on target population

External audit: verify exclusion criteria used by the MFI

Participatory approach: verify whether MFI stakeholders consider exclusion criteria relevant; evaluate perception of percentage of clients meet criteria

Criteria 3 – Pro-poor methodology (9 points)

1.12 Does the MFI provide unsecured loans?

- 0 = For less than 10% of the total number of active borrowers
 1 = For less than 50 % of the total number of active borrowers
 2 = For more than 50 % of the total number of active borrowers

Specify the form of social guarantee(s) used by the MFI: _____

Percentage of the borrowers: _____

Optional, needed for SPS If possible, state the percentage of clients who have graduated from group loans during the reporting year

SPS
13b

Rationale 1.12

“Social” collateral reduces entry barriers for the poor and excluded and creates a relationship of trust between MFIs and clients, thanks to an approach that is very distinct from commercial banks.

Definition

Unsecured loans: Loans secured by collateral that banks usually do not accept such as solidarity groups, recommendations by a trusted third party, physical guarantees with a commercial value largely inferior to the loan amount but of high value to the client. If physical guarantees are required for the loan, it is not longer considered an unsecured loan.

Note: If compulsory savings is a condition to borrow, it is not considered an unsecured loan, unless the savings amount is less than 10% of total loan amount.

The practice of deducting a fixed amount from the loan to lock into savings is not considered an entry barrier, but can increase the cost of borrowing. It is considered an unsecured loan if the deducted amount is less than 10% of the loan amount. Although this form of compulsory savings is debatable (it does not incite savings behavior), it does not limit poor people’s access to financial services.

Guidelines

Determine the percentage of active borrowers.

May be calculated by summing all unsecured loans per type (*e.g.*, sum of borrowers in group loans + sum of borrowers with emergency loans).

Data on active borrowers used to give an idea of the situation at the time of the audit. If unavailable, information on loans disbursed over the last twelve months or during the last fiscal year can be used. Specify source of information.

The question on graduation, not taken directly into account in SPI is optional and only needed if the MFI wants to report on the SPS/Mix market.

Sources of information

Centralized approach: statements by management and MIS for percentage

External audit: verify categorization of unsecured loans and calculation of the percentage

Participatory approach: discuss with different stakeholders (management, loan officers, clients if possible) the usefulness of social collateral for the clients (are they really replacing physical guarantees?)

1.13 Does the MFI provide loans with alternative forms of collateral in order to facilitate productive loans?

- 0 = less than 10% of the total number of active borrowers are covered with such guarantee
 1 = more than 10% of the total number of active borrowers are covered with such guarantee

Specify the form of collateral: _____

Percentage of active borrowers secured with such collateral: _____

Rationale 1.13

Offering alternative forms of collateral backed by productive assets acquired with the loan or other non-traditional assets is a way to increase financial access of poor households. The main guarantee is the future income, which eases barriers to entry for poor households. Moreover, productive loans have a greater impact on the household and local economy than consumer or trade loans.

Definition

Forms of collateral that facilitate productive loans include collateral backed by client production or assets acquired with the loan.

Warrantage: Inventory or warehouse credit refers to the use of stocks of commodities as a physical guarantee. It allows farmers to pledge stocks as security against loans for trade or processing, or to take advantage of a rise in commodity prices.

Hire-purchase, leasing: Hire-purchase (or leasing) is an alternative to traditional medium-term equipment loans. It enables clients to finance equipment, which itself serves as the guarantee. Leasing involves separating ownership of a good with usufruct (the right to use someone else's property). The MFI remains the legal owner until the client repays the loan.

Factoring: The use of accounts receivable to guarantee a loan.

Sources of information

Centralized approach: statements by management; documentation on productive loans offered by MFI

External audit: verify loans in question are indeed designed for productive purposes; manual of procedure for such loans

1.14 Does the MFI provide small loans (< 30% GNI per capita) to facilitate access for the poor?

- 0 = small loans < 30% of the total number of active borrowers
 1 = small loans < 50% of the total number of active borrowers
 2 = small loans ≥ 50% of the total number of active borrowers

(1) GNI per capita of the country: _____ USD (2) Exchange rate: 1 USD = _____ (local currency) as of _____ (date) (3) GNI per capita in local currency (1)x(2) = _____ (local currency)

(4) Small loans = 30% of GNI = (3) x 0,3 What is the percentage of active borrowers, below (4): _____?

Rationale 1.14

The poor do not necessarily need small loans only, but to ensure services are accessible to people with low repayment capacity, MFIs should ensure at least a portion of their portfolio is comprised of small loans (≤ 30% of gross national income per capita).

Definition

A loan is considered small when the annualized loan amount is less than 30% of annual GNI per capita.

Gross national income: measure of national income. Sum of income (salaries and financial revenues) received for a given period by all resident producers. Standard reference used by international organizations (MIX, World Bank, United Nations). GNI per capita is not an ideal reference for comparison (due to regional differences, inequality between countries), but there are no simple and standardized alternatives appropriate for the purposes of the SPI.

Two types of information are available at the country scale: GNI per capita and GNI adjusted for purchasing power parity (PPP). The latter is an adjustment that equalizes the purchasing power of different countries to facilitate international comparison of GNI. Since loans are used in a local context, local prices and local purchasing power must be considered. It is therefore necessary to use GNI data that HAS NOT BEEN ADJUSTED FOR PPP. See list of GNI per country in the appendix 1.

Guidelines

Calculation: (1) GNI per capita is provided in USD; (2) find out the exchange rate of USD to local currency; (3) convert GNI per capita into local currency and (4) calculate 30% of GNI per capita in local currency. Next, verify in the MIS the number of active borrowers that receive loans equal to or less than this amount and record this number as a percentage of total clients. To limit biases, exclude small loans with terms under three months so that for example trade loans disbursed three or four times to the same client do not artificially increase the ratio.

Challenges to data collection: Group loans registered in MIS as one loan. An average can be used: a 1000 USD loan to a group of 20 people would be 50 USD per person.

MIS classifies loan sizes in categories that do not correspond to 30% of the GNI per capita (e.g., loan data is presented in categories of 500/1000/1500 USD and 30% of the GNI per capita is 800 USD); in this case, the auditor should identify the trend based on the MFI's categorization. Some MIS can recalculate data based on GNI per capita.

MIS does not categorize loans according to amount: signifies an inadequate MIS.

Sources of information

Centralized approach: MIS - External audit: verify how information is collected in the MIS

1.15 Does the MFI authorize small installments (<1% GNI per capita)?

- 0 = minimum installment is more than 1% GNI (monthly basis)
 1 = minimum installment is less or equal to 1% GNI (monthly basis)

Specify the size, in local currency, of the minimum installment amount for loans with monthly repayments?

Rationale 1.15

Small loan amounts are not enough to ensure the poor can access services. Small installments should also be allowed, to respect liquidity constraints of poor clients.

Definition

See indicator 1.14

Example

It is very different to borrow 600 USD for a three-month term with a monthly installment of 200 USD than to borrow 600 USD for a twelve-month term with monthly installments of 50 USD. The latter is preferable for people with liquidity constraints.

In a country where GNI per capita is 1000 USD, a small monthly installment would be under 10 USD or (2.50 USD for weekly installments).

Guidelines

Calculation: (1) GNI per capita is provided in USD; (2) find out the exchange rate of USD to local currency; (3) convert GNI per capita into local currency and (4) calculate 1% of GNI per capita in local currency. Next, verify in the MIS or with loan officers if at least 5% of monthly installments are less than this amount.

See list of GNI per country in the appendix 1.

Information is based on monthly installments, the most common among MFIs. For MFIs with weekly installments, make adjustments by taking the minimum weekly installment and multiply by 4. While it is very different to reimburse 100 USD per month as opposed to 25 USD per week, the adjustment is only meant to be approximate and to facilitate comparison.

The minimum amount must apply to at least 5% of loans.

Sources of information

Centralized approach: interviews with loan officers, MIS

External audit: verify loan product in question is used by at least 5% of loans

1.16 Does the MFI allow the opening of saving accounts with very small amounts (<1% GNI)?

0 = Minimum amount > 1% GNI

1 = Minimum amount ≤ 1% GNI

Please specify: Minimum amount in local currency: _____

Rationale 1.16

Cash-strapped clients should be allowed to deposit very small amounts on a regular basis to encourage savings.

Definition

See indicator 1.14

Examples

In a country where GNI per capita is 1000 USD, the minimum amount to open an account is ≤ 10 USD. If the MFI does not offer savings services, but actively facilitates access via another institution, note the minimum amount of this partner institution.

Guidelines

Calculation: see indicator 1.15

See list of GNI per country in the appendix 1.

Some MFIs may not specify a minimum amount and will accept any amount. In this case, the score is 1.

Sources of information

Centralized approach: interviews with credit agents, MIS

External audit: documentation describing saving services, interviews with tellers, savings manual of procedures

1.17 Does the MFI encourage solidarity between the different branches of the institution or between the different loan products?

- 0 = No
 1 = Some degree of solidarity, but informal mechanisms
 2 = Yes, through formal strategy (funds, difference in interest rates, etc.)

If answer is 1 or 2, explain the strategy: _____

Rationale 1.17

One way for an institution to branch out into difficult contexts and reach more “costly” clients (those who drive up transaction costs due to distance, small transaction size, monitoring) is to take advantage of its stable and less costly operations to support its higher-risk operations through cross-subsidization, solidarity funds or profit-sharing. This kind of solidarity among branches (or products) can help the MFI promote economic development in isolated communities and risky economic sectors.

Definition

Solidarity among new branches, among branches operating in difficult environments, cross-subsidization to facilitate service provision for the excluded. Examples: (i) The surplus of the most profitable branches are used to sustain branches that are less profitable, either because they are new or located in very poor or remote areas. (ii) The surplus of profitable products are used to offset losses of less-profitable products that are less profitable, but meet an important social need. (iii) A profitable branch covers the costs of training loan officers of other branches.

Example

The surplus of the most profitable branches may be used to sustain ones that are less profitable either because they are new or located in very poor or isolated areas. The surplus of profitable products may be used to offset losses of less profitable products (cross-subsidization) that meet an important social need. A profitable branch may cover the costs of training loan officers of other branches.

Sources of information

Centralized approach: statements by management

External audit: verify operational guidelines of any solidarity funds, interest rates of loan products, justification of these interest rates

Dimension 2: Products and Services

Rationale for Dimension 2

Microfinance has the potential to bring financial services to the poor and excluded. But it is not enough to decide to target a population; products and services must be adapted to their needs. Microfinance services are too often standardized: small loans, monthly repayments, solidarity group guarantees. Providing high-quality services that are well-adapted to clients—*i.e.* suitable to the local context, diversified, efficient and transparent—requires innovative rollout techniques and a proactive strategy combining access to financial and non-financial services.

MFI's need to know their target population to design suitable financial services. Dimension 2 focuses on characteristics of products and services, the design process, but also the MFI's knowledge of clients' needs. The indicators are simple and standardized, hence may not account for the specific quality standards used in different MFI's. A more in-depth analysis of an MFI's internal process to adapt services and limit client drop-out can be conducted through internal discussions with staff or an external audit.

The maximum total score for dimension 2 is 25 points.

Criteria for Dimension 2

Criteria 1 – Range of traditional services

This criteria evaluates the diversity of the traditional services (savings and loans) offered by the MFI. From the client perspective, product diversity is fundamental. Diversity implies a variety of terms and conditions adapted to different financial needs. This criteria assesses the range of products offered by the MFI. An MFI with both savings and credit services will receive a higher score than one with only credit.

This said, when interpreting the results of this criteria, one must consider elements that limit the MFI's capacity to diversify, noted in the first part of the questionnaire. These may be legal (a ban on savings mobilization, for instance) or financial (an MFI may decide to offer a limited range of products to stay cost efficient). A young MFI operating in a restrictive regulatory environment will necessarily receive a lower score, which is why results analysis by peer groups is useful.

Please note, the questionnaire is also designed to gather information on services that are not offered directly by the MFI, but that the MFI seeks to facilitate for its clients. The intent is to recognize efforts to partner with other organizations so clients can access services the MFI cannot provide itself.

Example: Promujer in Bolivia, an un-regulated MFI, proposes opportunities for savings to its clients thanks to a partnership with FIE, a regulated non bank financial institution.

