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The Role of Investors in Promoting Social Performance in Microfinance

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in collaboration with the e-MFP Social Performance Working Group

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The Role of Investors in Promoting Social Performance in Microfinance

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Introduction

Social investment! Ethical investment! Social enterprising! Corporate social responsibility! Triple bottom line! Those have become popular terms among leading entrepreneurs and investors. Today, more than ever before, social objectives are deliberately pursued and honored. Investors in microfinance institutions are no exception. Social performance of investments has become a topical issue as the list of events presented in the table below indicates.

Table 1: The agenda of events where social investors discuss social performance:

- **November 2006:** Investors in microfinance gathered under the umbrella of the European Microfinance Platform to exchange on how social investors can practice social performance management.
- **March 2007:** a group of social investors in microfinance, most of them headquartered in Switzerland, were mobilized by SDC. They discussed in Bern how to measure social performance and how to report on it.
- **The summer of 2007:** The Social Investor Subcommittee of the international Social Performance Task Force initiated by Ford Foundation, Argidius Foundation and CGAP, interviewed 45 social investors on their practices, perceptions and preferences regarding social performance and indicators to measure.
- **November 2007:** Social investors exchanged again on social performance at the European week of the European Microfinance Platform in Luxembourg.

- **June 2008:** During the next meeting of the international SP Task Force on 17 and 18 June in Paris, the outcome of the 'Testing a Social Performance Format' and indicators by 50 MFIs will be discussed. From this testing and the earlier mentioned survey and consultations of Social Investors, key indicators will emerge that could fit within a global system of reporting not only to the MIX[1], but also to MIVs, Funds and Donor agencies.

Planned meetings: From June onwards the program is not yet completely defined. One important Dutch Social Investor is considering bringing together a group of Investors to discuss the follow-up to the Paris meeting, while the e-MPF Social Performance Working Group will devote a session to SP reporting and key indicators during the European Microfinance Week scheduled for 12-14 November, 2008.

This publication provides an overview on the results of the above surveys and meetings and presents some selected cases that illustrate how social investors integrate social performance governance and management in their daily operations.

Before presenting the cases of social investors in microfinance, we would like to provide some general concepts of social performance management and how this is implemented 'in the field' by microfinance institutions.

The need for social performance management

Specific to microfinance is that it has social objectives at its core. Most microfinance institutions are created with aims to reduce poverty, to create employment, to improve social capital or to empower marginal groups.

However, microfinance is also criticized. Are social objectives achieved or are they paper promises, useful for public relations? New microfinance methods in banking with the poor have proven to be profitable. But accessing the poor does not necessarily mean improving their situation. Recent publications[2] based on impact studies illustrate some

1 The MIX Market is the global microfinance marketplace, providing financial data and profiles on microfinance institutions and the microfinance sector on the Internet, at http:www.themix.org

2 See the well documented book 'What 's Wrong with Microfinance ? (Editors: Thomas Dichter and Malcolm Harper, Practical Action Publishing,UK) and the discussions on international 'list serves' like DevFinance, moderated by Ohio Unversity, <devfinance@lists.acs.ohio-state.edu>, and MFP (MicroFinance Practitioners) moderated by Chuck Waterfield and Howard Brady <MicrofinancePractice@yahoogroups.com>

of the pitfalls of microfinance: how microfinance, especially microcredit, can create over-indebtedness, increased social pressure and increased work load of women, with little impact on employment creation and enterprise development. The topic became disputed again, end 2007, when Compartamos, a Mexican MFI, went to the stock market and created a high return on investment for its shareholders, while operating with high interest rates charged to poor clients.

It might be true that some microfinance institutions have been concerned too much with profitability and financial viability, forgetting about developmental effects. However, the great majority of the microfinance institutions are genuinely concerned about their social mission. Also numerous studies testify the high potential and positive impact of microfinance in poverty alleviation, even poverty eradication and the build-up of social capital at community level. From the practitioners' point of view, even more importantly than the effort of **proving the success** of microfinance, is the daily effort **to improve** the quality of their services for the sake of their clients, including those who are regarded as poor or even the poorest. In other words, in social performance management, the focus became less and less to prove that operations generate impact, but to secure systems that improve and maximize possible impact. This is based on the premises and growing awareness among microfinance providers that poverty outreach and socially relevant results cannot be taken 'for granted' and are not generated spontaneously. It requires careful management to achieve social objectives, specific targeting to reach the desired target groups, offering adapted services to overcome specific limitations of rural, poor or remote groups, alternative guarantee systems, attention for client feed back, surveys on clients drop-out, etc.

Social performance management can be defined as the whole process within microfinance institutions that puts the realization of a social mission into practice.

Social performance looks at the entire process by which impact is created. It therefore includes analysis of the declared objectives of institutions, the effectiveness of their systems and services in meeting these objectives, related outputs (for example, reaching larger numbers of very poor households) and indeed success in effecting positive changes in the lives of clients.

SOCIAL PERFORMANCE FRAMEWORK

INTENT AND DESIGN

What is the mission of the MFI?

Does it have clear social objectives, and are systems designed to achieve those objectives?

▼

ACTIVITIES AND OPERATIONS

What activities will the MFI undertake to achieve the mission?

▼

OUTPUT

Does the MFI serve the desired clients ?

Are the products designed to meet their needs?

▼

OUTCOME / IMPACT

Have MFI clients experienced social and economic improvement?

Source: http://www.microfinancegateway.com/resource_centers/socialperformance

How do MFIs practice social performance management? The case of TRIAS

Some examples derived from TRIAS experiences might illustrate how MFIs invest in improving their social performance management. TRIAS is a Belgian NGO, supporting local economic development 'at the bottom of the pyramid'. As such TRIAS supports a range of microfinance institutions in 12 countries and examines, in consultation with the MFI, the following questions:

- **Are social objectives clear and systems designed to achieve those objectives?** For example, the objective may be to bring adapted services to rural farmers living in remote areas. UCAC CENTRO in Equator has that objective and unites cooperatives in exchange discussions and a common reflection on the type of structure and products that best reaches the more remote places. For instance rural 'windows' were developed that allowed savings and credit groups some level of self-management under supervision of stronger savings and credit associations, based in the near cities.

- **What activities does the MFI undertake to achieve its mission?** Cre$ol in Brazil promotes agricultural production by smaller family farmers. Government credit lines are channeled to those groups that before hardly profited from this kind of government support. Cre$ol stimulates them with special credit products and conditions to go into organic farming, etc.
- **Does the MFI serve the desired clients?** ASHI likes to reach out to the poorest of the poor in the Philippines. To check upon their outreach they do 'means' testing. They map potential intervention through housing quality data and select those areas with a high concentration of core poverty. Then, they select clients based on data about housing, asset ownership and income resources
- **Are the products designed to meet their demands and needs?** To be aware of what is really important for clients, it is best explained by themselves. Pilarh, in Honduras went through a long process to integrate representatives of the poor coffee growing communities into its board of trustees. Beside direct client representation, there are numerous other ways to guarantee client feed back in an institutionalized way. For instance, ASHI organizes regularly open feed back meetings where clients get the opportunity to ask their questions to management and board members.
- **Have MFI clients experienced social and economic improvement?** A sign of failing impact can be if clients drop out of the system. Being alert for drop outs, researching why they drop out and subsequently, addressing those issues, helps to ensure impact.

During the last five years, more and more tools have been developed that support MFIs in managing better their social performance. The Social Performance Task Force was created in 2005 to bring together all those efforts and optimize further progress on social performance tools . Some of the most striking tools[3] discussed are[4]:

- The SPI tool (Social Performance Indicators) developed by Cerise. The SPI tool evaluates four dimensions of social performance: (1) outreach to the poor and excluded populations, (2) adaptation of products and services for target clients, (3) economic and social benefits for the clients, and (4) corporate social responsibility towards the clients, the staff, the community and the environment.

3 Detailed information on various tools can be found at the social performance resource centre at the Microfinance Gateway: http://www.microfinancegateway.com/resource_centers/socialperformance

4 SEEP developed a consumer guide with descriptions of the most used tools. They discuss 28 tools.

The questionnaire is a checklist of about 60 basic indicators quantifiable to assess the whole process of social performance management. The promotion, application, and training in this approach is done by the newly created network ProsperA.[5]

- The Progress out of Poverty Index (PPI) links some basic, observable poverty indicators at client level to deeper national poverty studies. A simple, inexpensive, poverty score card estimates the likelihood that a client is poor, allows to track changes in poverty over time, and assess its level of poverty compared to defined national or international poverty lines.[6]
- Elements out of the AIMS-impact measurement package, such as the interviews to assess drop out reasons or to assess client satisfaction.[7]
- Social Raters such as M-CRIL, MicroFinanza Rating, Planet Rating and MicroRate, working together in a sub-committee of the Social Performance Task Group, are currently developing and piloting social rating products.[8]
- A workgroup within the social performance task force is defining social core indicators that will be integrated in the reporting schedules of the MIX-market and as such create a database with reference material on social performance of MFIs.
- Like the earlier mentioned Cerise group, the Imp-Act consortium has been very active in concept development, production of guidelines on how to design a SPM system and select the most appropriate tools, as well as capacity building through a range of training activities.[9]

How about social performance management for social investors?

When considering social performance for social investors core questions are:

- Which selection procedures guarantee the most optimal social orientation of the funds in a cost realistic way?
- How can social investors make sure that their products and set conditions best fit the needs of socially managed MFIs?
- What incentives can social investors build into their own systems that stimulate MFIs to further improve on their social management or to care more about environmental issues during credit allocation?

5 For more information, go to www.cerise-microfinance.org
6 For more information, go to http://www.microfinance.com/#Poverty_Scoring ; USAID-IRIS also developed the same type of tools: http://www.povertytools.org/
7 For more information, go to www.seepnetwork.org/content/library/detail/646
8 See 'Social Performance Progress Brief, No. 4 on 'Social Rating' , a SEEP network/Argidius Foundation publication, www.seepnetwork.org
9 For more information, see www.imp-act.org

- How can social investors be transparent on the social profile of their total portfolio?

Private investors are increasingly entering the MF capital market, some as 'retail investors' with small amounts. Others, sometimes guided by special advisors, dispose of bigger amounts. The latter regard MF investments as a special **asset class** of socially responsible investment.[10] Social investors do not only aim at return on investment, but they like to see also some (preferably demonstrated) social return on investment. The main challenge is to ensure that capital flows to destinations and organizations where optimal social return can be obtained. If not properly monitored there is a risk that capital concentrates around the most profitable market segments in low-risk countries with stable currencies, which are not necessarily the places where the highest return can be obtained in social terms.

In this publication, cases of some investors that participated at the eMFP-social performance working group or at the exchanges organized by SDC in Bern are presented. Those cases are not an exhaustive list and other investors may also have valuable experiences that can be shared at another time. They show how social investors respond and search for answers on the above core questions. For instance, the highlights of the workshop on "Pushing the frontiers of performance reporting" present the discussions and exchanges of investors in March 2007, on their questions and practices, with specimen cases such as responsAbility fund. The cases of the Belgian organizations Incofin and Alterfin demonstrate in a detailed way how they screen MFIs on their social performance. Triodos bank, a Dutch private bank and FMO, administering public money, stimulate MFIs to consider social and environmental aspects in credit activities and day-to-day management practice. Paris-based Sidi explains how they work with the MFIs to improve their social performance and ensuring the 'viabilité humaine' of a MFI with an example of Peru. Oikocredit illustrates how they build up an internal database that provides them with overall information on the social profile of their investments, while EFSE (the European Fund for Southeast Europe) explains how it promotes social and environmental performance of lending institutions by setting standards, regular monitoring and conducting studies.

Until the above mentioned Bern Workshop and the Social Performance Working group meetings of the European Microfinance Platform, there had been little direct involvement of microfinance investors in the conception of Social Performance, design of formats for measurement and management, field testing, and international consultations. Those meetings were organized with the purpose to change that situation. However, it was a surprise for both organizers and participants to learn about the internal policies

10 Typically 'retail investor' funds are the Triodos Fair Share Fund, and the funds associated to the Oikocredit network. Big private investors often work through foundations.

and work already accomplished by some social investors with a view of strengthening the social and environmental impact of international funding.

The case studies of the European Dialogue provide a rich overview on what social investors actually do to make sure they invest in a socially correct way. This Dialogue is open, and will be pursued with the different actors who want Social Performance to be promoted and strengthened at different levels of the microfinance chain.

‘Pushing the Frontier of Performance Reporting of Microfinance’

KOENRAAD VERHAGEN, CONSULTANT[11]

Highlights of a workshop for Microfinance Investment Vehicles (MIVs) and Investors, March 2007, Bern, Switzerland

On March 29-30 2007 in Bern, SDC (Swiss Development Cooperation) and SECO (Staatssekretariat für Wirtschaft) organised a workshop[12] on “Pushing the Frontier of Performance Reporting of Microfinance”. It was the first one ever organized for microfinance Investment Vehicles (MIVs) and Microfinance Investors with a focus on social performance in Microfinance rather than financial performance. The workshop brought together 26 delegates from:

- MIVs that manage and allocate funds,
- Private and public investors providing the funds, and
- Microfinance investment advisers and microfinance rating agencies[13].

The overall goal of the workshop was to work towards consensus and transparency in MIV reporting, so as to reflect - and improve - the ‘**triple bottom line**’ in microfinance. Greater transparency is believed to lead to better performance in those areas where it exists.

For the MIV/Investor participants the workshop was an opportunity:

- To share and review current experience and ‘good’ practice in social performance assessment and reporting of MFIs.

11 Member of the Argidius Foundation Investment Committee

12 The programme, all presentations and selected background materials can be downloaded at: www.intercooperation.ch/finance

13 List of participants by organisation: Alternative Bank (ABS), Argidius Foundation, Balkan Equity Fund, Bank Sarasin & Co. Ltd., BlueOrchard Finance S.A., CGAP, Credit Suisse, de Pury Pictet Turrettini & Cie.SA, EDA / M-CRIL, EFSE / Bankakademie e.V., FACET, FIDES, INCOFIN, Intercooperation, KfW, MicroFinanza Rating, Respons Ability / Social Investment Services AG, SDC, seco, ShoreCap/ShoreBank group, SIFEM, Symbiotics sa, Triodos Bank.

- To provide feedback on key indicators of social and environmental performance in microfinance, as a contribution to the current debate around key development indicators and MFI reporting.

This article summarizes the main exchanges and conclusions of the workshop.

1. Context

There are fundamental social goals and values that drive practice and investment in microfinance.

Until recently the industry has lacked the concepts and the tools to report effectively on whether microfinance - the delivery of financial services to the low income and poor sections of the population - is meeting its social goals and expectations. Impact studies have shown to be important and informative, but need long-term research, proved to be very costly, while study process and findings in general, were not considered by MFIs as very helpful for improving practice.

Over the past 4 years this situation has dramatically changed. Many actors in the MF sector have tested new approaches of Social Performance (SP) Management, Measurement and Governance with the aim to improve SP. The basic assumption is that better institutional SP will lead to greater Social Impact.

In parallel, Social Rating has become more widely practiced and shown its usefulness. Increasingly, MIVs are encouraged to reflect and report on their social performance.

In this context, MIVs/Investors have an important role to play. They can promote and facilitate the practice of SP management at MFI level by inclusion of SP in due diligence and reporting requirements, and adoption of the practice of social audit and rating.

Attendance of the workshop by leading MIVs and Investors reflects the genuine interest on their part to contribute towards greater social transparency of the MF sector, and be better equipped to inform social investors on the ‘social return’ of their investments.

2. Conceptual framework of social performance

The international Social Performance Task Force defines social performance as:[14]

> «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.»

A common framework has also been developed that draws on the different initiatives around measuring and managing social performance in microfinance, and the deliberations of the Social Performance Task Force (SPTF) and which is based on a common understanding that social performance is not restricted to the measurement of results, but also relates to the processes in place within organisations that leads to social impact. This common understanding can be highlighted a follows:

- The definition of social performance, as indicated above, in line with accepted social values
- Social performance as both process (mission and leadership, organisational systems) and outputs/results (reaching target clients, providing appropriate services) to achieve social goals (outcomes/impact).
- Financial performance is not an end in itself but the means to achieve social results.

3. Microfinance investment landscape and the CGAP MIV reporting initiative

3.1. The landscape

A study from CGAP highlighted the more than 300% growth of foreign microfinance investments between 2004 and 2006 reaching around US$ 4 billion at the end of 2006.[15] MIV investments surpassed those of the International Financial Institutions (IFIs[16]) with US$ 2,2 compared to US$ 1,8 billion. It was explained that ‘best practice’ financial reporting exists only at the MFI level, but was still missing at MIV level. There

14 Definition agreed upon by the international SP Task Force, for further details, see http://www.microfinancegateway.org/resource_centers/socialperformance/definition.
15 Figures updated from CGAP Focus Note no.44, Febr. 2008
16 IFIs, also named DFIs (Development Financing Institutions), are the private-sector arms of government –owned development institutions such as SECO, KfW, FMO etc.

are currently 74 MIVs active in MF, but overall they show little transparency. MIVs with public funds are providing more information than MIVs with private funds only. A tentative framework for MIV financial performance reporting was presented that also included some social indicators.[17]

3.2. The CGAP MIV reporting initiative

The initiative covers guidelines for both financial and social reporting. Since 2006, the guidelines have been developed by CGAP following a request by several investors. Participants reviewed particularly the outreach indicators, as they reflect a development dimension compared to the other financial performance indicators.

Several other suggestions were made on outlay and creating space for variations according to the vision/mission of the MFI. The above comments and suggestions have been incorporated into the final report of the MIV performance reporting initiative (see Reporting and Performance Indicators for Microfinance Investment Vehicles[18]). In the light of further experiences and discussions the social indicators may need further adjustment.

4. MIV social reporting; the current state of affairs

4. 1. Overview

In preparation of the Workshop, a desk/internet review of public documents of 45 MIVs had been conducted related to their statement of mission and reporting. The findings were that:

- 41 MIVs include social aspects in their mission/principles: mainly financial inclusion (59%), development impact (49%), enterprise and employment promotion (32%), poverty reduction (27%) and socially responsible investment (22%).
- 28 (two-thirds) MIVs specify a target group: 46% specify poor / low-income clients, 32% micro enterprises, 16% SMEs.
- All MIVs emphasise numbers (probably loan accounts rather than clients) and growth; 26 refer to social indicators; rely on loan size for 'depth' of outreach.

It seems that most investors have a double bottom line objective. They aim at reaching an acceptable financial return while having a positive social impact. This highlights current opportunities for 'pushing the frontier' in social reporting. Investors/ fund

17 Eventually, the CGAP 'MIV reporting initiative' and the social indicators reporting initiative of the international SP Task Force , will be part of a comprehensive integrated framework

18 http://microfinancegateway.org/content/article/detail/37272

providers can support this development, depending on the issues they ask to be informed about.

4.2. Four cases of social and environmental reporting by MIVs/Banks

Four cases were presented

- ResponsAbility is the first MIV to have produced an annual ‘Social Performance Report’ for 2006 and 2007 (see special box).
- Triodos (see article 7) & Shorebank: These two banks have a strong value orientation. Social and environmental concern is reflected in annual reports. Triodos Bank inspired by GRI (Global Reporting Initiative) promotes a model of reporting that fits into the GRI. Shorebank is inspired by Community banking. It is involved in a pioneer project with BRAC in Bangladesh to track employment and poverty effects of small enterprise lending.
- EFSE, largest MIV worldwide (Eur 430 million) (see article 9): Investment appraisal and monitoring process give weight to social policies and practice of investees (i.e. outreach to target groups, social environmental standards, salary level of staff)

The four case studies show great diversity in dimensions and indicators covered. Their pioneering initiatives are not well known in the microfinance industry.

ResponsAbility : The first MIV to produce a ‘Social Performance Report’

ResponsAbility (RsA), an initiative sponsored by four Swiss banks and a private social investment fund, is dedicated to foster private sector involvement in social investment. It manages several funds. The oldest, and so far biggest, is the responsAbility Global Microfinance Fund (rAGMF) with a volume of UDS 218 million (March 2008). The monthly reports of the fund are accessible on internet (www.responsability.com) and show, next to financial data , the following selected social indicators:

“ Local impact indicators (Monthly report February 2008)

Number of clients of MF institutions	4’420’000
Microentrepreneurs reached	
- by rAGMF (the Fund)	211’000
with an investment of USD 10’000	10
- % rural / urban clients	46 / 54
- % female / male clients	54 / 46
- Average loan disbursed in USD	1,000

Remarks: Some calculations are based on assumptions by ResponsAbility. Figures represent approximations.

ResponsAbility invests directly in MFIs, but also works as a 'fund of funds' through 'Investment partners' (Alterfin, Blue Orchard Finance s.a., ProCredit Holding AG, FINCA International, Opportunity International, PlaNet Finance). This means that the information on Social Performance of funds also depends on the type and quality of data provided by its partners and their systems of data collection.

Since 2005, ResponsAbility produces a yearly 'Social Performance Report' of the fund, which gives further details on 'key indicators', types of businesses financed, geographic allocation of funds, and illustrates the variety in policies and practices of MFI institutions which 'go different paths'.

Other documents on ResponsAbility's website testify of a social concern that goes beyond 'social responsibility'. The following is a selection from its 'Guiding Principles':

"The investment strategy … aims at achieving the highest possible social impact of investments by strongly focusing on outreach".

" We invest in both larger, more mature MFIs (so-called MFI Leaders) from which we expect financial returns that reflect true risk levels, as well as in smaller, innovative MFIs with a strong contribution to social impact (MFI Pioneers)".

Other sections of the guiding principles reflect investment policies that favour rural areas, welcome MFIs with a major share of women clients, refrain from "mission drift", and monitor clients' businesses on the prevalence of child labour, of forced labour, or "of unsafe and unhealthy working conditions or activities severely damaging the environment".

5. Perception of the “social” in microfinance by the MIVs and Investors

During the workshop, the meaning of the term “social” for MIVs was discussed, resulting in the following:

MIVs / investment advisers	Investors/funders
Social is: • Poverty outreach • Poverty reduction • Expanding access to financial services • New opportunities • Social responsibility – client protection (i.e. socially-appropriate financial services) • Gender (only 1!)	Social is: • Dignity • Social responsibility – to the environment • Poverty reduction • Better health, education • Contributing to the Millennium Development Goals (MDGs)

Perceptions of MIV participants of ‘social’ are more specifically MF sector related, while for Funders the concept ‘social‘ is broader, related to the achievement of the MDGs and acting in a socially responsible manner.