Criteria 2 – Quality of services

This criteria evaluates quality through objective and verifiable proxies. Quality of services is an important part of performance, but difficult to measure objectively. The SPI methodology prioritizes concrete and verifiable indicators. Therefore, it is critical to be specific and complete when filling out the questionnaire, and to complement data collection with staff discussions to nuance findings.

Criteria 3 – Innovative and non-financial services

This criteria evaluates the MFI's efforts to adopt innovative approaches and adapt its services to a wide range of client needs. MFIs have long been encouraged to focus exclusively on savings and credit. However, several studies show that offering complementary non-financial services can enhance the impact of financial services. It is not necessary for the MFI to provide the innovative or non-financial services directly. They can be offered through another organization, in partnership with the MFI.

Total score for Dimension 2: 25 points.

Criteria 1 – Range of traditional services (7 points)

2.1 How many different types of loan products does the MFI offer?

0 = Only one or two

1 = More than two

Rationale 2.1

Offering a range of loans makes it easier to adapt to client needs. A diverse product mix can help an MFI address both business and household needs. A varied product offering can also allow for cross-subsidizing, as interest rates change depending on loan use and user.

Definition

Products are considered different when at least two of the following characteristics are different: purpose, disbursement conditions, minimum-maximum amount, term, collateral, interest rate and repayment schedule

Example

An MFI offers two loans. One has a three month term, the other a five month term. The purpose, minimum and maximum amounts, collateral, interest rates and schedule are the same for both. In this questionnaire, these two types of loans must be considered a single product.

Guidelines

To be considered a separate loan type, the product must be used by at least 5% of clients.

Loan Type	Purpose	Conditions	Min-Max Amount	Term	Collateral	Interest Rate	Repayment schedule
Type 1							
Type 2							
Type 3							
Type 4							

Different products may be offered in distinct geographical areas to adapt services to the area’s specific context. An MFI can offer up to three different products in three different areas. Although clients technically have access to only one loan type, hypothetically each loan type is adapted to the area, and therefore the MFI has diversified and adapted its product range.

Sources of information

Centralized approach: Statement by MFI management and documentation with product descriptions.

Participatory approach: auditors can organize focus groups with management, field staff and clients on perceptions of service diversification.

2.2 Does the MFI provide emergency loans?

0 = No

1 = Yes

Specify the types of loans:

Loans for immediate household needs

Lines of credit (for consumption)

Other, please specify:

SPS 3a

Rationale 2.2

Emergency loans are an important service for helping vulnerable groups deal with difficult and unforeseeable circumstances.

Definition

Emergency loans: loans with short terms (less than three months) that are disbursed rapidly (one or two days) and do not require a specific purpose; may be officially categorized as a consumer, emergency, social loan.

Line of credit (for consumption) (from SPS): a pre-established loan authorization with a specified borrowing limit extended by a lending institution to an individual for its consumption, based on creditworthiness.

Sources of information

Centralized approach: Statement by MFI management and product descriptions.

External audit: Auditor can also cross-check with field staff to ensure emergency loans are indeed being used for social needs. Loans manual of procedures.

2.3 Does the MFI provide loan products specifically tailored to clients' social needs?

- 0 = No specific loan products
 1 = One or more specific loan product

Specify the type of loans:

- Education loans*
 Housing loans
 Other, please specify:

SPS 3a

Rationale 2.3

MFIs often offer loans with maximum one-year terms not particularly adapted to specific needs. Loans designed with specific needs in mind can be used to make home renovations, buy a home, educate children and prepare for important social events. By extending terms, clients are better positioned to invest in their business, increase their own capacities, secure existing revenue sources, even increase income.

Guidelines

To be considered a separate loan type, the product must be used by at least 5% of clients.

Sources of information

Centralized approach: Statement by MFI management and product descriptions.

External audit: Auditor can also cross-check with field staff to ensure these loan products are used for the intended purpose. Loan manual of procedure.

2.4 Does the MFI provide loans specifically tailored to clients' productive needs?

- 0 = No specific loan products
- 1 = One or more specific loan product; must include at least one of the following loan types:

- Microenterprise loans*
- SME loans*
- Lines of credit (for business)*
- Long term (more than one year)*
- Agricultural loans*

SPS 3a

Rationale 2.4

MFIs tend to offer consumer or business loans without considering value creation. Vulnerable households need access to services that bolster their productive capacity and help create wealth, even if this means making higher-risk loans. Short-term loans with monthly repayment are poorly suited to many productive activities. MFIs are better positioned to serve artisan and agricultural sectors, for example, by adapting terms, conditions and loan amounts to the specificities of these sectors.

Guidelines

Loan amount must be larger, with either a term of over 12 months or flexible reimbursement (more than 3 months)

Sources of information

Centralized approach: Statement by MFI management and credit product descriptions.

External audit/participatory approach: For more in-depth analysis, auditor may talk with loan officers about client requests to modify existing loan products. While not as rigorous as a market study, these kinds of discussions often lead to ideas for improvement. Loan manual of procedures.

2.5 Does the MFI allow local branches to adapt their products and services to clients' needs?

0= No, all procedures are set by headquarters

1= Some flexibility is allowed in the local definition of products (changes may be subject to headquarter approval)

Rationale 2.5

An MFI that branches out often ends up operating in different contexts, be it in terms of the main economic activity, client profile, cultural norms or accessibility. A standardized product offering is often inappropriate under such circumstances. This indicator is designed to acknowledge institutions that recognize flexibility may be necessary at the branch level.

Example

In many countries, agricultural cycles differ from one region to the next. In this case, an MFI may decide to let branches adjust terms and repayment schedules.

Sources of information

Centralized approach: statements by management and documentation on credit products.

External audit/participatory approach: For more in-depth analysis, auditor may talk with branch and headquarters staff about the advantages or disadvantages of being more decentralized.

2.6 Does the MFI propose voluntary savings products, directly or in partnership with other institutions, or actively promote savings?

- 0 = No voluntary savings products (or voluntary savings concerns either less than 5% of clients or less than 5% of the volume of the loan portfolio)
- 1 = Voluntary savings services are provided by the MFI, or through an operational partnership with another financial institution. Or, the MFI provides information or training sessions to promote savings (in conjunction with savings institutions).

Specify types of savings proposed by the MFI (directly):

- Checking accounts*
- Savings accounts*
- Fixed term deposits*
- Special purpose accounts*
- Other, please specify*

SPS 3a

Rationale 2.6

Savings is an important service for microfinance clients. It reduces vulnerability and can be used for investment. Savings is less risky than loans. Some unregulated MFIs are not allowed to mobilize savings, but can work with regulated financial institutions to help clients access savings services.

Definition

Voluntary savings versus compulsory savings: voluntary savings is mobilized by the household to meet its needs. Compulsory savings are when the MFI requires clients to save, usually as a condition for accessing loans. The SPI does not take into account compulsory savings, often seen as a constraint by clients (thus with no “educational” impact in terms of inciting savings behavior) and rarely available to be used freely by clients. Compulsory savings are rarely remunerated and clients are forced to keep a minimum amount.

Sources of information

Centralized approach: statements by management

External audit: documentation on savings products, savings manual of procedure

2.7 Does the MFI (or a partner financial institution) provide voluntary savings specifically tailored to clients' social needs?

0 = No specific savings products

1 = Specific savings products provided by the MFI (or through another financial institution)

Please specify:

Housing, Education Retirement Health Other, specify: _____

Please describe conditions: _____

Rationale 2.7

Just as loans can be tailored to social needs (indicator 2.3), some institutions allow savings to be used for health issues, retirement, housing or educational needs. In some cases, savings products are more appropriate than loans, particularly when dealing with very vulnerable households. Such arrangements make savings more attractive to clients and serve to shore up the institution's liquidity.

Sources of information

Centralized approach: statements by management

External audit: documentation on savings products.

Participatory approach: auditor may talk with loan officers about client requests to modify existing savings products. While not as rigorous as a market study, these kinds of discussions often lead to ideas for improvement.

Criteria 2 – Quality of services (9 points)

2.8 To what extent are the MFI's operations decentralized?

- 0 = Low degree of decentralization (ratio ≥ 0.5)
 1 = High degree of decentralization (ratio < 0.5)

Rationale 2.8

A key characteristic of microfinance is proximity. Concentrating operations in a few branches can reduce operating costs, but undermine the relationship of proximity with clients and accessibility. Moreover, this concentration often benefits urban centers to the detriment of rural and marginalized areas.

Definition⁴

This indicator is based on an index used to evaluate the degree of concentration of organizations: it is the sum of the squared shares of clients for each branch. A high ratio indicates a very centralized institution (an institution that serves all its clients in one branch would measure 1), while a low ratio indicates decentralization (an institution whose clients are spread out among twenty branches would measure 0.05).

Example

- An MFI has only one branch:
Decentralization ratio = $1^2 = 1$
- An MFI has two branches serving 70% and 30% of clients
Decentralization ratio = $0,7^2 + 0,3^2 = 0,49 + 0,09 = 0,58$
- An MFI has twenty branches, each serving 5% of clients
Decentralization ratio = $20 \times 0,05^2 = 0,05$

Guidelines

Fill in the table to calculate the ratio.

Name of branch	Number of clients served by the branch	Share of clients served (branch clients/total clients)	Squared (x^2) share
Total clients:		Total squared shares	

Sources of information

Centralized approach/external audit: MIS and documentation regarding the branch outreach.

⁴ The Herfindahl index

2.9 Timely delivery: On average, how long does it take to disburse a first loan?

0 = more than 2 weeks

1 = less than 2 weeks

Specify how long it takes the MFI to disburse a first loan? _____ days

Rationale 2.9

Many clients greatly appreciate timely disbursement as it allows them to take advantage of opportunities, respect business commitments and deal with emergencies.

Definition

Average time required to disburse a first loan is the number of days that pass between the moment the loan application is submitted to disbursement. Should be measured for all new clients over the last 12 months and should include any required training and unexpected delays due to liquidity shortages, lack of available loan officers, etc.

First loan: Information must be collected for the first loan only, as it is the only way to ensure comparability. MFIs tend to respond more quickly once they know a client; accounting for seniority requires an analysis that is too complex to standardize.

Guidelines

Some biases may result from discrepancies between theory and practice: a loan officer's tardy transmission of a loan request, disbursement difficulties due to liquidity constraints, etc.

Sources of information

Centralized approach: statements by management and loan officers.

External audit: Verification of the loan process

2.10 What is the effective interest rate of the main loan product?

- 0 > cost of funds + 30 %
- 1 < cost of funds + 30 %
- 2 < cost of funds + 20 %

SPS
9b-f

Please specify:

What is the main loan product you offer?

What percentage of the portfolio does it represent?

Provide the effective annual interest rate for your main loan product (use the methods developed by Microfinance Transparency to obtain the APR- Annual Percentage Rate, with the APR calculation tool: <http://www.mftransparency.org/>):

Optional, needed for SPS

Do you know the percentage of your clients that are borrowing from other institutions? If yes, provide estimated percentage:

Do you know the percentage of your clients that are borrowing from moneylenders? If yes, provide the estimated percentage

Formula for its calculation (if not the APR calculation tool, recommended): ___ Cost of funds for the MFI (see 2.e in Part I): ___ Portfolio yield: _____ Average loan size (local currency): _____ Annual inflation rate: _____

Rationale 2.10

Interest rates are the subject of lively debate in microfinance, and must be examined carefully. MFIs need to cover costs to be sustainable and interest rate ceilings often push them out of rural areas, keep them from serving the poor, and lead them to offer standardized products. At the same time, some institutions do practice excessively high rates. It is critical that the cost of financial services be transparent. This indicator aims to clearly state an MFI's interest rate, as well as the cost of funds for the MFI. The MFI's characteristics must be taken into consideration (age, area of operations, average loan size, services offered, etc.) when interpreting results.

Definition

Main loan product is the reference product for calculating the effective interest rate. It is the loan product that is used by the largest number of clients.

Cost of funds refers to what it costs the MFI to access funds for on-lending. For MFIs that borrow from several external sources, calculate an average interest rate. For MFIs that rely essentially on savings, take the interest rate of most used time deposits plus 4% (average cost of managing savings accounts). The average financial expense ratio can be used here.

Effective interest rate: An effective interest rate incorporates all financial charges (interest, fees and commissions) to calculate the interest on the remaining principal for the loan period. The effective rate is the financial cost to the borrower, assuming there is no obligation to save. It includes all financial charges represented by a percentage of the loan amount used during each payment period. This rate is different from a monthly or annual percentage, which does not take into account charges, fees or commission associated with the loan.