6. Concerns of MIVs

At this stage it was felt that there was a confusing array of social performance initiatives by different networks of practitioners: which social performance initiatives and tools are useful for what? The Workshop could present only a few in a summary fashion.

Though the opportunity to give feedback on indicators used or not-used is appreciated, it remains difficult to see and agree on which indicators are really ‘key’, cost-effective, meaningful but practical, in line with the overall goal of building up a sustainable financial infrastructure. How then to avoid it becoming more of an academic exercise of little use for Microfinance Investment Vehicles (MIVs) and Microfinance Institutions (MFIs)?

Currently, some large funds are under pressure to disburse, and this leads to minimising the reporting requirements. Insisting on SP requirements and reporting could weaken the MIVs position of the capital market.

MF investors recommend their better-off clients to diversify their portfolios with limiting exposure to microfinance investments up to 5% of the overall portfolio. It was mentioned that the positive and uncritical perception of microfinance is risky when negative news about microfinance may occur in the international headlines.

Between 50 to 60 MFIs in South America, Africa and Asia have participated in the testing and development of the Cerise tool (SPI) and about 30 MFIs developed their SP management tool with backing from the Imp-Act initiative. Even so, some concern was expressed that current frameworks and indicators may be too much supply and donor driven. There was a need to focus more on local management and ownership. Moreover, unreflective standardisation in social and financial performance reporting may create biases against MFIs operating in African rural areas. Different benchmarks are therefore required.

7. What type of reporting and indicators to prioritise?

7.1. Double or triple line reporting ?

Which system to promote: Double or Triple Bottom line reporting? Or should we see it as a process from mainly single (financial) towards Double and eventually,Triple ?

Microfinance investments are perceived as double bottom line investments and have created a new asset class. There is also the assumption that good financial and social performance will converge. While investors aim at least at a double bottom line, most workshop participants felt that it is too early for going for a complete standardisation of social performance indicators. The triple bottom line is clearly important for small enterprises and 'higher end' microfinance, whereas its relevance for 'lower end' micro-enterprises needs still to be explored.

So far the investors/fund providers look primarily at stable financial returns and less at social performance. The MIVs are selected according to the reputation of the promoters thereby focusing on long-term financial performance and sound management.

There are different investor classes and categories (such as foundations, churches, retail investors) so that there is not one single investment motivation. This complicates the selection of indicators.

7.2. Which social indicators to prioritise?

If input data coming from MFIs are of poor quality (inaccurate, incomplete and diverse), aggregate data of MIVs are of no great value either. There is a need for adjustment of reporting requirements to improve quality of the MIVs database on the SP of MFI partners.

Current indicators show a strong credit bias (number of people reached by credit) while from a social point of view access to savings and insurance are equally, or for some categories of poor clients, even more important.

Importance of consumer protection (a new movement of ‘Fair Microfinance’ has started organizing itself, campaigning against indebtedness and high interest). Do MFIs have the tools to check on negative effects for clients (e.g. debt trap)?

The difficulty in reaching standard indicators was mentioned, with the example of standardised environmental indicators that have not yet evolved over the past twenty years. There is no need to standardise hastily and it could be better to allow for experiment, reflection and slow building. It is noteworthy that financial performance reporting in microfinance, after all, took 10 years to become accepted internationally.

8. Social Rating, an emerging practice

Several rating agencies have added ‘social rating’ to their range of products, mostly organised as a complement to financial rating[19]. Social rating is an independent assessment of a MFI’s social performance using a standardized rating scale. Over the past 3-5 years they have piloted and tested their methodologies and systems. In general, social ratings have shown to be much more cost-effective than conventional impact studies.

While some donor agencies in general are supportive of the social rating concept and practice, MIVs so far do not make use of it. If they will do so in future, is not clear. MIVs and investors may need some more time to familiarize themselves with the concept and practice.

9. Social performance indicators for the MIVs and social investors: a tentative selection

9.1. MFI Social Indicators

MIVs were asked to fill in a questionnaire that shows indicators they currently cover and others, which they would be interested in covering (if it becomes feasible to do so) and which they would select for ‘core’ reporting in future. The responses by eight MIVs can be summarised as follows;

- Six social Indicators currently collected by most MIVs and Funds, and regarded as a ‘key’:
  - Number of active borrowers (and/or loan accounts),
  - Number of loans disbursed

19 For more information on rating agencies active in this field, see www.seepnetwork.org , Social Performance progress Brief vol.1 no.4

  - Average loan size
  - % female active borrowers,
  - % growth in borrowers,
  - effective interest rates (not always published)
- Five social Indicators which were considered as 'key', but seldom available or reported
  - % of clients below national poverty line
  - % of clients below 1$/day or 2$/day poverty line
  - change in poverty lines (as defined – national/international)
  - change in MFI clients possession of assets (productive or consumer)
  - change in living conditions (housing, access to health care , diet, nutrition-vulnerability

There was a third category social Indicators MIVs were interested in ('nice to have') such as number of clients with savings accounts or making use of insurance services, number of people employed in MFI supported businesses and MFIs acting 'socially responsible' in such areas as staff treatment, 'decent' working conditions for employees of micro- and small enterprises, etc.... The list could be further extended, but participants expressed concern that systems should be kept as simple and easy to handle as possible. Information on changes in level of poverty of clients and quality of livelihood were viewed as basic ('core') but at the same time doubts were expressed whether this type of information can be collected in a cost-effective way.

There was some discussion around 'average loan outstanding', a very practical indicator, as the stock indicator can be derived from the balance sheet. 'Average loan amount at disbursement' was admitted to be more adequate/meaningful (as requested by LuxFlag), but most MFIs do not have this data so that it would come at additional costs. However, KfW analysis suggests a high correlation between small average loan size and outreach to 'low income' people.

10. Workshop Conclusions

Double bottom line reporting will become standard, eventually triple bottom line

The concept of social performance is spreading fast, and a common concept and tools have become indispensable. Nowadays, the practice of social performance monitoring by MFIs is also fast evolving, and will eventually lead to a double bottom-line accountability as a standard a few years from now. A triple bottom line, including environmental standards, may also become the standard.

Do not ignore the ‘dark sides’ of Micro Credit

There was general agreement that microfinance needs to be deliberated on more critically by not ignoring its ‘dark’ sides, especially of Micro Credit. Therefore, pragmatic and low cost SP assessment tools are required in order for MIVs to invest into MFIs with a potentially positive SP and to sanction MFIs with a negative SP.

Social ratings will allow market segmentation

It is probable that social ratings will become standard practice, since they are far less expensive than ‘classical’ social impact assessments. By targeting a larger range of microfinance investors it will allow for market segmentation where investors will have a choice between the level of financial and social returns.

MIVs and MFIs will need to adjust their MIS

MIVs and MFIs should work towards good practice in reporting. They need to adjust their MIS, build capacity and understanding. Standardisation of the diverse reporting requirements has become necessary. However, experiment and reflection are necessary to avoid ‘wrong’ short cuts. Social investors increasingly want to know where their money goes, and ask for social transparency. What is the type of information investors need most? At this stage, public and private investors are not clear enough on the type of (qualified) information they want and need on social performance, or they do not demand it. But from an ethical and market development side there is a professional imperative to do more.

IFIs are in a better position to impose SP standards than private investors

There are very different types of investors: hedge funds, institutional investors, IFIs, donors, private investors. It was emphasized that private investors cannot impose standards on the MFIs (i.e. they rather select who they like most), whereas IFIs can pressure MFIs to comply with ‘good practice’ SP standards with the promise of subsidised rates. Nevertheless, the need for assessing the SP of the MIVs was stressed and identifying a platform for this endeavour was stressed.

SME lending requires special indicators

The importance of small enterprises for income and employment generation and the need for SME lending was mentioned as another frontier. SME lending is also part of microfinance, but requires quite different social indicators compared to micro enterprises, such as environmental behaviour and social responsibility of microfinance clients as employer-entrepreneurs.

11. Topical issues for international investors and fund managers Review by the author

The thematic focus of the Bern Workshop was still very much on the Social Performance of MFIs, which are located in the developing world, including Eastern Europe, and funded by social investors, based 'in the North'. It did not focus per se on Social Performance of the investors themselves. The Social Performance of a Social Investor is not restricted to the aggregate of the social achievements of the MFIs it has financed. There are other dimensions which count, proper to the investing institution, and which could not be given much attention in the discussions so far held, such as:

- A deliberate policy choice to support smaller, emerging MFIs by smaller amounts.[20]
- Attention and weight given to social orientation and/or (expected) social performance of MFI in the selection and appraisal process (due diligence).
- Weight given to the 'social risk', i.e. the risk that intended social objectives will not be reached, or for negative side-effects to occur.
- Terms of lending (hard currency or local currency).
- Selection of geographical areas (Africa often harder than other continents).
- Facilitating development of local capital markets (interbank lending, guarantees) versus creating dependence on international lending.
- Participation in the international exchange and debate on social issues and MF through documentation/publications/presentations.
- Type of financing. Equity funding is more risky but from a social point of view more relevant (by the opportunity it creates for the MFI to offer savings products to clients and the greater likelihood of continuity of service by a more solid financial structure).
- For 'funds of funds': the social orientation of 'investment partners' (which act as co-financier, or as an intermediary between MIV and MFI), and the social transparency of their policies and practice.

There might be other dimensions. The above tentative enumeration aims to demonstrate that while great progress has been made over the past years in developing an appropriate format for MFIs, **a comprehensive framework to assess Social Performance at the investors' level and that is widely accepted by the MF community, is still missing.**

20 CGAP distinguishes smaller, mid-size and larger MFIs according to portfolio size.
Large: Latin America = > $15 million;Other Regions= > 8million
Medium: Latin America>4million<15 million;Other Regions >$2 million<$8million
Small: Latin America<4million; Other Regions < $2 million

Private investors are entering the MF capital market in great numbers, some as ‘retail investors’ with small amounts, others more affluent, sometimes guided by special advisors, with bigger amounts. The latter regard MF investments as a special **asset class** of socially responsible investment, most of them expecting a moderate financial return but also a ‘social return’ that can be demonstrated.[21]

Logically, social investors want to be assured that their investment will be socially performing. However, to the writer’s knowledge, **the first <u>social</u> auditing and rating of a MIV or Fund is still to be done**. The combined financial and social rating of MIVs and the funds they administer can be regarded as a new field of activity Rating Agencies may wish to explore.[22] This will lead to more informed choices for investors, especially for those who want to give some weight to expected social return in investment decisions.

In the workshop there was some discussion around the motives of social private investors versus public investors, and possible **public private partnerships (PPP)**. Public investors with easy access to cheap money may crowd out private investors. However, in a growing market it would appear not to happen too often; yet, a sharper definition of the role of each category of funders depending on stage of development of markets and MFIs, seems desirable.

Workshop participants also asked for **room for experimentation** prior to the standardization of indicators and rating scales. Time is needed. It took **10 years, say the Workshop Conclusions**, to come to that stage for the measurement of financial performance and reporting to the MIX by the larger MFIs. But **is it wise to endorse a 10 years time frame?** Social return - depending on Social Performance of MFIs and indirectly of MIVs - is the « raison d’être » of most funds. In the period between the Bern Workshop and the preparation of this publication we have seen a growing number of publications and animated discussions on international MF ‘list serves’ critical of MicroFinance. MFIs, MIVs and Funds would be less vulnerable if they had the right instruments and data, externally audited, to illustrate that their social concern and return is not just based on widely proclaimed success stories, but has also been verified objectively on the basis of internationally agreed, transparent, criteria[23].

21 Typically ‘retail investor’ funds are the Triodos Fair Share Fund, and the funds associated to the Oikocredit network. Big private investors often work through foundations.

22 As is already currently the case for most Social Ratings, done by the established rating agencies targeting MFIs.

23 This was badly missing in the recent Compartamos debate. It was not clear how much harm or good had been done to borrowers, most of them women, paying an effective rate of interest of almost 100%.

There is still a long way to go for social performance management, measurement, reporting, auditing and rating to become accepted as standard practice by all players of the MF 'Industry'. However, for Microfinance to fulfil its promise and potential in the fight against poverty, it is necessary to go that path even if many obstacles are still to be overcome.

Summary of Social Performance Indicators Survey

BART DE BRUYNE, TRIAS

Summary of 25 page report of the Social Investors subcommittee of the Social Performance Task Force

The survey and the survey sample

During the spring of 2007, The Social Investors Subcommittee of the Social Performance Task Force surveyed Social Investors regarding their opinion on social performance indicators. A question list was send to 94 social investors of which 45[24] responded, being a response rate of 47,9%, which indicates to some extent the importance social investors give to social performance issues.

For interviews in Europe a small subgroup of the Social performance workgroup of eMFP participated in collecting the responses of European Social Investors.

The respondents often had social ambitions formulated in their missions and were composed of 44% from Europe, against 37% from USA and 20% investors in developing countries themselves. 60% of the respondents classified themselves as offering capital near commercial rates, 27% at commercial rates and 13% charges below market rates.

A surprisingly high 47% reports annually on social performance results such as on poverty outreach or employment creation by MFI supported businesses.

24 Alterfin, Calvert, Catalyst Microfinance investors, Citigroup Microfinance Group, Cordaid, Corporacion Andina de Fomento, Cresud, DOEN , Emergency Liquidity Facility, European Fund for Southeast-Europe, Finca, Finnfund, FMO, Global Bridge Fund, Global Microfinance Group SA, Global Partnerships Microfinance Funds, Gray Ghost, Growth Guarantee Fund, Investisseur et Partenaire pour le Developpement, KfW, ,Kiva, Locfund, Lok Capital, MFLO, Microcredit Enterprises, Microcred, Microcredit Fund, Microvest Capital Management, MLC frontiers, Multilateral Investment Fund, Nicaragua Credit Alternative Fund, Partners for common Good, Rabobank, Responsibility, Shore Cap International, SIDI, The Dignity Fund, Triodos, Triple Jump, Unitus, Unitus Equity Fund, Unitus Equity Fund L.P.

The survey findings

A list of 45 possible social indicators was presented to the social investors with the question if they use the indicator already and if they are interested in using the given indicator. The indicators were classified in 5 sub-groups: MFI-services, social responsibility, outreach, change over time and wider changes. On top of that, a list of indicators was given for appraisal on the way MFIs implement social performance management within their structure.

The findings of the study are:

MFI services or breadth of outreach

Most used indicators are: the number of borrowers, growth of the number of borrowers and the average credit size.

Less used is the outreach to savers or insurance takers. Less interest is observed in measuring the first loan average size or in comparing the average loan to the GDP per capita which would make international comparison easier.

Although actually less measured, social investors showed a high interest in measuring more outreach to insurance services.

Social responsibility to clients

About 80% of social investors collect information on the effective interest rate, considering if the charges to clients are reasonable.

Outreach characteristics

More than three quarters of social investors collect information on the number of women reached and more than half of them collect information on rural outreach.

The creation of employment in supported enterprises, the number of those living under the poverty line is less measured, but there is an enormous interest in measuring the number of clients living under the poverty line. We can therefore conclude that for this issue the problem was to measure it. New techniques such as the Progress out of Poverty index might create a solution for this in the future.

Appropriate service indicators

More than 75% measures portfolio at risk and write off ratios and even over 50% asks for information on client turn over, although more clarity in measurement concepts for this are needed.

Impact change over time of client's indicators or employment creation indicators

Few investors collect information on change in poverty, asset level, housing conditions, education of client's children, etc, as few MFIs have this data in their database, but over 60% of the social investors are interested in considering this data when it exists.

Indicators on social performance management within MFIs

The questions were asked in a way that the social investors could pronounce their opinion as something an MFI ''must have'' or rather something that's ''nice'' when an MFI has it. If we concentrate on what social investors say MFIs must have, 60% said a social mission with references to outreach to the poor and the systems to implement it.

Still 30% indicated an ethical code, a decent work environment within the MFI and measuring staff retention as a 'must have'.

Issues such as measuring poverty level of clients at entry or over time, linking financial to non-financial services, a gender awareness policy, female representation among staff, management and board members and a systematic review of staff satisfaction were indicated as less needed.

Overall findings on triple bottom line measuring

82% of social investors are interested in looking at results on social performance, more especially to evaluate effects on poverty reduction or employment creation, while less than 7% values the fact of client ownership or client representation within the structures of an MFI.

62% of the respondents are also interested in environmental performance, the so called triple bottom line.

In the indicators used, there is a clear preference for easily measurable and available indicators, which is for instance illustrated by the main practice of also interpreting financial indicators from a social perspective. Quite easy adaptations to make indicators better interpretable, such as dividing the average loan size by GDP per capita or correcting the charged interest rate for inflation to obtain the real cost charged to the clients are hardly ever done. This shows clearly the demand for very easy measures to use in a quick way. As such, the huge interest in information on outreach to poverty, impact at client level, employment creation and environmental impact is probably not translated into practice because of the lack of easy monitoring solutions. The interest for internal organizational issues such as client participation or how to deal with human resources came out as of less interest for social investors.

ANNEX 1: Detailed results of the survey on social performance indicators with social investors.

MFI-services – breadth of outreach:

Investor Type	Type A Investors			Type B Investors			Type C Investors			Total		
	Periodically	Routinely	Interested	Periodically	Routinely	Interested	Periodically	Routinely	Interested	Periodically	Routinely	Interested
Number of active borrowers	80.0	20.0	0.0	38.9	55.6	5.7	42.9	57.1	0.0	46.7	44.4	2.2
Number of loans disbursed	16.7	33.3	16.7	44.4	33.3	11.1	33.3	58.3	0.0	37.8	40.0	8.9
Number of voluntary depositors	16.7	50.0	16.7	22.2	33.3	22.2	41.7	25.0	33.3	26.7	33.3	24.4
Percentage growth in active borrowers	16.7	50.0	0.0	44.4	37.0	11.1	50.0	41.7	8.3	42.2	40.0	8.9
Percentage growth in voluntary depositors	33.3	16.7	16.7	18.5	37.0	22.2	25.0	41.7	33.3	22.2	35.6	24.4
Number of clients with loan, life, and health insurance	0.0	0.0	83.3	14.8	7.4	48.1	33.3	8.3	58.3	17.8	6.7	55.6
Average loan size	16.7	66.7	0.0	51.9	40.7	0.0	50.0	50.0	0.0	46.7	46.7	0.0
Average loan size / GNI per capita	0.0	16.7	66.7	29.6	33.3	22.2	33.3	33.3	25.0	26.7	31.1	28.9
Average first loan size	33.3	33.3	16.7	33.3	7.4	29.6	16.7	16.7	50.0	28.9	13.3	33.3

Social responsibility to clients:

Investor Type	Type A Investors			Type B Investors			Type C Investors			Total		
	Periodically	Routinely	Interested	Periodically	Routinely	Interested	Periodically	Routinely	Interested	Periodically	Routinely	Interested
Effective interest rate	16.7	66.7	0.0	22.2	51.9	18.5	25.0	66.7	0.0	22.2	57.8	11.1

Outreach:

Investor Type	Type A Investors			Type B Investors			Type C Investors			Total		
	Periodically	Routinely	Interested	Periodically	Routinely	Interested	Periodically	Routinely	Interested	Periodically	Routinely	Interested
Percentage rural clients	16.7	50.0	16.7	40.7	22.2	14.8	25.0	33.3	33.3	33.3	28.9	20.0
Percentage clients in remote rural areas or less developed regions	0.0	16.7	66.7	22.2	3.7	37.0	8.3	16.7	66.7	15.6	8.9	48.9
Percentage female clients	0.0	66.7	16.7	33.3	44.4	3.7	50.0	33.3	8.3	33.3	44.4	6.7
Number employed in MFI supported businesses	0.0	50.0	33.3	14.8	0.0	44.4	25.0	16.7	50.0	15.6	11.1	44.4
Percentage clients below national poverty line at entry	0.0	33.3	50.0	14.8	0.0	59.3	8.3	16.7	50.0	11.1	8.9	55.6
Percentage clients below $1 or $2 per day at entry	0.0	33.3	50.0	7.4	0.0	59.3	8.3	8.3	58.3	6.7	6.7	57.8
Percentage clients from marginal or disadvantaged communities	0.0	16.7	66.7	7.4	3.7	51.9	8.3	58.3	66.7	4.4	6.7	66.7

Appropriate service indicators:

Investor Type	Type A Investors			Type B Investors			Type C Investors			Total		
	Periodically	Routinely	Interested	Periodically	Routinely	Interested	Periodically	Routinely	Interested	Periodically	Routinely	Interested
Client turnover	50.0	16.7	66.7	18.5	33.3	22.2	16.7	33.3	41.7	15.6	35.6	26.7
Portfolio at risk	16.7	66.7	0.0	37.0	55.6	0.0	33.3	58.3	0.0	33.3	57.8	0.0
Write-off ratio	33.3	33.3	16.7	37.0	55.6	0.0	33.3	50.0	8.3	35.6	51.1	4.4

Impact Change indicators:

Investor Type	Type A Investors			Type B Investors			Type C Investors			Total		
	Periodically	Routinely	Interested	Periodically	Routinely	Interested	Periodically	Routinely	Interested	Periodically	Routinely	Interested
Change in poverty level	0.0	0.0	66.7	7.4	0.0	63.0	0.0	8.3	75.0	4.4	2.2	66.7
Change in assets	16.7	33.3	16.7	14.8	0.0	55.6	16.7	16.7	50.0	15.6	8.9	48.9
Change in living conditions	16.7	0.0	50.0	3.7	0.0	63.0	0.0	8.3	66.7	4.4	2.2	62.2
Ability to send daughters to primary/ secondary school	16.7	0.0	50.0	3.7	0.0	55.6	0.0	0.0	75.0	4.4	0.0	60.0
Ability to send sons to primary/secondary school	16.7	0.0	50.0	3.7	0.0	55.6	0.0	0.0	75.0	4.4	0.0	60.0

Investor Type	Type A Investors			Type B Investors			Type C Investors			Total		
	Periodically	Routinely	Interested	Periodically	Routinely	Interested	Periodically	Routinely	Interested	Periodically	Routinely	Interested
New hired non-family employment in microfinance supported businesses	0.0	0.0	66.7	0.0	0.0	59.3	8.3	0.0	66.7	2.2	0.0	60.0

Social performance management within MFIs:

Investor Type	Type A Investors		Type B Investors		Type C Investors		Total	
	Nice to Have	Must Have	Nice to Have	Must Have	Nice to Have	Must Have	Nice to Have	Must Have
Has a vision/mission that references outreach to the poor with systems to implement	0.0	66.7	14.8	59.3	33.3	58.3	17.8	60.0
Measures the poverty levels of clients at entry	33.3	33.3	59.3	11.1	83.3	0.0	62.2	11.1
Measures the poverty levels of clients over time	50.0	16.7	63.0	7.4	83.3	16.7	66.7	6.7
Has a code of ethics with effective systems in place to implement	33.3	16.7	44.4	37.0	58.3	33.3	46.7	33.3
Funds enterprises with "decent" working conditions	16.7	33.3	48.1	33.3	50.0	33.3	44.4	33.3
Offers or links to non-financial services	50.0	0.0	55.6	14.8	75.0	0.0	60.0	8.9
Has a gender awareness policy	33.3	16.7	51.9	18.5	66.7	0.0	53.3	13.3
Tracks loans/trend information separately for men and women	16.7	50.0	33.3	33.3	83.3	0.0	44.4	26.7
Has a certain proportion of female representation on board, management, and field staff	33.3	16.7	44.4	25.9	66.7	8.3	48.9	20.0
Has a vision/mission that references adaptation of services to client needs with effective systems to implement	33.3	16.7	44.4	40.7	50.0	41.7	44.4	37.8
Has conducted systematic review of staff satisfaction in the last year	33.3	16.7	63.0	3.7	50.0	16.7	55.6	8.9
Measures staff retention rate	16.7	33.3	51.9	29.6	50.0	33.3	46.7	31.1

Social Performance Management at Alterfin

HUGO COUDERÉ, ALTERFIN

Alterfin

Date of creation: 1995
Status: cooperative society
Portfolio invested (31/12/2007): EUR 15.059.873 (USD 22.180.934)
Number of countries: 16
Number of MFIs: 40
Other type of organisations supported: producers associations related to fair trade (19)
Type of financial instruments: credit, guarantee, participation
Source of funding: capital cooperative society (51%) and third party funds (49%)
Website: www.alterfin.be

1. Introduction

Alterfin is a Belgian co-operative society (1995) set up by NGO's and banks to contribute to the development of local financial institutions in the South that are oriented towards opportunity-poor or oppressed groups in society. Since its inception more than 1,000 private shareholders have joined the co-operative.

Alterfin is a social investor, which means it has a mix of financial and social objectives. Therefore its investments have to comply with a set of financial and social criteria. There is little discussion on financial objectives. There are generally accepted tools and standardised indicators to measure financial performance and even benchmarks that help to set the financial criteria.

However, the situation is completely different for social objectives. There is a lot of discussion on social objectives, on tools to measure them and on criteria to assess them. This article describes the process Alterfin is following to manage its own social performance.

This article has no academic ambition. It draws in the first place on Alterfin's own experience, but we have learned a lot from important work that has been done by organisations such as: Imp-Act, the Social Performance Task Group[25], CERISE, the SEEP network and others. Some of the concepts and part of the tools we are using have been developed by these organisations. In this article we will not always refer to these organisations as it is sometimes difficult to know where an idea, a concept or a tool has originated, but we think these organisations have played and still play an essential role in keeping Social Performance on the agenda and in further developing concepts and tools.

2. The Start-up of Social Performance Management at Alterfin

At its inception Alterfin developed a credit and investment manual. An important chapter of this manual was dealing with the social objectives of Alterfin. It was mainly focusing on the type of organisations Alterfin wanted to work with, as this was an important element of our mission. When the credit committee discussed credit applications on the basis of the manual, often the committee ended up in very time-consuming discussions regarding the social aspects of an application and it was difficult to have an efficient decision-making process. In 2002 Alterfin decided to evaluate and to improve its credit-procedure. Regarding the social objectives, the evaluation came up with three conclusions:

- Different levels in Alterfin must share a common **social analysis model** which should be made explicit
- Alterfin needs **measuring tools and indicators** that can give sufficient quantitative and qualitative data to feed the analysis model
- Alterfin needs more explicit **social criteria** on the basis of which decisions can be taken.

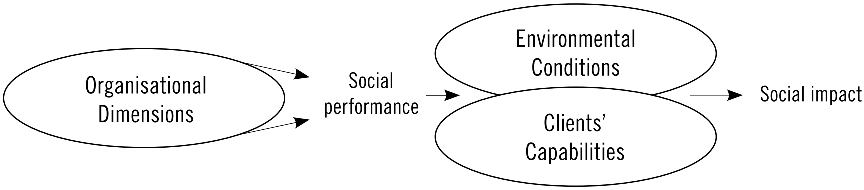
So, by the end of 2002 Alterfin started an internal deliberation process involving team, credit committee and board-members. We were lucky that in the same period CERISE started its Social Performance Indicators (SPI) Initiative[26]. Our own reflection process benefited a lot from the work that was done by the SPI Initiative. In the first place it was important to understand the impacting chain from the micro-finance institution (MFI) level up to the client level. As an investor we are interested to know what the social performance of the MFI is.

25 Promoted by CGAP, Ford Foundation and Argidius Foundation.
26 All documents on this initiative are available on www.cerise-microfinance.org

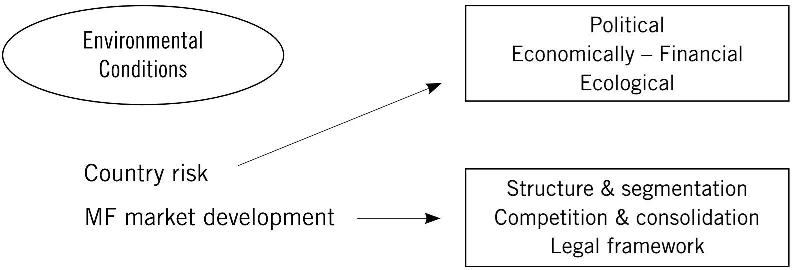
3. The Social Analysis Model

Social performance of an MFI is defined as its **capability** to impact positively on the live's of people (its clients). This capability is to a great degree determined by the organisation's policies, procedures and processes (we will come to that later).

Whether social performance will eventually lead to a positive social impact on the lives of clients will further depend on the environmental conditions and on the clients' capabilities. Graphically this social analysis model can be depicted as follows:



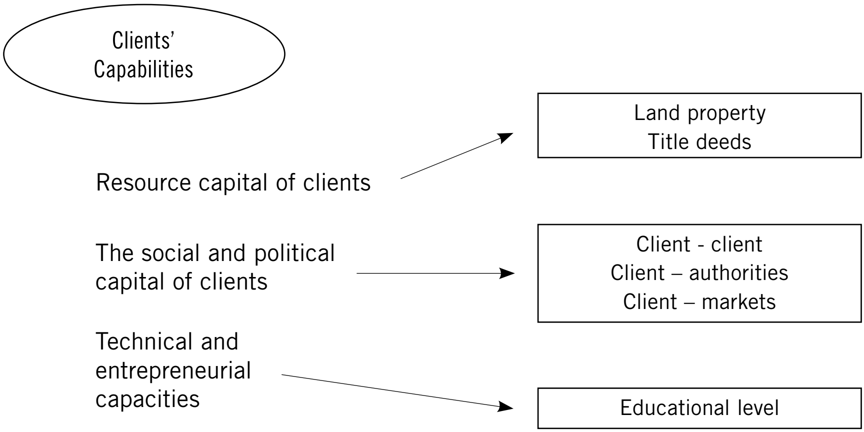
Before we explore further the organisational dimensions of the MFI's social performance, we want to dwell on the environmental conditions and the clients capabilities that will determine the final impact. The environmental conditions relate to the economic, political, socio-cultural and ecological conditions in which the client is living and operating. These environmental conditions can be more or less conducive to the use of the MFI's services by the client.



Though the MFI can barely influence these conditions, it is important to take these conditions into account. Alterfin as an investor will not work in countries or regions where conditions make it almost impossible for a client to make good use of MFI's services. At the same time, these conditions might impede the MFI from working effectively and efficiently.

At the MFI level it is important to see how it interacts with this environment. Therefore we will assess how the MFI relates to other organisations such as: micro-finance networks, local and central authorities, farmers' associations etc.

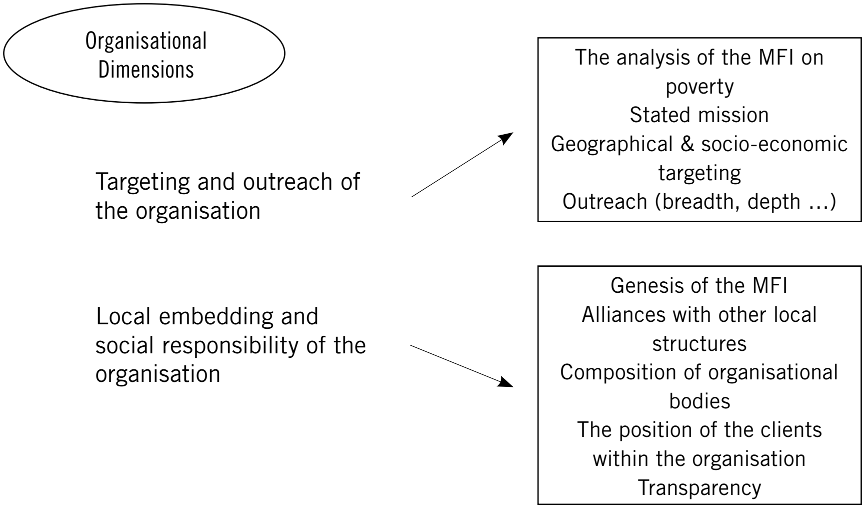
The client's capabilities to make good use of the MFI services, are to a large extent determined by her/his resource capital, social capital and technical and entrepreneurial capacities.



The resource capital refers to the (land) property, infrastructure and equipment that the client has as a starting base for running his/her economic activities. The social capital refers to how the client is connected with other clients, with the markets and with authorities. Finally the clients' capability to make optimal use of the MFI services is determined by her/his technical and entrepreneurial capacity.

For the social investor the clients' capabilities remain a black spot. However they will determine to a large extent how the client can make good use of the MFI's services.

The only thing we can assess is to what extent the MFI is conscious of the importance of the clients' capabilities. Does the MFI take into account the resource capital of the client? Does the MFI value how the client interacts with other clients, with the market, with local authorities? Has the MFI certain minimum requirements with respect to technical and entrepreneurial capacities of the client? Does it organise or facilitate training for the clients? These questions form part of the "organisational dimensions" of the MFI that will determine its social performance. In a schematic way it can be depicted as follows:



The two main organisational dimensions we take into consideration are 1) targeting and outreach and 2) local embedding and social responsibility. The categorisation of these dimensions is not watertight, but they were a kind of compromise between what we learned from other initiatives, our internal discussions and experience.

For both dimensions we make a distinction between intent (what MFI's want to achieve) and results (what they actually achieved). Both dimensions can be broken down into different composing elements. We are interested to know what the MFI's own analysis of poverty is and how this appears in their mission and their targeting. Data on different aspects of their outreach will indicate how far reality is from their intentions. Further we consider it important how the MFI sees itself in the larger environment and how it connects to this. Often the genesis of the MFI already gives a good indication of how the MFI is embedded in the local society. Through its alliances, through the composition of its shareholders and board of directors, the MFI can further strengthen or weaken its local embedding. The same applies to the position of the clients within the MFI. Finally, transparency is also an important factor with respect to its social responsibility. Not only in the sense of disclosing financial figures, but also with respect to its procedures, decision taking process, ways of calculating interest etc.