The global effective rate must be calculated using a standard formula available in English developed by Microfinance Transparency to obtain the APR- Annual Percentage Rate, with the APR calculation tool: <http://www.mftransparency.org/>

Guidelines

As a rule, cost of funds plus 20% is in the low range while cost of funds plus 30% or more suggests inefficiencies or abusive rates.

Portfolio yield must be noted (to give an idea of the how much the MFI earns in interest), as well as average loan size (to get a sense of transaction costs, which may be higher if loan size is small) and inflation.

Questions on alternative forms of borrowing (other financial institutions, moneylenders) are optional for SPI and only needed if the MFI wants to report on the SPS/Mix market.

Sources of information

Centralized approach: MIS

External audit: interviews with financial officers and verification of loan contracts. Ideas of costs and APR in the other national MFIs.

2.11 Does the MFI use market research to identify the needs of clients and potential clients?

- 0 = No specific procedure
 1 = Informally: feedback obtained through field staff interactions
 2 = Formal market research: client satisfaction surveys, focus group discussions, interviews with exiting clients

[Optional, needed for SPS report: If score is 0, is it planned in the future: 0 Yes 0 No. If not, please explain why not: _____]

How does your institution identify the needs of clients and potential clients? (Check all that apply):

- Market Research for development of new products
 Client satisfaction assessment (interviews, surveys, focus groups, etc.)
 Interviews with exiting clients
 Other (Please specify: _____)

How often does the MFI do market research?

- Regularly/ Ongoing Semiannually Annually Biannually Occasionally/from time to time
 Never Planning to start

If score is 1 or 2, describe tools, size of surveys, etc.:_

Rationale 2.11

It is important to know what clients need and which services are apt to draw in non-clients. Market research sheds light on clients' evolving needs by taking into account the client's perspective. Getting regular feedback from clients can help avoid mission drift and help adapting services.

Concept

Satisfaction survey: a study that measures client satisfaction with services offered by the MFI

Market research: a study of clients and non-clients to identify needs, preferences and behaviors of current and potential users of services; analyzes family budgets and the use of financial services. A market study can be used to guide new product development.

Guidelines

MFIs may rely on informal discussions or analysis of loan requests as a first source of information. Or, using a slightly more formal process, the MFI may identify client needs with informal surveys of clients and non-clients. Finally, an MFI may decide to conduct formal studies with a sample of clients and non-clients or using focus groups.

Future projects are not taken into account in SPI. Optional question only needed if the MFI wants to report on the SPS/Mix market.

Sources of information

Centralized approach: statements by management.

External audit: Replies can be cross-checked by verifying the results of any formal studies.

2.12 What percentage of clients dropped out of the MFI during the last accounting year?

0 = More than 30% 1 = 15-30% 2 = Less than 15%

SPS
7a

To calculate the drop out rate, provide the following: Total number of clients (borrowers and savers) at the beginning of the reporting period: ____; Total number of clients (borrowers and savers) at the end of the reporting period: _____; Total number of new clients who joined during the reporting period: _____; What is the drop out rate for the MFI over the last accounting year? _____

2.13 How does the MFI obtain feedback from dropouts on their reasons for leaving?

0 = No study of the reasons for departure or informal feedback through field staff interactions.
 1 = Formal exit surveys or regular exit interviews by field staff

How often does the MFI conduct or commission exit surveys or receive informal feedback from exiting clients Regularly, Semiannually, Annually, Biannually, Occasionally-from time to time, Never, Planning to start - If any major event has occurred, external to the institution, that may have affected the drop-out rate, please report it.

Rationale 2.12/13

Client drop-outs represent lost investment for an MFI and thus come at a cost. Understanding why clients drop out is important, even though it is rarely automatic or natural to collect information from a client who has left the institution.

A high incidence of exits or inactive clients often indicates dissatisfaction, although it is natural for a certain percentage of clients to leave an MFI when they no longer need services, when they move, or obtain access to a formal institution offering different services. MFIs need to have an approximate idea of how many clients are leaving (or inactive) and why: are they dissatisfied or has financial access worsened their socio-economic situation?

Definition

Drop outs and/or inactive clients: Any client who has had no credit or savings transactions with the MFI for the last 12 months.

This standard definition aims to create a common criteria for client drop-outs, even if MFIs may use different criteria internally. Some consider client drop-outs those who do not make a new loan request immediately following a repayment cycle. This definition overestimates drop-outs, as it is common for borrowers to wait a few months before borrowing again. In savings and loan cooperatives, a client is not considered a drop-out until s/he withdraws his or her shares from the institution. But regulatory issues often make this so difficult that shareholders give up. So as not to underestimate drop-outs in cooperatives, we have opted to include inactive clients—those with no transactions in the last twelve months—in this concept.

The simplest and most common formula used:

$$\frac{\text{Number of client drop-outs} = (\text{Total number of clients (borrowers and savers) at beginning of reporting period} + \text{Total number of new active clients who joined during the reporting period} - \text{Total number of clients (borrowers and savers) at end of the reporting period})}{(\text{Clients at beginning of period} + \text{clients at end of period}) / 2}$$

Sources of information

Centralized approach: In some cases, information is available in the MIS, otherwise, use the above formula. Statements from management and loan officers (2.13).

Participatory approach: encourage management and field officers to discuss why they think clients drop-out; discussions with clients and ex-clients can be valuable.

Criteria 3 – Innovative and non-financial services (9 points)

2.14 Does the MFI provide innovative financial services to more than 5% of its clients (directly or via other specialized organizations)?

- 0 = No
- 1 = one innovative service
- 2 = more than one innovative service

Which of the following does the MFI provide:

- Life insurance (for credit life insurance”, see question 4.13)
- House insurance
- Livestock and agriculture insurance
- Other insurance, specify
- Debit/credit card
- Money transfers
- Payments by check
- Other, specify: _____

SPS 3a

Rationale 2.14

As providers of conventional financial services (credit and savings), MFIs can serve as a platform for other innovative financial and non-financial services. Innovation is proof of an MFI's willingness to stay active and listen to its clients.

Guidelines

The MFI does not have to offer services directly. In some cases, like insurance and transfer services, the MFI may simply facilitate access to these services by partnering with specialized institutions.

Sources of information

Centralized approach: statements from management

External audit: documentation on the innovative services offered.

2.15 Mobile banking: for regular financial transactions, do loan officers have to leave the MFI's premises to visit clients or can the clients conduct transactions without coming to the MFI (via visits or new information technologies)?

0 = For less than 30 % of the clients

1 = For more than 30% of the clients (visits with traditional services)

2 = For more than 30% of the clients (visits and/or use of new information technologies allowing flexibility for more than 5% of clients)

If score is 1 or 2, please provide a short summary of the products or services:

Rationale 2.15

To expand access, an MFI may decide to send staff directly to clients or set up mobile banking services as a way to address social barriers, make information more accessible and simplify procedures. The result is lower transaction costs for users who would otherwise have to come to the MFI, often travelling long distances, to make transactions.

New information technologies are facilitating distance banking and giving users greater flexibility in financial transactions.

Definition

Regular transactions may include loan application, loan disbursement, loan repayment or deposits. Visits only related to recovery of default loans do not apply.

New information technologies: Automatic Teller Machines (ATMs) point of sale terminals, internet, mobile phone banking, Personal Digital Assistants (PDAs), etc.

Sources of information

Centralized approach: statements from management

External audit: cross-check information by verifying regularity and objectives of staff visits to clients

2.16 Has the MFI developed linkages with other sectors and/or other actors outside the microfinance sector in order to improve services provided to clients?

0 = No

1 = Formal exchanges and collaborations with other sectors or actors

If answer is 1, please specify: _____

Rationale 2.16

Microfinance alone cannot foster economic and social development, but MFIs cannot be expected to assume sole responsibility for health, education or business development services, no matter how intertwined they are with the social and economic function of microfinance. Developing linkages and synergies with other development and economic partners such as banks and private companies (*e.g.*, processors, exporters) is an appropriate way to recognize the importance of such services.

Examples

Linkages to farmers' organizations, commercial banks, local NGOs, private enterprises, health or education services, etc.

Guidelines

To be valid, the linkages between the MFI and external partner (NGO, company, bank) must be formal and have already resulted in joint initiatives.

Sources of information

Centralized approach: Interviews with MFIs, partnership agreements.

External audit: For an in-depth analysis, auditor may interview a representative of the partner organization and consult the Memorandum of understanding with partners.

2.17 Does the MFI (or partnering institution) offer services related to enterprise management?

0 = No
 1 = Yes

Optional, needed for SPS If No, does the MFI plan to do so in the future? _____

Specify which of the following the MFI offers to clients:
Enterprise services : Nb of clients served for the reporting year: _____

Enterprise skills development: % of clients served _____,
 Business development services: % of clients served _____,
 Other (please specify): _____

SPS
3c

2.18 Does the MFI (or partnering institution) offer services that address social needs?

0 = No
 1 = Yes

Optional, needed for SPS If No, does the MFI plan to do so in the future? _____

Which other non-financial services does the MFI offer to clients:

Adult education
 Financial literacy
 Basic health-nutrition education
 Other (please specify)

Health services
 Basic medical services
 Special medical services for women and children
 Other (please specify)

If Yes, specify if services are delivered
 directly
 in partnership

List the organizations that are part of these negotiated alliances:

SPS 3c-d
17a

Rationale 2.17/2.18

Non-financial services can improve effectiveness of financial services, notably by improving client capacity to use credit and savings. An MFI that accompanies microenterprise or particularly vulnerable clients in their loan use is likely to improve clients’ chances of success.

Guidelines

These services do not necessarily have to be provided by the MFI, as they may be too costly or incompatible with the MFI’s technical and organizational capacities. For these two indicators, services may be provided by a partner institution.

Future projects are not taken into account in SPI. Optional question only needed if the MFI wants to report on the SPS/Mix market.

Sources of information

Centralized approach: statements from management

External audit: interviews with staff in charge of non-financial services

Participatory approach: For a more in-depth analysis, interview other MFI staff and clients to get their opinion on the usefulness of non-financial services provided.

2.19 Does the MFI ensure that the non-financial services are adapted to its clients' needs?

- 0 = No
- 1 = Yes, informally through discussions with clients and field staff
- 2 = Yes, in a formal and systematic way

Please specify any kind of study regarding the effectiveness on your target market of the financial/and or financial products and services

SPS
17b

Rationale 2.19

Non-financial services must reflect client needs. A common criticism of non-financial services is that they are subject to less quality control than financial services, which can lead to sloppy design and implementation. Moreover, when they are a pre-condition for accessing financial services, clients may see them as an irrelevant formality.

Guidelines

This indicator is designed to assess the institution's quality control processes.

Sources of information

Centralized approach: statements from management; interviews with staff in charge of non-financial services

External audit: documentation on the type of non-financial services and how they are implemented. Feedback from clients.

Dimension 3: Benefits to clients

Rationale for dimension 3

MFIs need be sure clients reap benefits from their services. Economic benefits alone justify access to financial services, but MFIs may also seek to strengthen social networks, build client capacity or involve clients in governance.

Criteria for dimension 3

Criteria 1 – Economic benefits for clients

This criteria evaluates the systems designed to promote and measure improvement in clients' economic situation. An MFI may monitor economic changes to the household, reduce its operational costs, make sure its loan officers and staff focus on clients' needs or share profits with clients.

Criteria 2 – Client participation

This criteria analyzes to what extent clients are involved in decision-making (at the client level and institutional level).

Microfinance is often associated with client participation. Many MFIs strive for proximity to clients and well-adapted products in view of engendering development. Internal actors often have (or are capable of having) a strategic vision on how credit can contribute to the evolution of the MFI and its operating environment; this vision is critical to institutional growth and sustainability.

However, in practice, the degree and ways clients participate in governance varies considerably. Including clients (or staff) in governance takes time, learning, and sustained efforts to train and monitor. Errors are likely. Moreover, institutions must define governance structures in a way that limits risk of cooptation but includes marginalized groups.

Sometimes, participation is impossible because the MFI is incapable of making the necessary investments in training and time, either due to financial constraints, geographical dispersion of clients, social conflicts or bad experiences with participation.