4. Social Performance Measuring Tools

To have a Social Analysis Model is the first step. The second is to develop and use the necessary tools to generate data that can be fed into the model. As an investor we cannot but adapt a pragmatic approach to this assignment. This means that we have to keep in mind what the purpose of these data is, how we can process them and at what cost. The purpose is threefold: to assess, to monitor and to evaluate the social performance of the MFI's. The assessment must facilitate the funding decision. As it is part of the "due diligence" process it can contain more qualitative data. These are collected on the basis of a questionnaire (see annex 1). The questionnaire Alterfin is using is largely based on the questionnaire that was developed by Cerise during their SPI exercise. It is questioning the "organisational dimensions" of social performance, mainly linked to targeting (outreach), local embedding and social responsibility. The difference with the Cerise approach is that up until now we have left the questions open. We give neither weights nor (ordinal) scores to different answers. This reduces the practicality of the questionnaire with respect to benchmarking, graphical representation and comparison with criteria. On the other hand, it gives more room for qualitative analysis and inclusion of contextual matters.

The social performance report that is based on this questionnaire is used in the decision taking process (mainly at credit committee level). However this questionnaire and report is not appropriate for further monitoring of the MFI's social performance as it is too complex and too qualitative. That is why a "Social Performance Management (SPM) - Data Sheet" was developed (see annex 2). This sheet contains three categories of questions: policy, process and outreach. The choice of the different questions is also based on the social analysis model, but most of the questions give data on cardinal or binary scale which are easier to process and to aggregate. The data that we obtain through this sheet are indeed used to build a data base that is used to get a global picture of Alterfin's social performance.

The variables of the SPM Data Sheet are comparable to those of the recent social rating experiments. We think however, that social rating is a very difficult exercise. Rating assumes that you have optimal standards, benchmarks. To understand social performance you need to contextualise the data you have. It is only within this context that you can make statements about the social performance.

The social performance assessment questionnaire and the Social Performance Management data sheet are two measuring tools that are used in a systematic way. The two tools provide us information on the social performance of the MFI's and as such, this information is vital for Alterfin's own social performance management. However, we are also strongly interested in impact studies. This type of information is necessary for two reasons. Impact studies provide us with the necessary information in order to adapt our social analysis model and secondly, impact studies are the only empirical basis for our social criteria. Alterfin is not initiating (nor funding) impact-studies at MFI level so we are dependent on other initiatives to get impact-data.

5. Social Criteria

The most difficult assignment was and still is, to arrive at explicit social criteria. As we already mentioned regarding social rating, it is very difficult to define general applicable optimal standards. That's why it is also difficult to come to explicit social criteria. It is probably only possible to work with contextualised or conditional criteria. In that sense we are trying to contextualise certain data: for instance as follows:

- How do the credit modalities compare to other MFI's in the region: minimum amount, interest-rate, guarantees, duration …
- How does the amount of the average credit[27] compare to the level of local development as it is expressed by the GNI per capita[28].

Sometimes our policy explicitly favours certain criteria in a contextualised way; for instance as follows:

- In a rural African context member based organisations are important.
- A group approach is important when targeting the very poor and where building social capital is needed.
- In a rural context (but not only then) it is important to be locally well embedded and to have good connections with other organisations in order to provide necessary complementary services (training, marketing …).

The (contextualised) social criteria are not static and might change overtime. They are influenced by new insights, our own experience and of course the changing context.

As social criteria change in space (context) and time, the decision taking process with respect to social performance needs necessarily to be dynamic. As social criteria are much less clear-cut than for instance financial criteria, they leave room for interpretation and discussion. This again hampers the efficiency of the decision making process.

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27 Actually it is better to use the average amount of the first credit a client takes, but this information is not always available.

28 Even this criterion is not always appropriate as there are a lot of differences between regions in the same country.

6. Conclusion

Alterfin has made some important progress in its Social Performance Management, by formulating a social analysis model, by creating social performance measuring tools and by trying to set social criteria. In this way, Alterfin has improved its own social performance management and the decision making process. However, we cannot consider it as a job done. First, because as we explained social performance management is a dynamic process and as such needs constant adaptation. Secondly, social performance management has to be socialised internally and externally. Internally all levels of the organisation need to have proper understanding of the different elements of our social performance management. Externally our partners need to understand our social performance approach and need to agree to provide the necessary data for our social performance measuring tools. This is not an easy task. Our partner MFI's have their own dynamics with respect to social performance management and Alterfin is not the only investor they have to respond to with respect to (social) performance information. That is why it is important to come up with approaches and tools that are more generally accepted (as is the case with financial performance). The different platforms and networks have still a role to play here and we hope this article might contribute to it.

ANNEX 1: Alterfin - Social Performance Assessment Questionnaire

Dimension 1: Target group and outreach of the activities towards poor and excluded persons

1.a. What is the mission of the MFI 1.b. Does the MFI respond to poverty or inequality problems?

1.c. Who is the target group (geographically and socio-economically)? 1.d. Is there a gender policy?

1.e. Description of the savings products (amount – interest rate – term)

1.f. Description of the credit products' characteristics (amount – interest rate – term – guarantees)

1.g. Description of other products (other than savings or credits: transactions, "Western Union", training, ...)

Dimension 2: Improvement of the social capital and policy towards the target group (clients andmembers)

2.a. Are the clients/members involved in the administration/direction of the MFI? In what way?

2.b. Do the clients/members receive training? What sort of training?

2.c. What autonomy do the groups (groups of clients for credits) dispose of?

2.d. Do the groups have other community/social functions?

Dimension 3: Local and international integration and social responsibility of the MFI Local and international integration

3.a. When was the MFI created? Who founded the MFI? Why was the MFI created?

3.b. Do/did the founders of the MFI have links with the local community-other initiatives?

3.c. Do the members of the board/directors have links with the local community?

3.d. What main alliances does the MFI have with local, national or international organisations (financial and non financial, governmental and non governmental)?

3. f. How is the MFI governed and controlled (internal and external audit – BOD – General Assembly)?

3.g. Is there transparency regarding the direction towards the clients/members?

3.h. Is there transparency regarding the financial situation towards the clients/members?

3.i. Is there transparency concerning the cost of credit towards the clients/members?

Social responsibility (internal)

3.j. How are the salaries of the credit officers of the MFI situated compared to those of teachers of the primary school?

3.k. What is the salary bracket in the organisation? (management, credit officers, administrativepersonnel, logistic personnel) Social responsibility (external)

3.l. In what way are the activities of the MFI adapted to the local culture (language, values...)?

3.m. Has the credit program of the MFI effects (positive – negative) on the local social cohesion? Environmental (ecologic) responsibility

3.n Has the MFI an environmental policy?(internal guidelines, external guidelines, exclusion list, ...)

ANNEX 2. Social Performance Management Data Sheet

Social Performance Management Data	
Language, Idioma, Langue, Taal :	English 2
FILL IN THE CELLS IN GREEN	
specify the date of the information:	31/12/2007

N°	POLICY	31/12/2007
1	Describe the mission of the institution	
2	Does your organisation have a formal written gender policy? If yes, please attach	
3	Does your organisation have a formal written environmental policy? If yes, please attach	
N°	**PROCESS**	**31/12/2007**
4	Does your organisation use a poverty targetting tool?	
5	Name/Description:	
6	Do you track changes in the economic status of your clients?	
7	How?	
8	Do you conduct client satisfaction surveys or focus group discussions on a regular basis (minimum once a year)?	
9	Does your organisation provide social services to the community or specific groups?	
10	Are you providing life insurance cover for your credit clients?	
N°	**OUTREACH**	**31/12/2007**
N°	**BREADTH - OUTREACH**	**31/12/2007**
	Number of clients	
11	Total number of client/members (depositors, borrowers or both)	
12	Number of active savers (voluntary savings only)	
13	Total number of active borrowers	
14	Total number of active clients	
N°	**DEPTH - OUTREACH**	**31/12/2007**
15	Of which women (%)	
16	Of which men (%)	
17	Of which rural (%)	
18	Of which peri-urban (%)	
19	Of which urban (%)	
20	Of which individual credits (%)	
21	Of which peer group credits (%)	
	Average outstanding amount	
22	Average outstanding credit	
23	Average outstanding savings	
24	Gross National Income (GNI) per capita	
25	Average outstanding credit as % of GNI per capita	
26	Average outstanding savings as % of GNI per capita	
N°	**SUSTAINABILITY - OUTREACH**	**31/12/2007**
	Portfolio	
27	Portfolio at risk (PAR > 30 days)	
28	Total of new clients since the end of last year	
N°	**SECTOR - OUTREACH**	**31/12/2007**
	Portfolio	
29	Total savings	
30	Total creditportfolio	
31	Agriculture (% of total creditportfolio)	
32	Manufacture (% of total creditportfolio)	
33	Trade (% of total creditportfolio)	
34	Services (% of total creditportfolio)	
35	Other (% of total creditportfolio)	

The Role of Socially Responsible Investors in the Social Performance of Microfinance Institutions

DAVID DEWEZ[29], INCOFIN

The Experience of INCOFIN

I. The context

Microfinance institutions (MFIs) basically differ from conventional financial institutions in their social mission and commitment, which are often at the very heart of the vision of these institutions. There are, however, only a very limited number of IMFs that can actually boast a solid record of social performance and efficiency.

Social performance measurement is still in the initial stage of its development, and has only just reached the level of research that is necessary for its consolidation in the field; in fact, many operators are currently experimenting with social performance measurement tools[30]. Moreover, certain initiatives seek to encourage operators to agree on the use of common indicators in measuring the social performance of MFIs[31]. The present article fits into this context and presents the particular experience of Incofin, a player-investor in the area of social performance.

A Belgian cooperative company founded in 1992, Incofin[32] manages 4 microfinance investment funds with a global geographical coverage. In December 2007, Incofin managed an investment portfolio of nearly 65 million euros, spread across 18 countries

29 David Dewez is Investment Manager at Incofin. The author wishes to thank Nicolas Blondeau, Patrick d'Huart and Geert Peetermans of the Incofin team for their comments and contributions.
30 Cf. Lapenu et al. (2004)
31 Two examples are the efforts of the Task Force in the area of social performance and the conference on social reporting by investment funds, organized by the Swiss cooperation (SECO) in 2007.
32 More information about Incofin can be found at www.incofin.be

and 49 MFIs. Today, Incofin positions itself as Belgium's leading microfinance investment company.

Incofin's mission is "to support MFIs by providing financial services tailored to the needs of micro-entrepreneurs, thereby enabling them to improve their living conditions and to break the vicious circle of poverty". Incofin's intrinsic values include social motivation, transparency, operational efficiency and long-term vision.

Consistent with its mission, Incofin has from the outset focused on the social performance of MFIs as a key criterion in the evaluation of their overall performance. Incofin's experience in the field of social performance of the MFIs mainly comes to the fore in the following four stages:

1. Selection of candidate MFIs for investment by Incofin.
2. Determination of the investment conditions by Incofin.
3. Monitoring of the overall performance of the institutions in which the company has invested.
4. Reporting on the social performance of its investments (annual report and other reports)

This article will first present the Incofin approach and methodology, and then discuss a number of recently obtained results. The article concludes with a few general recommendations for operators in the sector and microfinance investors in particular.

II. Evaluation of the social performance of MFIs in the selection of candidate institutions

As soon as they visit the candidate institution, the investment officers incorporate its social performance into their analysis. This aspect is an integral part of the evaluation of the overall performance, which is reflected in two performance scores: one for financial and managerial performance, and another for social performance. These scores are then presented to and evaluated within the investment committee.

Assessment of the social performance is performed with a tool that Incofin has been using since the start of its operations. Developed in-house, this measurement tool is inspired both by the reference tools used in the trade[33] and by the experience of the Incofin team.

33 They include, for example, the tools developed by CERISE or ACCION which served as sources of inspiration for the tool designed by Incofin.

It should be noted that the tool has been considerably refined. Originally a relatively simple tool built around only a few indicators, today it is a more complex (and more accurate) instrument that incorporates 36 indicators across 5 dimensions of social performance.

The **first evaluation tool** devised by Incofin included 6 indicators, which are defined below. These indicators were not broken down into dimensions, but together constituted a simple checklist that the investment officer had to take into account during the analysis.

1. Does the MFI operate in difficult segments[34]?
2. The depth of outreach of the MFI (measured by the average loan/GDP ratio)
3. The outreach in terms of number of clients
4. Existence of a system for monitoring the social performance of the institution
5. Suitability of products and continuous innovation
6. Quality of client service

Based on these indicators, Incofin assigned a social performance score from A (for MFIs with high performance) to D (for MFIs with inadequate performance). The score was subsequently included in the report presented to the investment committee.

Aware of the limits of the tool, Incofin thoroughly revised it in 2007, introducing more generic indicators and dimensions, commonly accepted in the sector, in a more structured manner. **The current tool**[35] takes the following 5 dimensions into consideration:

1. Mission and Vision
2. Scale and outreach
3. Quality of client service
4. Human resources
5. Environment and social contribution to the community

Each dimension is measured by a series of quantitative and qualitative indicators, which the investment officers examine during their performance analysis. These parameters have the advantages that they are easy to measure, address the main aspects of social performance and are recognized by the sector. The tool does, however, present a

34 Given the specificities of each country, it is a qualitative assessment of the market reached by the MFI, mainly based on geographic indicators (costly to reach, neglected by most of the MFIs).

35 The questionnaire developed by Incofin is attached to this document.

number of specific differences. For its inclusion in the procedures of an investment company, the tool must in fact, meet the following requirements:

- it must be easy to use
- the data must be easily collectible
- the dimensions and indicators used in the assessment model must take into account a sufficiently large number of social performance indicators, and
- the indicators must, as much as possible, not be influenced by normative views or value judgments[36].

Information is collected through consultations with employees of the institutions during the visits, through documentation (manuals, statistics) given by the institution, and indicators are computed by the team of Incofin. Most of the information is verifiable and verified (cross-checked). To give an example, the existence and content of exclusion lists can be verified with the internal audit and knowledge of its existence by the loan officers can then be analyzed.

Based on these indicators, Incofin elaborated a scoring system that is used to quantify the social performance of the MFIs under assessment. The first stage in the development of this scoring system was to weight each of the 5 dimensions included in the model, as detailed below:

Dimensions	Weight	# indicators per examined dimension
Mission and Vision	10%	5
Scale and outreach	30%	11
Quality of service	25%	8
Human resources	25%	7
Environment and social contribution to the community	10%	5
Total	**100%**	**36**

36 While Incofin is well aware of the fact that its tool also includes normative views, it has endeavoured to limit the number of indicators reflecting value judgments to an absolute minimum.

The results obtained are classified into the following categories:

- Score < 50%, IMF with inadequate social performance: file is rejected
- Score between 51% and 65%, IMF with poor social performance
- Score between 66% and 80%, IMF with good social performance
- Score between 81% and 90%, IMF with very good social performance
- 90%, IMF with excellent social performance

The use of 5 dimensions and the scope of certain indicators make it difficult to obtain a high score (above 80%). It is not only sufficient to have a good mission, a good scale and a good outreach (i.e. serving clients with a low economic profile or considered "poor"), but also to provide a good client service and to adopt an adequate human resource policy, something which is ignored by many MFIs. Certain erroneous pretexts or prejudices might in fact maintain that MFIs always lack resources, or that MFI clients do not need a client service that meets the same standards as that which is provided by conventional financial institutions. Note that MFIs also have a direct role to play in their relation with the environment and the community in which they operate, hence the inclusion in the measurement tool of a dimension that focuses on the environment and the contribution to the community.

III. Some results of Incofin's experience

III.1 The important role to be played by investment companies

The implementation of this tool has enabled Incofin to assess the social performance of the institutions in which it invests, yet without generating any major operational problems. It is difficult to precisely estimate the time expenditure by the investment officers, but the workload and the additional operational costs – for both Incofin and the MFIs – appear to have been limited. Based on this experience, it may therefore be concluded that investment companies can also directly contribute to the assessment of the social performance of MFIs without incurring additional costs.

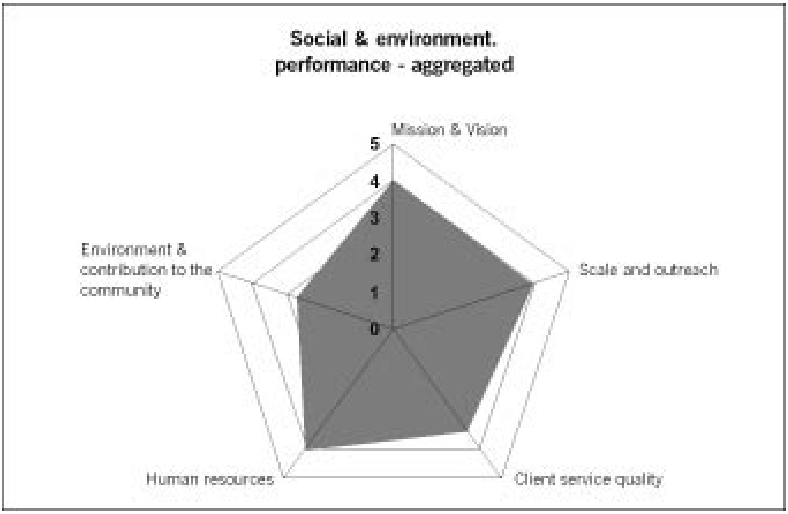
III.2 The social performance of Incofin's investment portfolio

For the 23 social performance analyses that it has carried out with the new tool since the beginning of 2007, Incofin can report the following aggregated results:

DIMENSIONS	AVERAGE SCORES OF THE INCOFIN PORTFOLIO	
Mission and Vision	8,2/10	**82%**
Scale and outreach	24/30	**80%**
Customer service	17/25	**68%**
Human resources	21/25	**84%**
Environment and Contribution to the community	5,2/10	**52%**
AVERAGE TOTAL SCORE	**74.2%**	

The average social performance score of the MFIs included in Incofin's portfolio is 74.2%. This is considered a 'good' score, which nevertheless reveals certain gaps.

The following graph shows the results for each analyzed dimension.



It can be seen that the MFIs in Incofin's portfolio obtain higher scores in the dimensions "Scale and Outreach", "Social Mission" and "Human Resources" and score only modestly in "Client Service" and receive an insufficient score for "Protection of the environment and contribution to the community". It is generally assumed that the latter two dimensions are not yet sufficiently taken into account by MFIs in general.

How can this be explained? As for customer service, many MFIs have left this issue "to be dealt with later", believing their primary mission is to provide access to financial services. Today, with the help of the competition, this simple criterion is no longer sufficient. Moreover, practical experience shows that MFI clients also demand quality services[37], just like clients of conventional financial institutions. It should further be noted that Incofin has integrated into the dimension of client service quality a component of transparency of the information that is provided to clients (e.g. the interest rate). Barring MFIs operating in markets that are regulated in this respect (e.g. Peru, Colombia and Bolivia), there is still only a very limited number of MFIs that have embraced full transparency.

III.3 Incorporating social performance measurement into risk assessment: the example of Incofin

Investment companies are supposed to include the results of risk analyses and to use them in determining the investment conditions and modalities. The perception of the investment risk is thus positively correlated with the investment cost and conditions. The logic is rational: the riskier an investment is deemed to be, the higher its expected return will have to be for the investor.

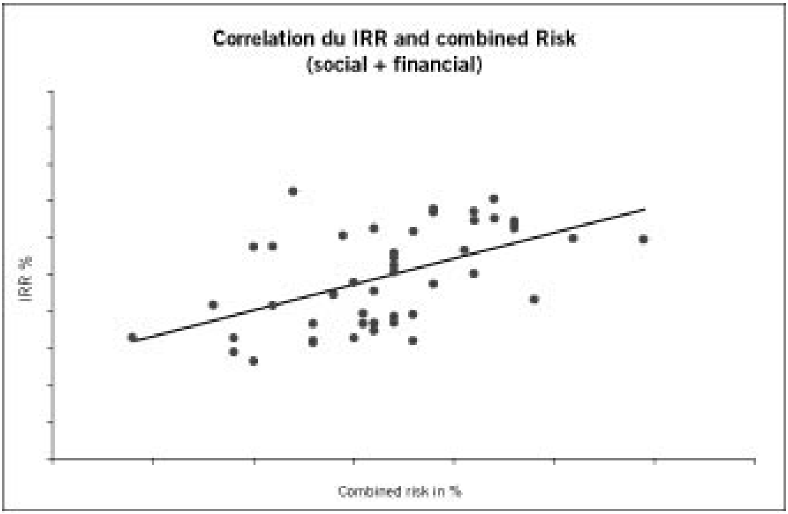
What to do, then, with the social performance score? Can it also enter into the overall assessment of the various risks to which the MFI is exposed? If yes, would it be possible to incorporate the social performance score in such a way that it intervenes in determining the investment conditions?

The experience of Incofin proves that it should only be considered normal for the social performance score to be an integral part of the measurement of the MFI's risks and therefore of the investment conditions. It is precisely this that distinguishes a 'socially responsible' investment company from one that is motivated only by financial gain.

A recent empirical analysis demonstrated that Incofin uses both the financial and the social performance score in the assessment of the risks, and therefore also in the determination of the investment conditions.

37 Cf. Brand and Gerschick (2000): Maximizing Efficiency: The Path to Enhanced Outreach and Sustainability.

The following graph shows the correlation between the IRR (internal rate of return) and the overall performance score of the MFI[38], combining its financial and social performance. It can be seen that the higher the combined score, the lower the IRR. In other words, the better the MFI performs both financially and socially, the lower the interest rate that will be required by Incofin. There is no doubt that this constitutes a major incentive for MFIs to adopt measures aimed at improving their financial and social performance.



It is important to say that Incofin invests in MFIs who have achieved a minimum level of both social and financial performance. With this in mind, a MFI which was not performing on one of the two criteria would not be selected for the investment.

III.4 Insights from measuring the social performance of MFIs

Since it implemented the latest version of its social performance measurement tool in 2007 and up until January 2008, Incofin evaluated the social performance of 23 institutions, including 12 NGOs, 9 non-banking institutions and 2 banks. These observations are distributed across 3 continents (14 in Latin America, 5 in Africa, and 4 in Eurasia).