Criteria 3 –Social capital/client empowerment

This criteria assesses activities designed to build clients' social capital, *i.e.*, activities that reinforce social ties and client capacities, such as group formation, collective action, working together to reach common goals, fostering links with other development programs and facilitating access to previously inaccessible services. Stronger social ties can create new opportunities for clients, greater mutual protection against economic and social hardship, and improved ability to cope with crisis. This in turn can reduce vulnerability of individuals and groups.

The indicators in this section measure trust and solidarity between clients and the institution. They also evaluate the MFI's efforts to mobilize clients, help them make their voices heard (within the institution, the community, local and national governments) and encourage them to take on responsibility.

Total score for dimension 3: 25 points

Criteria 1 – Economic benefits to clients (8 points)

3.1 Does the MFI track changes in the poverty levels or economic status of clients over time?

0 = No information collected on changes to the economic status of clients; only anecdotal evidence of changes; not systematic use of information or low quality

1= Regular monitoring giving clear and useful information on changes of the economic status of clients

[Optional, needed for SPS If score is 0, does the MFI plan to do so in the future?]

SPS
14c-d

If score is 1, how often does the MFI track changes? Regularly/ On going, Semiannually, Annually, Biannually, Occasionally-from time to time, Never, Planning to start

If score is 1, specify the types of changes the MFI aims to observe:

Has the MFI conducted impact studies over the last 3 years?

Rationale 3.1

MFI's can verify improvement or decline in a client's situation by tracking changes to economic status. Even if changes are not directly attributable to the MFI (tracking changes is not the same as measuring impact), they serve as an early-warning system in case of deterioration (pushing the MFI to examine causes). Tracking changes also helps the MFI to follow the trajectory of different client categories, yielding valuable information on how to best serve them.

Definition

Economic status: refers to data on assets, income, housing conditions, education, food security, access to services (drinking water, electricity, health, education), vulnerability, etc. Data can be for households, as it is difficult to isolate data for individual household members.

Impact study: in-depth client surveys that use a control group to assess the differences between households with access to the MFI's financial services and those without.

Guidelines

Regular monitoring involves a formal data collection and processing system that allows the MFI to regularly take stock of clients' situations.

Partial or occasional data collection by loan officers does not count as regular monitoring.

Future projects are not taken into account in SPI. Optional question only needed if the MFI wants to report on the SPS/Mix market.

Sources of information

Centralized approach: statements from management

External audit: verify procedures for collecting, processing and analyzing data; review of study findings

Participatory approach: focus groups with staff regarding the kind of data collected, collection procedures, results and how they are used

3.2 Did any of the staff participate in training or orientation sessions related to any aspect of social performance management, during the reporting year?

- 0 = No
 1 = Yes

SPS
4a-c

Optional, needed for SPS If score is 0, does the MFI plan to do so in the future? 0 Yes 0 No _____]

If not planning, please explain why not: _____]

Which staff have received some kind of training on social performance management during the reporting year?

(Check all that apply):

- Board members
 Top management
 Middle management
 Loan officers
 Back office staff (MIS, accounting administration)
 Other (please specify) : _____

On which areas related to social performance does the institution offer staff training?

- Over-indebtedness prevention
 Communication with clients of product pricing, terms and conditions
 Acceptable practices of payment collection
 Collecting good quality social information
 Policy and procedures on safeguard of clients' data
 Referring clients complains to those responsible for handling and resolving them
 Being responsive to clients' needs
 Gender sensitivity
 Other (please specify): _____

Rationale 3.2

Staff training on social performance management is important to ensure that staff understand how their work helps the organization achieve the social mission. MFIs can use training as an opportunity to capture staff feedback, enabling it to make changes where necessary so that its management systems are fully aligned with the social mission. This indicator assesses which MFI's members have received training on any aspect of social performance during the reporting year and the areas of training covered.

Future projects are not taken into account in SPI. Optional question only needed if the MFI wants to report on the SPS/Mix market.

Sources of information

Centralized approach: statements from management

External audit: interviews with department in charge of training/ Human resources

Participatory approach: focus groups with staff on feedback from SPM trainings

3.3 Does the MFI conduct performance appraisals of staff in relation to social performance management? Does the MFI have a staff incentive scheme related to social performance goals?

0 = No

1 = Yes, either appraisals or incentives scheme or both

Staff appraisal : Yes No No, but planning in the future

SPS
5a-e

Optional, needed for SPS

If not, and not planning, please explain why not: _____]

Areas that the MFI appraises:

Ability to attract new clients from target market

Outreach of remote rural communities

Gender sensitivity skills

Quality of interaction with clients

Social data quality

Retention/drop-out rates

Portfolio quality

Other (please specify)

Staff incentives: Yes No No, but planning in the future

[Optional, needed for SPS report If not, and not planning, please explain why not: _____]

Areas that the MFI rewards:

Ability to attract new clients from target market

Outreach of remote rural communities

Gender sensitivity skills

Quality of interaction with clients

Social data quality

Retention/drop-out rates

Portfolio quality

Other (please specify)

Which staff members qualify for these incentives? (Check all that apply)

Top management

Middle management

Loan officers

Back office staff (MIS, accounting administration)

Other (please specify)

Rationale 3.3

Staff will be more focused on the benefits of the services to the clients when an MFI collects social performance data and uses it for staff incentive/motivations to achieve the mission.

Guidelines

These questions verify whether the MFI effectively uses information on social performance for management purposes, to design incentives for staff. Therefore, record only practices that are systematic and have a genuine impact on the institution's operations.

Future projects are not taken into account in SPI. Optional question only needed if the MFI wants to report on the SPS/Mix market.

Sources of information

Centralized approach: statements from management

External audit: discussions with MIS department and head of human resources

Participatory approach: interview with staff on incentive systems linked to SPM

3.4 Has the MFI taken corrective measures (like modifying products) due to negative impacts on social cohesion or client welfare? (does not include problems with indebtedness, addressed in dimension 4)

- 0 = no changes made so far / no information collected on negative effects
 1 = changes made after identification of a problem / no problems identified

If answer is 1, describe the changes: _____

Rationale 3.4

Providing financial services and tapping into local social networks necessarily affects social organization and the local economy. MFIs must be tuned into their influence on clients and the community, and willing to adapt procedures with negative consequences.

Example

Loan collection strategies use different forms of pressure to get clients to pay. For example, an MFI may ask clients in good standing to pressure delinquent clients. Besides causing hardship, this method can damage social networks. If this is the case, the MFI may decide to modify its recovery strategy.

Sources of information

Centralized approach: statements from management

External audit: verify recent changes to procedures

Participatory approach: focus groups with staff on negative consequences that have been identified and, if applicable, corrected.

3.5 Does the MFI have an explicit strategy to reduce costs of services as much as possible (without compromising quality) ?

0= no explicit strategy to reduce costs of services

1= efforts to reduce costs of services while maintaining quality integrated into the operational strategy of the MFI

If score is 1, specify the policy dealing with operational cost reduction and whether it has led to a drop in interest rates: _____

Please indicate:

Operating Expense Ratio for the last reporting year:

Operating Expense Ratio three years ago

Rationale 3.5

MFIs often have high transaction costs, which result in high interest rates. However, MFIs should not make clients pay for their inefficiency. This indicator assesses whether the MFI makes systematic efforts to reduce transaction costs (without compromising quality).

Guideline

The OER for the current year and 3 years ago give a clear indication whether this strategy is efficient.

Sources of information

Centralized approach: statements from management, strategic documents on managing operational costs

External audit: verify strategic documents, management procedures; verify changes to interest rates

Participatory approach: focus groups with staff on operational efficiency and opportunities for cost reduction

3.6 Does the MFI have a formal policy on how clients benefit from profits generated by the MFI?

0= no formal policy regarding how clients benefit / profits shared only among shareholders and/or kept in the MFI's reserves

1= no formal policy but occasional decisions have been made in favor of clients (involving <15% of profits)

2= formal, open and transparent policy to allocate profits to the direct benefit of the clients (involving >15% of profits)

If score is 1 or 2, specify the policy: _____

Give figures in case of interest rate reduction: _____

Rationale 3.6

The idea behind profit sharing is that clients benefit not just from services, but from profits generated by these services.

Definition

A formal policy is explicit and written into the strategic planning of the MFI.

Example

Profits can be used to reduce interest rates, invest in the community (as does *Crédit Rural de Guinée*, by allocating 15% of profits to develop services in its operation areas), or create special funds (PAMECAS in Senegal used dividends to create a foundation to finance social protection measures).

Sources of information

Centralized approach: statements from management, strategic documents on profit allocation

External audit: verify strategic documents, minutes of meetings where decisions on profit allocation were made

Participatory approach: focus groups with staff and clients on how the MFI allocates profits

3.7 Does the MFI adopt special measures or have special funds in case of collective disaster?

0 = No measures or funds exist / measures taken on a case by case basis

1 = Funds or reserves are earmarked in case of collective disaster

If answer is 1, specify the measures: _____

Rationale 3.7

Collective disaster poses challenges for clients and institutions. MFIs can help clients by identifying disaster risks, adopting special measures and creating special funds. MFIs can reduce their own covariant risk by operating in diverse areas. MFIs can also have insurance to protect themselves (and their clients) from damages of collective disaster (example: typhoons insurance in the Philippines)

Example

Collective disaster: cyclones, draught, floods, crop loss, etc.

Sources of information

Centralized approach: statements from management, documentation on special disaster funds

External audit: verify characteristics of disaster funds, how they operate and how they are used (if used recently)

Criteria 2 - Client participation (9 points)

3.8 Can MFI clients participate in decision-making?

a) Decision-making at the client level (for instance, within the self-managed group, joint liability group, or self-help groups)

0 = No

1 = Yes

b) Supervision and decision-making at MFI management level

0 = No

1 = Yes

Does the MFI have regular all-member meetings? Yes / No / Not Applicable

Rationale 3.8

There are several levels of client participation.

- The first involves providing feedback on products and services, addressed in 2.11.
- The second involves participation in decision-making at the client or group level: Who receives the loan? What are the repayment conditions? (indicator 3.7a) Participation at this level gives clients responsibilities and bestows trust. This builds client capacity and can reduce costs for the MFI, permitting the institution to increase outreach in poor and isolated areas. However, client participation can also lead to exclusion of certain populations, and requires vigilance (indicators 3.2 and 3.3).
- The third level (3.7 b) involves decision making and supervision of the MFI, and implies involvement in governance (as elected representatives or via client associations). Participating in governance encourages appropriation and responsibility; it also builds capacity. When clients participate at this level, MFI strategy is more likely to reflect client objectives.

Client participation requires accountability, democratic rules and transparency. It is difficult to achieve in unstructured societies (*e.g.*, post-conflict zones) or societies where trust is not prevalent.

Example

Client participation in governance is not limited to cooperatives/credit unions; clients can influence decisions in private companies (as shareholders) and self-managed structures (certain village banks) => Questions 3.7 and 3.8 are not limited to cooperatives/credit unions.

Guidelines

General assemblies inform clients and include them in decision making, when possible.

Sources of information

Centralized approach: statements from management, MFI by-laws

External audit: verify application of by-laws in minutes of general assemblies, board meetings, committee meetings

Participatory approach: focus groups with governance actors on their roles and responsibilities

3.9 Are elected client representatives involved at the governance level (board of directors)?

- 0 = No
 1 = Yes

Are board elections in compliance with the MFI's by-laws ? Yes / No / Not Applicable

Rationale 3.9

In order to be credible and legitimate, client representatives must be elected. They should be able to participate in the governance structure through the Board of directors.

Guidelines

Elected client representatives generally intervene on the board of directors. Verify elections are held in accordance with by-laws.

Sources of information

Centralized approach: statements from management (board members and client representatives)

External audit: verify by-laws and minutes from board meetings

Participatory approach: focus groups with staff on selection of elected representatives

3.10 Is there an effective system to determine the rotation of client representatives at the client or management level?

- 0 = No
 1 = Yes

If score is 1, specify the policies: _____

Rationale 3.10

This indicator assesses the effective rotation of representatives, which signifies that the democratic process functions well. It is also useful to check that rules are respected at the client and institutional level: secrecy of the ballot, transparent nomination procedures, regular rotation of representatives via term limits, substitution of representatives nominated by default, etc.

Guidelines

Specify the training policy for newly elected representatives.

Sources of information

Centralized approach: statements from management and board members

External audit: verify by-laws, minutes of general assemblies and board meetings, evaluate the rotation of elected officials

Participatory approach: focus groups with staff and clients on how representative bodies work

3.11 What percentage of all client representatives are women?

- 0 = No women representatives or less than 20%
- 1 = More than 20% of women among the client representatives
- Specify actual number and percentage: _____*

Rationale 3.11

To ensure gender equality, women must be represented in governance bodies in a proportion that is equivalent to the proportion of women clients.

Sources of information

Centralized approach: statements from management, data on elected officials, lists of client representatives

External audit: verify data on elected representatives, minutes of general assemblies and board meetings

Participatory approach: focus groups with staff and, particularly, women representatives regarding access to governance bodies

3.12 At the client level or management level, does the MFI provide training and capacity building for elected representatives to help them perform their governance role effectively?

- 0 = No
- 1 = Yes, on an irregular basis (or only at the client level)
- 2 = Yes, on a regular basis, in accordance with a defined policy

If score is 1 or 2, specify the policies regarding capacity building of elected client representative:

Rationale 3.12

For elected representatives to perform their role effectively (at the client or institutional level), they must have specific qualifications and a thorough understanding of rules and responsibilities. This often requires training. This indicator assesses the MFI's efforts to train client representatives to assume management duties.

Definition

Effective governance: representatives need to have a clear strategic vision that is shared by other decision makers in order to understand strategic and operational information, respect organizational principles, be credible and have the capacity to perform necessarily functions.

Guidelines

Scoring for this indicator depends on the regularity and systematic nature of the training provided.

Sources of information

Centralized approach: statements from management and staff responsible for training

External audit: verify types of training offered, training calendar, participants

Participatory approach: focus groups with elected representatives on their role and the support they receive to perform their duties effectively

3.13 Are these participatory bodies effective?

- 0 = No, either they do not exist or they are more symbolic than active or they are not effective
 1 = They are mostly effective but members lack training, are insufficiently informed or do not have enough opportunities to meet / they are mostly informal / they are only effective at the clients' level
 2 = Yes, they are effective

If answer is 1 or 2, specify the measures/criteria in place to ensure that member governance is effective:

Rationale 3.13

Assessing effectiveness of governance bodies (client or institutional level) is necessarily subjective. Nevertheless, there is a difference between simply “applying the rules” (symbolic or theoretical participation) and genuine client involvement that reflects a commitment to seeing the MFI evolve.

Definition

To be considered effective, bodies must have already influenced decisions and incurred changes. Representatives must fulfill their role independently, without any external influence of staff or board members.

Sources of information

Centralized approach: statements from management and board members

External audit: verify with stakeholders the rotation and qualifications of representatives; verify minutes of meetings of governance bodies (in particular involvement of elected representatives, content of discussions); identify any topics that gave rise to conflict between representatives and employees and how they were resolved

Participatory approach: focus groups with elected representatives and employees on their respective roles in governance

Criteria 3 - Social capital/client empowerment (8 points)

3.14 Does the MFI help clients resolve problems beyond access to financial services?

- 0= No
 1= Anecdotal evidence
 2= Yes regularly

If score is 1 or 2, describe the problems dealt with: _____

Rationale 3.14

Many MFIs have an organizational structure and approach to service provision that is appropriate to non-financial problem resolution. Regular dialogue among clients living in the same community or between clients and local authorities can increase transparency, mutual understanding, thus giving rise to conflict resolution.

Example

Non-financial problem resolution may involve efforts to help clients foster relationships among themselves, with other socioeconomic actors in the community or local networks. May include creating forums to address common problems regarding access to public services (*e.g.*, health, education, electricity) and public goods (*e.g.*, natural resources, pasture lands) or legal and security issues in the community, for instance.

Sources of information

Centralized approach: statements from management

External audit: identify collective organizational efforts among clients, between clients and the MFI, or, if appropriate, between clients/MFI and local authorities

Participatory approach: focus groups with actors involved in non-financial activities

3.15 Does the MFI or partnering institution offer support services that specifically aim at women's empowerment ?

- 0 = No / offers services for women but none that aim at empowerment (neutral objective)
 1= Yes, offers one or two products/services designed for women with a “transformative objective”
 2= Yes, offers more than two products/services designed for women with a “transformative objective”

If score is 1 or 2, specify the products/service/ Financial services

Special Loan Products for women *Special timing and repayment procedures* *Special type of collateral concessions*
 Special health insurance products for women clients or client spouses *Special strategies for graduation to higher loans*
 Special Savings products for women *Other: _____*

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Non financial services *Business training to enhance women's market opportunities* *Women leadership training*
 Training on rights and responsibility as leaders in participative models *Women's rights education/Gender issues (training for men and women)*
 Counseling/legal services for women victims of violence *Other (please specify)*

Rationale 3.15

An MFI may target women to involve them as clients (a neutral objective that implies no specific strategy beyond recruiting female clients) or have the mission to identify and address constraints facing women (a transformative objective) by offering opportunities for income generation, leadership and social capital that create a security net in times of economic uncertainty and need.

Definition

Empowerment: “giving power to women”

Sources of information

Centralized approach: statements from management and staff in charge of new product development

External audit: analyze products and services for women, including the design and implementation

Participatory approach: focus groups with loan officers, product development staff, and clients to discuss quality and relevance of non-financial support services.

3.16 Does the MFI have effective strategies to communicate policy decisions to clients/ordinary members?

0 = No

1 = Yes, general publications accessible on the web (via Mix, affiliate networks) or available from the MFI upon request

2 = Communication through means specifically adapted to client: workshops, general assemblies, presentations, leaflets, etc.

If score is 2, describe the communication strategy: _____

Rationale 3.16

Capacity building and client participation require transparency, regular dialogue and mutual trust.

Example

Communication between the MFI and clients includes regular meetings with clients (or client representatives) and disseminating documentation adapted for public relations purposes.

Sources of information

Centralized approach: statements from management, public relations material

External audit: verify documentation and dissemination strategies

Participatory approach: focus groups with employees and clients to gauge quality and content of materials

3.17 Has the MFI sought to increase clients' influence with local or national government (either individually or through participation in MFI networks)?

- 0= No
- 1= Indirectly, as this is a minor objective
- 2= Directly, as this is a major objective

If score is 1 or 2, describe what has been done, with which networks, and with what objective: _____

Rationale 3.17

MFIs operating in the same country may be competitors, but can help move the whole sector forward by working together in networks or trade organizations (for example, lobbying, representing the sector in national debates, advocating appropriate legal and regulatory networks).

MFIs often possess intimate knowledge of clients' needs and situations. They (and their networks) can use this knowledge, their reputation, and their economic and institutional status to influence public policy in other sectors, such as health, infrastructure, education, rural, and agriculture.

Ties to government can also have draw-backs: some managers may use their relationships with authorities for personal gain rather than client benefits.

Examples

MFI networks in Bolivia (Finrural) and Equator (*Red Financiera Rural*) seek to influence regulation that will facilitate member MFIs' efforts to work in rural areas. ADIE in France works with the government to simplify administrative procedures for micro and small enterprises.

Sources of information

Centralized approach: statements from management

External audit: verify annual reports, relationships between MFI and local, national or regional networks; verify discussion topics in these networks and achievements

Participatory approach: focus groups with staff to discuss MFI's influence on government

Dimension 4: Social Responsibility

Rationale for Dimension 4

There is a difference between social responsibility and social performance. The first term can refer to any sector (sectors without a social mission can be socially responsible) and involves limiting an activity's negative impact on stakeholders (employees, clients, community) or the environment. The second refers specifically to the microfinance sector: its double bottom line and social mission to serve the excluded with well-adapted services that bring social and economic benefits. Social responsibility is often summarized by the expression "do no harm", and social performance as "do good". In this sense, social performance includes social responsibility.

In the SPI, social responsibility refers to an MFI's commitment to accountability and ensuring its activities do not have negative effects. Social responsibility extends to employees (decent work conditions, appropriate human resource policies), clients (consumer protection policies), the community and the environment (respect of local cultural-socio-economic contexts, environmental protection policies).

Criteria for Dimension 4

Criteria 1 – Social responsibility to employees

This criteria evaluates the MFI's working conditions. Human resources have often been slighted in microfinance, with emphasis on client services and cost-effectiveness instead. Employee commitment to serve the poor is expected to compensate for low salaries, despite high demands. This leads to dissatisfaction and high turnover when competition increases. Increasingly, human resources are recognized as a key element of social responsibility, essential to maintaining high-quality, well-trained and motivated employees.

Criteria 2 – Social responsibility to clients

This criteria evaluates six principles of consumer protection widely accepted in the microfinance sector: prevention of over-indebtedness, cost transparency, collection practices, employee conduct, grievance procedures and client confidentiality.

This section draws also on the work done by Beyond Codes and the Center for Financial Inclusion of Accion International, based on the document "Getting Started: Client Protection Questionnaire" (June 2009):

<http://www.centerforfinancialinclusion.org/Document.Doc?id=606>

Criteria 3 – Social responsibility to the community and environment

This criteria evaluates the MFI's actions in terms of local economic, social and cultural development as well as environmental protection. Microfinance relies on local social networks to create solidarity groups, foster trust and gather client information. Preserving social cohesion is not only ethical, it is essential for sustainability. Nonetheless, there is debate regarding the extent to which MFIs should get involved in communities where they operate. What is the boundary between respecting local culture and encouraging values of transparency, democracy, equality? What is the MFI's role in disseminating these values, or investing in public goods? This criteria recognizes institutions' efforts to be proactive in their community.

Total score for Dimension 1: 25 points.

Criteria 1 - Social responsibility to employees (9 points)

4.1 Does the MFI have a clear salary scale based upon market salaries?

0= No
 1= Yes

Describe the MFI's human resource policy, including information on career management, incentives, etc.:

Has the MFI included in its human resources policy equal pay for men and women with equivalent skill levels?

Yes No

**SPS
10a**

Rationale 4.1

It is difficult to compare salary levels from one country to the next or establish benchmarks for comparison, even at a national level.

A salary scale suggests the MFI is committed to a well-thought out, transparent human resource policy, and provides a baseline to assess key indicators (such as raises and salary differential between managers and loan officers). The effective dissemination of the salary table to each employee is a basic indicator of operational management in human resources.

Guidelines

The salary scale must be available to all personnel.

Sources of information

Centralized approach: statements from management and human resources

External audit: verify salary scale and employee knowledge of the scale

4.2 What percentage of staff is employed with a long-term contract?

- 0 = less than 40 %
- 1 = more than 60 %
- 2 = more than 80 %

Please specify number and percentage of staff with a long-term contract: _____

Rationale 4.2

Stability is a key criteria of good working conditions.

Definition

Long-term contract = Open-ended or more than 1 year

Guidelines

In some countries, there exist open-ended contracts; where this legal form does not exist, contracts over one year are considered long-term.

Sources of information

Centralized approach: statements from management and human resources

External audit: verify employee status and contracts

4.3 Are training programs accessible to all types of employees?

- 0= less than 50% of the staff is concerned
- 1= more than 50% of the staff is concerned, with each staff member receiving an average of at least 2 days of training

Rationale 4.3

Training employees is important for their qualifications, job performance as well as motivation and involvement in the institution. Nonetheless, training is sometimes provided for select employees only (such as managers) because it is considered too costly. Record the number of days in training *per type of employee* to assess training investments in all staff.

Definition

Different types of employees include loan officers at the branch level; back office staff at the different levels (local, regional, or headquarters); senior management; in some cases, voluntary workers may also be included. Training programs may be provided by the MFI or an external entity, either paid by the MFI or subsidized.

Guidelines

Each staff member must receive an average of at least two days of training per year to be counted as having access to training.

Complete the following chart

Type of employees	Total no. of empl. by type (1)	Total no. of days of training over last 12 mo. (2)	Average no. of days (2)/(1)

Sources of information

Centralized approach: statements from management, discussions with the department responsible for training, verification at different levels of the MFI (HQ, branches)

External audit: verify training materials used for internal training or contact external trainers

Participatory approach: focus groups with different types of employees on training experiences

4.4 Can the employees participate in decision making regarding strategic decisions of the MFI?

0 = No or only through informal mechanisms such as meetings between staff and senior management

1= Through an elected consultative body or another governance mechanism

If score is 1, please specify the policies:

Rationale 4.4

Employees are more motivated and identify more readily with an institution when they are involved in decision making. However, employee participation calls for training and a clear strategy to avoid mission drift (should employees interests override the social mission) and internal conflicts that hinder decision-making.

Guidelines

1) Sharing information and organizing meetings are informal ways of involving employees in decision making. Employee suggestions may not necessarily be adopted and employee decisions may be called into question should the MFI change management.

2) Participating in an elected consultative committee or governance body formally includes employees in decision making.

Sources of information

Centralized approach: statements from management, MFI statutes

External audit: verify HQ and branch levels

Participatory approach: Discuss with management and staff the effectiveness and appropriateness of mechanisms to encourage staff participation in decision making

4.5 Does the MFI provide health coverage for its employees?

- 0 = No
 1 = Yes

Optional, needed for SPS

Has the MFI included in its human resources :

- | | | |
|---|-------------------------------------|------------------------------------|
| - <i>policy pension contribution?</i> | <input type="checkbox"/> <i>Yes</i> | <input type="checkbox"/> <i>No</i> |
| - <i>practices and procedures which ensure safety of the staff?</i> | <input type="checkbox"/> <i>Yes</i> | <input type="checkbox"/> <i>No</i> |
| - <i>anti-discrimination policy?</i> | <input type="checkbox"/> <i>Yes</i> | <input type="checkbox"/> <i>No</i> |
| - <i>anti-harassment policy?</i> | <input type="checkbox"/> <i>Yes</i> | <input type="checkbox"/> <i>No</i> |

SPS
10a

Rationale 4.5

Health care coverage for employees is a good incentive and reduces risk of unforeseen health-related expenses.

Guidelines

Health care coverage may be provided in collaboration with an insurance or specialized company. Coverage must be in addition to any universal system covering all citizens.

Questions on additional policies for human resources are optional for SPI, only needed if the MFI wants to report on the SPS/Mix market.

Sources of information

Centralized approach: statements from management.

External audit: job contracts, the contract between MFI and insurance company

4.6 Does the MFI have a specific policy with regard to women staff?

- 0 = No
- 1 = Yes

Specify the policies in place to support women staff (Check all that apply):

- Equal opportunity policies for staff
- Set quota for women staff
- Worktime adapted to family constraints
- Maternity leave policies
- Specific policies that support women's mobility in the field
- Other (please specify)

SPS
10b

Presence of women staff (for reporting year):

SPS
10c-g

	<i>Total staff</i>	<i>Top managers</i>	<i>Middle managers</i>	<i>Loan officers</i>
<i>Total number (men and women)</i>				
<i>Number of women</i>				
<i>Percentage</i>				

Rationale 4.6

Gender issues can be first dealt with at the staff level. MFIs should define policies that facilitate women incorporation and full involvement among its staff.

Definitions

The MFI engages in policies aiming at supporting the presence of women staff. Among these policies there are: 1. Equal opportunities: The MFI actively supports the recruitment of both men and women staff and works in the community to overcome barriers of access to employment for women. 2. Quotas: Quotas for women that entail that women must constitute a certain number or percentage of the staff at different levels. 3. Work time adapted to family constraints: possibility to women staff to have decently paid permanent part-time work. 4. Maternity and paternity leave policies: paid maternity leave and protections for pregnant women against job discrimination. 5. Policies in support of women's mobility in the field: help to overcome the obstacle of limited mobility of women who are working in the field and have to travel to visit clients or reach the workplace.

Sources of information

Centralized approach: statements from management, human resources department.

External audit: job contracts, human resource policies

Participatory approach: focus group with women staff

4.7 What percentage of the MFI staff left the MFI during the last 12 months?

- 0 = more than 15 %
- 1 = less than 15 %
- 2 = less than 5%

Total number of staff at the end of the current reporting period:

Total number of staff at the end of the previous year reporting period:

New staff contracted during the current reporting period:

Staff turnover rate:

Does the MFI monitor employee satisfaction?

Yes, No, Planning in the future

If not, and not planning, explain why

How does the MFI monitor employee satisfaction?

- Assessments of employee satisfaction and/or satisfaction as part of regular staff appraisal
- Periodic systematic surveys of employee expectations and/or satisfaction
- Established system to address staff grievance
- Interview with exiting staff
- Other (please specify)

SPS 10j,
10h, 10i

Rationale 4.7

Turnover rate indicates employee satisfaction and reflects the quality of the employee-institution relationship. When voluntary departures are due to better opportunities, the MFI should define financial or non-financial incentives to keep on staff. Firing staff may indicate internal weaknesses or lack of respect and/or confidence between the MFI and personnel. Departure upon the end of contract may indicate the MFI does not offer employees stable contracts.

Guidelines

Formula for calculating staff turnover rate:

$$\frac{\text{Number of employees exiting}}{(\text{Staff in beginning of period} + \text{New staff during the year} - \text{Staff at the end of the year})} \\ (\text{Employees at the beginning of the year} + \text{employees at the end of the year}) / 2$$

Sources of information

Centralized approach: statements from management and human resources

External audit: verification at HQ and branch levels

Criteria 2 - Social responsibility to clients (9 points)

4.8 Prevention of over-indebtedness: What does the MFI do to avoid client over-indebtedness?

- 0 = Nothing in particular
- 1 = Some efforts made
- 2 = Efforts made to prevent over-indebtedness and measures have been taken after identification of over-indebtedness

Efforts (see list below)

If score is 1 or 2, please provide a short summary of the policies: _____

If score is 2, what is being done to ensure these measures are effective?

SPS
8a

Rationale 4.8

Consumer Protection Principle N°1: Over-indebtedness is a risk, particularly in highly competitive environments. Even without competition, poor evaluation of needs and repayment capacity can cause over-indebtedness.

Certain precautions are needed to avoid over-indebtedness, which is not necessarily apparent. Group repayment mechanisms can hide a household in crisis, just as the desire to avoid default can lead a client to become trapped in a cycle of debt. If the MFI waits for repayment rates to drop to detect over-indebtedness, it may be too late to remedy the problem.

Guidelines

Be careful to distinguish preventive measures from corrective measures. Make sure to have the MFI describe what it does, and then choose among the following options (not to be read to MFI, unless ask for more details):

If score is 1, which of the following efforts have been made:

- MFI's written credit policies give decision makers (loan officers, supervisors, etc.) explicit guidance regarding borrower debt thresholds*
- The credit underwriting process includes an evaluation of client ability to repay the loan*
- The credit underwriting process includes checks on client credit history and exiting debt*
- Loan product options are flexible enough to fit client business and/or household needs*
- The institution does not rely solely on guarantees for repayment*
- Management regularly obtains information about debt levels among its clients*
- Peer assessment (in group methodologies)*

If score is 2, which of the following measures have been implemented

- Clients receive training/guidance on evaluating their own debt capacity*
- Staff incentives to avoid irresponsible lending*
- Linkages to a credit bureau with to check client debt levels and repayment history*
- other, specify*

Sources of information

Centralized approach: statements from management, discussions with the department in charge of studying over-indebtedness

External audit: review studies and measures implemented upon identifying cases of over-indebtedness

Participatory approach: interviews with loan officers on efforts to avoid over-indebtedness, assessment of client situations

4.9 Cost transparency: Does the MFI ensure transparent communication with clients about price, terms and conditions of financial products?

SPS
8b, 9a

0 = No written statement; information is unclear/incomplete

1 = Complete information made available to customer in clear language that is not misleading and that the customer is able to understand

Specify how the MFI states the interest rate: Flat Declining

Specify how the MFI ensures transparent communication (see below)

If score is 1, please provide a short summary of the policies: _____

What is being done to ensure these measures are effective? _____

Rationale 4.9

Consumer Protection Principle N°2: Transparency involves full disclosure of the different characteristics (cost, quality and contractual conditions) of the proposed transaction. This indicator focuses on cost, which is easier to measure in a standardized fashion. Transaction cost and conditions of financial products (including interest rates, insurance premiums, fees) must be disclosed, in writing, in a clear and understandable way.

Guidelines

Transparency must apply at all stages of the lending cycle (see Focus Note No. 27 by CGAP on consumer protection):

- **Before sale:** MFI must not engage in incorrect or misleading advertising that could be misunderstood by clients, including at the time loan officers scout new clients.
- **At the time of sale:** MFI must not use inappropriate wording in contracts that could be misunderstood by clients; branch staff must be capable of providing clear and correct explanations of terms and conditions.
- **After sale:** MFI must accurately record repayment transactions.

Make sure to have the MFI describe what it does, and then choose among the following options (not to be read to MFI, unless ask for more details):

Specify how the MFI ensures transparent communication with clients about prices, terms and conditions of financial products (check all that apply):

Contracts and information use plain language and provide full disclosure of prices, terms and conditions (including interest charges, insurance premiums, minimum balances required on savings and transaction accounts, all fees, penalties, and whether those can change over time)

Interest rates (including fees and commissions) or other product prices are published, displayed and provided to clients

Penalty and pre-payment fees are disclosed before loan contracts are signed

Amortization schedule in loan contract separates principal, interest, fees, and shows amount and due dates of installments

Communication addresses client literacy limitations (e.g., reading contracts out loud, materials in local languages)

Clients have an opportunity to ask questions and receive information prior to signing contracts

Clients receive transaction receipts and regular, clear, accurate account statements

Training sessions for clients on the costs of products

Senior management creates a culture of transparency within the organization and develops systems, controls and incentives to support it.

The organization submits audited financial statements to the appropriate authorities, membership, and interested parties, and publishes such information in the media.

Prior to sale: Prices and terms of products are published, enabling customers to compare various offers.

The financial institution follows truth-in-lending laws and required APR or effective interest rate calculation formulae.

Other (please specify): _____

Sources of information

Centralized approach: statements from management; verification of PR material, loan contracts, repayment receipts

External audit: randomly select 10-30 clients, depending on institution size, to verify understanding of costs

4.10 Credit conditions and collection practices: Does the MFI explain the customer's rights, responsibilities and the collections process before the loan is disbursed?

- 0 = No, there is no systematic procedure
- 1 = Some efforts are made
- 2 = Yes, the MFI maintains high standards of ethical behavior even when clients fail to meet their contractual commitments.

In which of the following ways does the MFI ensure that appropriate collections practices are followed (check all that apply: see below)

SPS 8c, 8g

If score is 1 or 2, please provide a short summary of the policies: _____

If score is 2, what is being done to ensure the measures are effective: _____

Rationale 4.10

Consumer Protection Principle N°3: MFIs need to maintain high repayment rates to be sustainable and stay liquid. This requirement sometimes pushes loan officers to pressure delinquent clients in a way that infringes on their dignity or breaches local customs. To ensure collection practices are not abusive or coercive, MFIs should clearly explain the collection process to clients prior to disbursement.

Guidelines

Dissemination of collection procedures must not be limited to the fine print in loan contracts; didactic measures such as explanatory brochures or information sessions are considered explicit procedures.

Make sure to have the MFI describe what it does, and then choose among the following options (not to be read to MFI, unless ask for more details):

- A code of acceptable and unacceptable debt collection practices is in place*
- The code of ethics requires all clients to be treated with dignity and respect, even when they fail to meet their contractual commitments.*
- The code forbids subjecting a borrower to abusive language or threats by collection agents.*
- The code forbids harassing borrowers at their place of work or worship, or at unreasonable times of the day or night.*
- The code forbids forcible entry to borrowers' dwellings and seizing property without court order or in violation of the law*
- Debt collection procedures and time frames (e.g., ties/locations when collections are appropriate, etc.) are clearly outlined a staff rule book [or credit procedure manual]*
- Loan contracts explain what the borrower should expect in case of late repayment or default*
- Efforts are made to negotiate reasonable repayment plans prior to seizing assets*
- The institution monitors staff and any third party debt collections to agents to ensure compliance with acceptable practices*
- The institution provides debt counseling services*
- There is recognition that accurate analysis of a borrower's repayment capacity is a first step to preventing delinquency, and the organization may hold some responsibility for borrowers' failure.*
- Specific step-by-step procedures and time frames are outlined for late payment recovery and how to proceed when borrowers are in default.*
- Collections staff receive training in acceptable debt collections practices and loan recovery procedures. Practices and procedures are followed widely in the organization and monitored by the internal audit department. Violations are sanctioned.*
- The institution has a policy on acceptable pledges of collateral, including not accepting collateral that*

will deprive borrowers of their basic survival capacity.

If you have other policies or practices designed to protect clients and ensure their fair treatment, please provide details here: _____

Sources of information

Centralized approach: statements from management, loan contracts

External audit: interviews with loan officers and clients

Participatory approach: focus groups on how different stakeholders perceive credit conditions and collection practices.

4.11 Code of conduct: Does the MFI ensure staff ethical codes of conduct are consistently followed?

SPS
8d

0 = No, no specific code of conduct; exists but not applied.

1 = Yes, the MFI ensures safeguards are in place to prevent, detect and correct corruption or mistreatment of clients

Specify how the MFI ensures staff ethical codes of conduct are consistently followed? (check all that apply): See below

If score is 1, please provide a short summary of the policies: _____

Rationale 4.11

Consumer Protection Principle N°4: An explicit code of conduct addressing some of the more sensitive aspects involved in financial service provision (interest rates, borrowing pressure, collateral collection, promoting savings, etc.) can help staff maintain ethical dealings with clients. A code of conduct should be accompanied by measures to detect and correct corruption or unethical treatment.

Examples

- Policy to limit excessive interest rates
- Policy to limit pressure for loans greater than clients' absorption capacity
- Policy to ensure clients' rights regarding collateral collection
- Policy to foster savings instead of loans in some situation and to develop a savings culture
- Policy to prevent the unethical treatment of clients, particularly clients who are delinquent in their payments

Guidelines

All personnel must comply with the code of conduct and the MFI must have corrective measures and sanctions in place in case of non-compliance.

Make sure to have the MFI describe what it does, and then choose among the following options (not to be read to MFI, unless ask for more details):

A Board-approved code of ethics defines organizational values and ethical standards expected for staff

Staff rules describe acceptable/unacceptable behavior and sanctions that can result in employment termination

Hiring procedures assess employees for compatibility with organizational values and ethics

All staff sign annual pledges to follow ethical codes

Anti-corruption policies are in place, provided to each staff member and enforced by decision-makers

Internal audit for risk management detects corruption and code violations

Senior management creates a corporate culture which values and rewards high standards of ethical behavior and customer service.

Other (please specify)

Sources of information

Centralized approach: statements from management, review of the code of conduct

External audit/Participatory approach: verify knowledge and application of the code of conduct among different stakeholders

4.12 Grievance procedures: Does the MFI have a grievance procedure for clients that is explained to them?

- 0= No grievance procedure; exists but is not widely shared/explained to clients
 1= Grievance procedure exists and is widely shared/ explained to the clients

If score is 1, which of the following is included in the grievance procedure: see below

If score is 1, please provide a short summary of the policies: _____

SPS 8e

Rationale 4.12

Consumer Protection Principle N°5: As institutions grow, managers/directors have less direct contact with clients, making it difficult to detect unethical practices (borrowing pressure, repayment disputes, kick-backs). Often, field staff is on the front line of conflicts, and risk being both the judge and the accused. It is therefore necessary to have grievance procedures so the client does not have to confront the employee involved.

Definition

The grievance procedure must allow the client to meet someone else other than a loan officer or a cashier, in case the conflict deals with this type of employee.

Examples

- Call centers: An efficient system for collecting grievances, but not necessarily appropriate for small or medium-sized MFIs, which may find it easier to rely on external mediation.
- Retraction period: A time period after loan approval but before disbursement that allows clients to withdraw a loan application if they feel they were pressured or ill-advised.
- Ombudsman: A designated person available in each branch to respond to clients' questions and grievances.
- Satisfaction surveys: Client surveys to be conducted regularly with relatively large samples in order to detect unethical practices, supplemented with focus group discussions to better understand clients' expectations and perceptions.
- Suggestion box: Simple and inexpensive, suggestion boxes are not always effective or useful if client literacy levels are low.
- Complaint procedures: An internal procedure that ensures complaints are dealt with systematically and impartially.
- External mediation: Involves calling on an external mediator.

Guidelines

Make sure to have the MFI describe what it does, and then choose among the following options (not to be read to MFI, unless ask for more details)

- A written policy requires customer complaints to be taken seriously, investigated and resolved in a timely manner*
- Specialized personnel are designated to handle customer complaints and problem solving*
- Customers are informed appropriately of their right to complain and know how to submit a complaint [to the appropriate person]*
- Complaints and their resolution are tracked and used to improve products, sales techniques and customer interactions*
- Internal audit or other monitoring systems check that complaints are resolved satisfactorily*
- Suggestion boxes are provided in each place of business*
- Hotline or call center with toll free access is available*
- A ready mechanism to handle customer complaints, problems, and feedback is in place and accessible to customers.*
- Staff is trained to handle complaints and refer them to the appropriate person for investigation and*

resolution.

- Complaints are fully investigated and decisions are made consistently and without bias.*
- Customers have the opportunity to seek independent third party recourse in the event that they cannot resolve the problem with a financial institution, such as an ombudsman or mediator with the power to make binding decisions.*
- Other (please specify)*

Sources of information

Centralized approach: statements from management

External audit/Participatory approach: verify effectiveness of grievance procedures (with loan officers and, if appropriate, with clients); do clients with a justifiable complaint manage to make their voices heard and achieve resolution?

4.13 Client confidentiality: Does the MFI safeguard privacy of clients' data?

- 0 = No, no formal protection mechanism
- 1 = Yes, the MFI ensures the integrity and security of client information, and seeks the client's permission to share information with outside parties.

If yes, explain how the MFI safeguards privacy of clients' data (check all that apply): see below

If score is 1, please provide a short summary of the policies: _____

SPS 8f

Rationale 4.13

Consumer Protection Principle N°6: Loan officers must collect confidential data on clients to conduct good loan analysis. Given the social proximity of MFIs (employees/elected officials) and their clients, it is important to have privacy protection policies.

Guidelines

Guaranteeing client confidentiality first involves letting the clients know when information is confidential, so they feel justified to complain if privacy is breached. Most MIS can be programmed to give access privileges to different users (tellers, loan officers, managers, elected representatives) but managers must still define this functionality and verify proper use. Guaranteeing client confidentiality also calls for internal controls and sanctions in case of non-compliance.

Make sure to have the MFI describe what it does, and then choose among the following options (not to be read to MFI, unless ask for more details):

- A written policy and procedures regarding treatment of client personal data gathering, processing, use, and distribution]*
- Internal audit reviews security of locations and electronic systems where client data is stored*
- The IT system is secure and password protected [with various levels of authorized access to information and access to data modification adjusted to the tasks and needs of the user]*
- Staff explains to clients how their data will be used [and seeks client permission for use]*
- Client consent is required prior to sharing data outside the institution*
- Clients may review and correct the information [and the financial institution provides assistance in this regard.]*
- Clients are instructed on how to safeguard access codes and PIN numbers*
- Systems are in place and staff trained to protect the confidentially, security, accuracy, and integrity of customers' personal and financial information.*
- Clients have the option of not having their information shared.*
- The organization ensures the accuracy of information shared and requests customer consent for use of data in a Credit Registry or Bureau. .*
- Customer consent is required for use of information in promotions, marketing material and other public information. Clients are asked to express their written agreement for use of their personal information, such as pictures and business and personal stories in the organization's publications, promotional material, and any information shared with external audience.*
- Other (please specify)*

Sources of information

Centralized approach: statements from management, operations manual

External audit: verify with field staff knowledge and respect of confidentiality mechanisms

4.14 Does the MFI provide some type of loan-insurance in case of death of the borrower?

- 0 = No or only on a case by case basis
 1 = Systematic write-off procedure or loan insurance

If score is 1, does the MFI provide credit life insurance: Yes No

Specify which types of loans come with insurance: _____

What is the cost for the client? _____

How is this information disclosed to clients: _____

SPS 3a

Rationale 4.14

The death of an economically active family member usually has serious consequences on the financial situation of the household. Because transferring outstanding debt to other family members can result in over-indebtedness, it is desirable for an MFI to apply debt-forgiveness procedures.

Definition

Insurance on the loan that frees the family from the burden of debt in case of death of the borrower

Guidelines

Debt-forgiveness on a case-by-case basis does not apply; it must be systematic, either in the form of loan insurance or debt cancellation.

Sources of information

Centralized approach: statements from management, loan guidelines

External audit: verify loan and/or insurance contracts

Criteria 3 – Social responsibility to the community and environment (7 points)

<p>4.15 Does the MFI have a policy defining social responsibilities to the community?</p> <p><input type="checkbox"/> 0 = No, Policy under development or planned</p> <p><input type="checkbox"/> 1 = Informal policy reflected in operations</p> <p><input type="checkbox"/> 2 = Yes, a formal, written policy</p> <p><i>Examples: Socio-anthropological studies, Feedback from locally recruited employees , Active participation in community, Dialogue with local authorities/key resource people</i></p> <p><i>If score is 1 or 2, please provide a short summary of the policies: _____</i></p>
--

Rationale 4.15

Being in tune with local culture and values is critical to sustainability. An institution that is culturally-sensitive is less likely to have a negative impact on local social networks and more likely to be appropriated by the community. Of course, not every aspect of “local culture” needs to be integrated into the MFI’s values; the MFI may wish to adapt certain customs in order to model more democratic, transparent and egalitarian values. For instance, women’s participation and democratic decision making are not necessarily mainstays of every culture, but may be espoused by the MFI.

Examples

Through socio-anthropological studies, discussions with local authorities or key resource persons; working with loan officers who can speak the local language and know the local culture; active participation in the community.

Guidelines

It is difficult to objectively assess how an institution successfully adapts to its context or promotes democratic, transparent and egalitarian values. Therefore this indicator focuses on the MFI’s knowledge of local culture.

Sources of information

Centralized approach: statements from management

External audit/participatory approach: focus group discussions with staff from different levels (loan officers in particular) to assess whether there is a shared perception of how the MFI reflects local culture and values

4.16 Is the MFI proactive in promoting local social and economic development?

0 = No or on an irregular basis (less than 5% than portfolio)
 1 = Yes, on a regular basis and in accordance with a planned strategy

If the score is 1, give details:

Formal collaboration with local development actors,
 Initiatives to promote the creation of local employment (does not include self-employment and income generating activities),
 Funding of risky but innovative local activities,
 Members of top management come from zones the MFI services,
 MFI avoids credit for enterprises with negative social value
 Promotes transparency and anti-corruption
 Promotes decent working conditions for employees in business financed by the MFI
 Supports local communities in the event of emergencies
 Supports women's leadership
 Takes measures to eliminate forced labor
 Take measures to eliminate child labor
 Finances activities employing minorities, disabled, indigent people, widows, etc.
 Finances activities with high social value, such as health care or prevention services, culture, community infrastructure, etc.
 Other policy, specify: _____

If score is 1, please provide a short summary of the policies: _____

SPS
15b-c

Rationale 4.16

An MFI may decide to take social responsibility for financing high-risk activities with high social or economic value added, or decline to finance activities with negative social or economic consequences (migration of local know-how, harmful activities, trade activities that do not support local economic activity, etc.). In this case, financial products are considered part of a proactive strategy.

Examples

- Identification of activities entailing indecent job conditions, such as child labor or gender exploitation, and implementation of policies to avoid financing them or to improve conditions.
- Financing and promoting activities that employ minorities, disabled, marginalized people, widows, etc.
- Financing activities with high social value, such as health care or prevention services, culture, community infrastructure, etc.

Guidelines

The proactive measures must be systematic, in line with the MFI's strategy and involve at least 5% of the loan portfolio.

Sources of information

Centralized approach: statements from management, MSI

External audit/Participatory approach: verify in one or more branches that staff are aware of policies and apply them.

4.17 Does the MFI have an environmental policy for enterprises it finances?	
<input type="checkbox"/> 0 = No, Policy under development or planned <input type="checkbox"/> 1 = Informal policy reflected in operations <input type="checkbox"/> 2 = Yes, a formal, written policy	
<i>If score is 1 or 2, specify types of environmental policy directed at enterprises the MFI finances:</i>	
<input type="checkbox"/> Raise client awareness of environmental impacts <input type="checkbox"/> Train/educate client regarding environmental improvements <input type="checkbox"/> Specific clauses in the loan contract are included to mitigate specific social and environmental risks <input type="checkbox"/> Identify enterprises with environmental risk <input type="checkbox"/> Lending lines linked to alternative energies <input type="checkbox"/> Other (please specify)	
<i>If score is 2, please provide a short summary of the policies: _____</i>	
4.18 Does the MFI have an environmental policy for its own organization's practices that includes both head-quarters and branches (energy, water, paper, waste)?	
<input type="checkbox"/> 0 = No, Policy under development or planned <input type="checkbox"/> 1 = Informal policy reflected in operations <input type="checkbox"/> 2 = Yes, a formal, written policy	
<i>Please specify:</i>	
<input type="checkbox"/> Minimize use of conventional electricity <input type="checkbox"/> Minimize use of conventional fuels <input type="checkbox"/> Minimize use of water, recycle water <input type="checkbox"/> Minimize use of paper, recycle paper <input type="checkbox"/> Other: _____	
<i>If score is 2, please provide a short summary of the policies: _____</i>	

SPS
16a-c

SPS 16d,
16e

Rationale 4.17/4.18

Although many pioneering MFIs already address this dimension, there is an emerging awareness of the importance of environmental policies in microfinance. Vulnerable clients tempted to develop environmentally harmful activities (leading to deforestation, toxic waste, etc.) must be made aware of their potential effects.

An MFI should address environmental considerations not only with regard to the activities it finances, but its own internal operations.

Examples

Creating environmental exclusion lists of activities not to finance, financing activities to improve water quality, financing alternatives to environmentally damaging activities or funding trade activities that involve purchasing in bulk rather than small quantities to limit waste, etc.

Guidelines

Because this aspect is relatively new, even occasional or partial efforts should be recognized. However, it is important to distinguish occasional efforts from systematic procedures that are subject to internal auditing, since systematic efforts are most likely to have a significant impact on environmental protection.

Sources of information

Centralized approach: statements from management, loan procedures, environmental exclusion lists

External audit: verify application of policies in one or more branches

Participatory approach: interviews with staff to assess awareness of environmental issues and the MFI's efforts to address them.

Appendix 1: Growth National Income per capita 2008 in USD (Atlas Method)

Albania 3,840	Dominican Republic 4,390	Liberia 11,590	São Tomé and Príncipe 1,020
Algeria 4,260	Ecuador 3,640	Liechtenstein .. a	Saudi Arabia 15,500 a
Angola 3,450	Egypt, Arab Rep. 1,800	Lithuania 11,870	Senegal 970
Antigua and Barbuda 13,620	El Salvador 3,480	Luxembourg 84,890	Serbia 5,700
Argentina 7,200	Equatorial Guinea 14,980	Macao, China 35,360 a	Seychelles 10,290
Armenia 3,350	Eritrea	Macedonia, FYR 4,140	Sierra Leone 320
Australia 40,350	Estonia 14,270	Madagascar 410	Singapore 34,760
Austria 46,260	Ethiopia	Malawi	Slovak Republic 14,540
Azerbaijan 3,830	Fiji 3,930	Malaysia 6,970	Slovenia 24,010
Bangladesh 520	Finland 48,120	Maldives 3,630	Solomon Islands 1,180
Belarus 5,380	France 42,250 b	Mali 580	South Africa 5,820
Belgium 44,330	Gabon 7,240	Malta 16,680 a	Spain 31,960
Belize 3,820	Gambia, The 390	Marshall Islands 3,270	Sri Lanka 1,780
Benin 690	Georgia 2,470	Mauritania 840 a	St. Kitts and Nevis 10,960
Bermuda .. a	Germany 42,440	Mauritius 6,400	St. Lucia 5,530
Bhutan 1,900	Ghana 670	Mexico 9,980	St. Vincent and the Grenadines 5,140
Bolivia 1,460	Greece 28,650	Micronesia, Fed. Sts. 2,340	Sudan 1,130
Bosnia and Herzegovina 4,510	Grenada 5,710	Moldova 1,470 e	Suriname 4,990
Botswana 6,470	Guatemala 2,680	Mongolia 1,680	Swaziland 2,520
Brazil 7,350	Guinea 390 a	Montenegro 6,440	Sweden 50,940
Brunei Darussalam 26,740 a	Guinea-Bissau	Morocco 2,580	Switzerland 65,330
Bulgaria 5,490	Guyana 1,420	Mozambique 370	Syrian Arab Republic 2,090
Burkina Faso 480	Haiti 660	Namibia 4,200	Tajikistan 600
Burundi	Honduras 1,800	Nepal 400	Tanzania 440 f
Cambodia 600	Hong Kong, China 31,420	Netherlands 50,150	Thailand 2,840
Cameroon 1,150	Hungary 12,810	New Zealand 27,940	Timor-Leste 2,460
Canada 41,730	Iceland 40,070	Nicaragua 1,080	Togo 400
Cape Verde 3,130	India 1,070	Niger 330	Tonga 2,560
Cayman Islands .. a	Indonesia 2,010	Nigeria 1,160	Trinidad and Tobago 16,540
Central African Republic 410	Iran, Islamic Rep. 3,540 a	Norway 87,070	Tunisia 3,290
Chad 530	Ireland 49,590	Oman 12,270 a	Turkey 9,340
Channel Islands 68,640 a	Isle of Man 43,710 a	Pakistan 980	Turkmenistan 2,840
Chile 9,400	Israel 24,700	Palau 8,650	Uganda 420
China 2,940	Italy 35,240	Panama 6,180	Ukraine 3,210
Colombia 4,660	Jamaica 4,870	Papua New Guinea 1,010	United Kingdom 45,390
Comoros 750	Japan 38,210	Paraguay 2,180	United States 47,580
Congo, Dem. Rep.	Jordan 3,310	Peru 3,990	Uruguay 8,260
Congo, Rep. 1,970	Kazakhstan 6,140	Philippines 1,890	Uzbekistan 910
Costa Rica 6,060	Kenya 770	Poland 11,880	Vanuatu 2,330
Côte d'Ivoire 980	Kiribati 2,000	Portugal 20,560	Venezuela, RB 9,230
Croatia 13,570	Korea, Rep. 21,530	Qatar .. a	Vietnam 890
Cyprus 22,950 a, d	Kuwait 38,420 a	Romania 7,930	Yemen, Rep. 950
Czech Republic 16,600	Kyrgyz Republic 740	Russian Federation 9,620	Zambia 950
Denmark 59,130	Lao PDR 740	Rwanda 410	
Djibouti 1,130	Latvia 11,860	Samoa 2,780	
Dominica 4,770	Lebanon 6,350	San Marino 46,770 a	
	Lesotho 1,080		

.. Not available. Note: Rankings include all 210 World Bank Atlas economies, but only those with confirmed GNI per capita estimates or those that rank among the top twenty for the Atlas method are shown in rank order. Figures in italics are for 2007 or 2006. a. 2008 data not available; ranking is approximate. b. Data include the French overseas departments of French Guiana, Guadeloupe, Martinique, and Réunion. c. Estimate is based on figures are extrapolated from the 2005 International Comparison Program benchmark estimates. d. Excludes Turkish Cypriot side. e. Data exclude Transnistria. f. Data refer to mainland Tanzania only. g. Estimated to be low income (\$975 or less). h. Estimated to be upper middle income (\$3,856 to \$11,905). i. Estimated to be high income (\$11,906 or more). j. Estimated to be lower middle income (\$976 to \$3,855).

Source: World Bank

In case you need more recent or precise data, please refer to World Bank statistics website: <http://siteresources.worldbank.org/DATASTATISTICS/Resources/GNIPC.pdf> or <http://go.worldbank.org/B5PYF93QF0>

APPENDIX 2 – DOCUMENTS AND INTERVIEWS FOR SPI AUDIT

BASIC DOCUMENTS	INFORMATION FOR SPI
Annual reports / Financial statements	Mainly Part I, 3.17 (voice of clients), criteria 4.3 (SR to community/environment)
Description of loan products	Mainly Criteria 2.1 (range of services), 1.6 (targeting), 1.13 (productive loans), 3.15 (women empowerment), 4.17 (environment)
Description of savings products	Mainly Criteria 2.1 (range of services), 1.16 (small savings), 3.15 (women empowerment)
Description of innovative products	Mainly criteria 2.3 (innovative/NFS)
Description of non financial services	Mainly criteria 2.3 (innovative/NFS), 3.15 (women empowerment)
Loan application form	1.8 (client poverty)
Loan contract	2.10 (interest rate), 4.9 (costs transparency), 4.14 (life insurance)
MFI status, by-laws	Part I, Criteria 3.2 (client participation), 4.4 (staff participation)
POTENTIAL DOCUMENTS (if corresponds to the MFI strategy)	
MFI survey reports	1.3 (geographic poverty), 1.8 & 1.9 (client poverty), 2.11 (market study), 2.13 (drop-outs), 2.19 (satisfaction on NFS), 3.1 (tracking change on clients), 4.8 (overindebtedness)
Targeting tool	1.6
Staff /elected members training programmes	1.7 (targeting strategy), 3.2 (SPM training), 3.12 (client representatives), 4.3 (staff training)
Composition of the Board	Part I, Criteria 3.2 (client participation)
MFI definition of rural, of exclusion	1.4 (rural), 1.11 (exclusion)
Documents for general communication with clients	3.16 (transparency to clients)
MFI membership in networks / attendance of the MFI	3.17 (voice of clients)
Codes of conduct	4.11
Documents for communication on grievance procedures to clients	4.12
Environmental exclusion list	4.17
MORE SENSITIVE DOCUMENTS	
Business plan	Can help revise full questionnaire, in particular extension strategy, strategy with non/less profitable branches or products, social responsibility strategy, etc.
Loan manual of procedures	Mainly Criteria 1.2 (individual targeting), Criteria 1.3 (pro-poor methodo), criteria 2.1 (range of services), 2.9 (timely delivery), 2.15 (mobile banking), 3.15 (women empowerment), criteria 4.2 (client protection)
Savings manual of procedures	Mainly Criteria 2.1 (range of services), 1.16 (small savings), 3.15 (women empowerment)
Minutes of general assemblies, board meetings, committee meetings	Mainly Part 1, criteria 3.1 (eco benefits to clients), criteria 3.2 (participation of clients)
Salary scale	4.1
Partnership agreements	Criteria 2.3 (Innovative & NF services)
NATIONAL DATA	
National data on geographic distribution of poverty	Criteria 1.1 (geographic outreach)
Geographic distribution of banks, coop, other MFIs	1.15 (no other FI)

Key Resources	Contents	
IT department / data on MIS		
	Financial ratio/ financial statements	
(by default person in charge of the MIS)	data MIS 1.2	% of clients in poor/excluded areas
1-2 hours	data MIS 1.4	% of loans in rural, urban, peri-urban areas
	data MIS 1.10	% of woman clients (borrowers, savers)
	data MIS 1.11	% marginalized clients
	data MIS 1.12	% of unsecured loans
	data MIS 1.14	% of loans below 30% of GNI/cap (converted in local currency)
	data MIS 1.15	check repayment schedule below 1% of GNI (converted in local currency)
	data MIS 2.8	number of clients by branch
	data MIS 2.12	nb of clients beginning & end of reporting year + new cl. during reporting year
	3.1 report on profile of clients, changes; 4.13 Procedures for client data confidentiality	
HR department + training department		
(by default person in charge of HR and/or training)	3.2 SPM training, 3.3 SPM incentives, 3.12 Training of representatives	
1-2 hours	Criteria 4.1 Social responsibility to staff	
Research department		
(by default, person in charge of research/ surveys)	Criteria 1.1 Surveys on geographic areas	
1-2 hours	Criteria 1.2 Surveys on poverty and/or exclusion	
	2.13 Surveys on drop-outs; 3.1 surveys on tracking changes on clients	
CEO		
2-3 hours meeting with CEO or research / SP department)	Revise full questionnaire	
PARTICIPATORY APPROACH		
Branch managers		
(BM of major branches, or focus groups with BM)	Criteria 1.1 Geographic targeting	
1-2 hours	1.17 Solidarity between branches; 2.5 Local adaptation of services	
Loan officers		
(LO with large portfolio or focus groups with LO)	Criteria 1.2 Individual targeting	
2-3 hours	Criteria 2.2 Quality of services	
	Criteria 2.3 Innovative & non financial services	
	3.4 Changes in procedures, 3.14,3.15, 3.16 on Empowerment	
	Criteria 4.2 Client protection	
Clients (Focus group)	Check the perception for each criteria: is it in the MFI strategy? Does it translate into practice? Does it help you as clients?	
External stakeholders (donor, investor, technical assistance provider, etc.)	Check the perception for each criteria: is it in the MFI strategy? Does it translate into practices?	