38 The study by Natasha Wagner of Infocin's investments shows that the coefficient of correlation between the IRR and the combined score is 0.64% with a confidence interval of 95%.

The results presented further on are based on the observations made from this sample of 23 MFIs and of course, the application of the Incofin methodology. The sample size, although small, nevertheless allows a number of interesting trends to be identified:

- First, the result shows that providing traditionally excluded populations with access to financial services and products is in itself not enough to obtain a good social performance score.
- The legal construction of the institution does not appear to be directly correlated with its social performance. Therefore, it would seem incorrect to hold that one type of MFI performs better than another type from a social point of view. The empirical analysis carried out by Incofin on the basis of the 23 observations made between June 2007 and January 2008 shows that among the 5 MFIs obtaining the highest social performance scores, there are 3 commercial MFIs and 2 non-profit organizations. However, it would be incorrect to conclude that commercial MFIs in general have a higher standard of social performance.
- The poor results of the MFIs at the bottom of the social performance ranking are due primarily to the lack of effort that they put into human resources and client service, both key factors in the success of MFIs (and making up 50% of the total result).
- Generally speaking, MFIs perform poorly in environmental policies and in the area of contribution to the community. In spite of certain recent efforts[39], a limited number of them have clear environmental policies, and of these, the majority confine themselves exclusively to the use of lists of activities that they cannot finance.
- Nearly all MFIs score high in the social mission and vision area. This once more demonstrates the different nature of their activities as compared to those of conventional financial institutions.

IV. Conclusion

It is important to stress that the social performance evaluation which may be undertaken by investment companies can never replace the assessment that might be carried out by specialized institutions such as credit rating agencies and other research institutes. While the scope of the social performance measurement practised by a company like Incofin is more limited, it does not make the exercise any less effective.

39 One example is the initiative of the FMO, of which Incofin is a member. For more information see http://www.fmo.nl/en/publications/environmental_social_risk_management_tools_MFI.php

The implication for Incofin on the issue is not limited to the assessment of social performance for the due diligence, but goes much beyond. Some MFIs which were the subject of a social assessment have been interested by Incofin's approach. Several MFIs in Latin America have asked for the use of this model for their own assessment of the social performance on an annual basis. This tool has also an objective in helping MFIs to identify risks when certain criteria are not adopted which can lead, for example, to a high level of drop-outs among the clients, or to a high turn-over among staff.

Moreover, investments in capital by Incofin are generally linked to an active participation in the Board of Directors of the MFIs. The Board represents the ideal body to strengthen social performance in parallel with the objectives of profitability. As such, Incofin supports the adoption of actions that can maintain the MFIs "double bottom-line".

This article has in fact shown that, following the example of Incofin, it is possible for investment companies to incorporate the measurement of the social performance of MFIs into the actual performance assessment. To this end, it is important to develop a tool which is both complete and pragmatic without costing much to the MFI and the investment fund.

The experience of Incofin shows that it is also possible – or even desirable – for socially responsible investors to use the results of the social performance assessment in determining the investment conditions. Investors could thus easily encourage the MFIs to adopt policies aimed at improving their social performance and this is an essential prerequisite both to promote professionalization of the MFIs and to avoid over-emphasis on the social dimension.

In conclusion, the case of Incofin highlights the important role that investment companies have to play in promoting the measurement of the social performance of MFIs, together with other operators in the sector. Incofin encourages the generalized adoption on the part of socially responsible investors of the measurement of the social performance of the MFIs in which they plan to invest. There are two fundamental reasons that motivate such a commitment: (i) on the one hand, the concern of "socially responsible" investors to ensure consistency between their acts and their mission, and (ii) on the other hand, the opportunity and the responsibility they have to directly contribute to promoting observance of the principle of the "triple bottom line" (financial, social and environmental).

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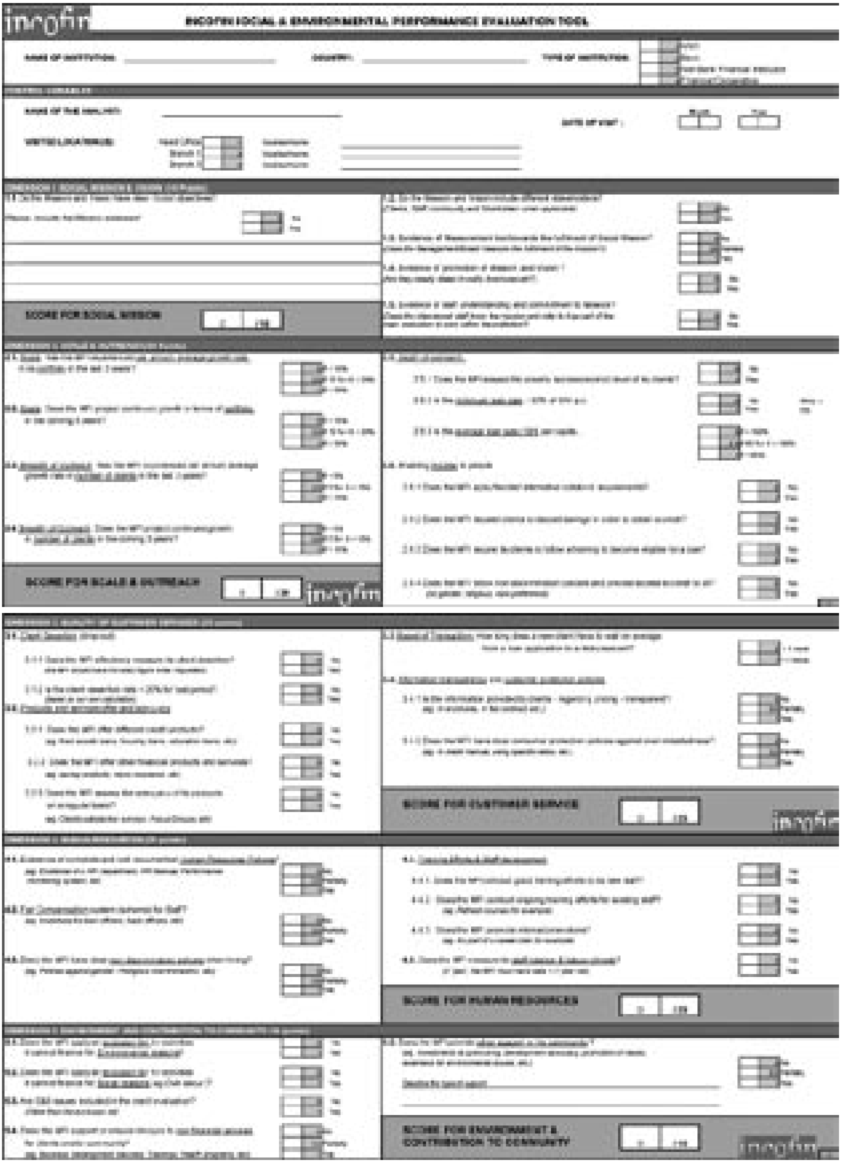
Annex 1. The Incofin social performance evaluation tool



Improving Social Performance Management

GING LEDESMA, OIKOCREDIT

New Experiences in Oikocredit

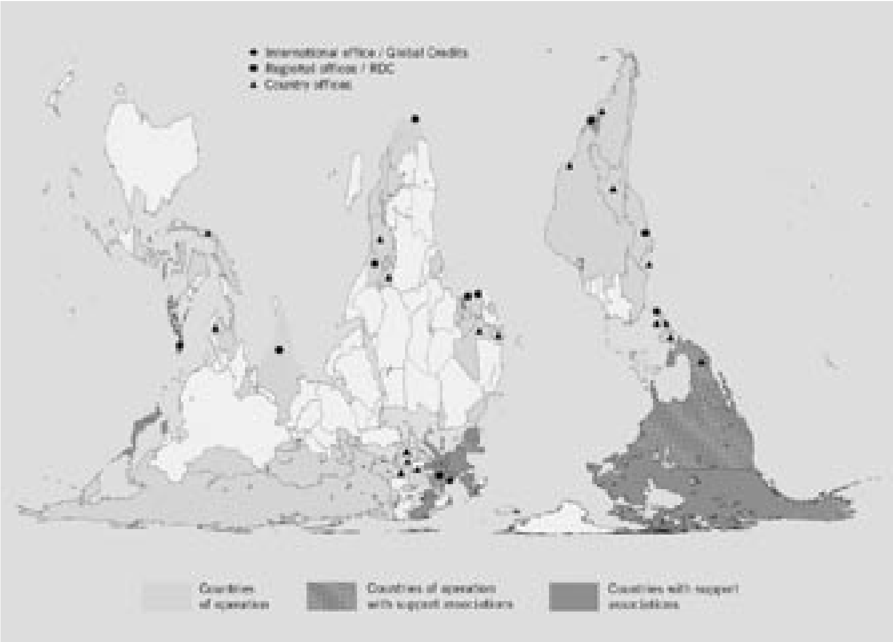
1. Oikocredit in a nutshell

Oikocredit is an International Development Finance Institution established in 1975 at the initiative of the World Council of Churches. Oikocredit's mission is to promote global justice by challenging people, churches and others to share their resources through socially responsible investments and to empower people with credit.

Registered as a Cooperative Society in the Netherlands, Oikocredit operates with investment capital from churches, private individuals and institutions from all over the world. At the end of December 2007, investment capital from members exceeded € 318 million.

Oikocredit's core business is development financing to SMEs, Fair Trade enterprises, Microfinance and community based enterprises in over 60 countries. A network of 11 Regional Offices and 29 country offices is involved in project identification, evaluation, monitoring and administration.

Oikocredit's presence globally*

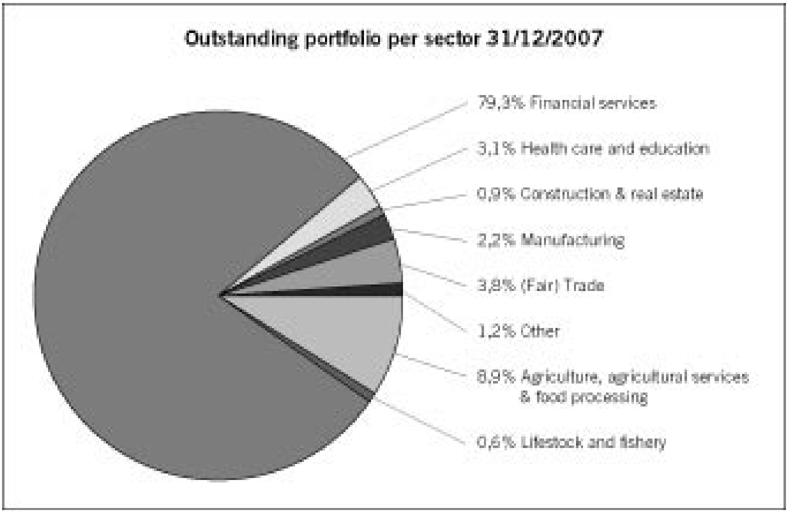


* *This unconventional upside down representation of the world is an illustration of how Oikocredit looks at the world. For a list of the countries of operation of Oikocredit, see Annexe page 64.*

Financing options include medium to long term loans (in Euro, US Dollar or local currency), Credit Lines, Guarantees or Equity Investments.

Oikocredit's outstanding development portfolio amounted to € 273 million as of 31 December 2007. The bulk (40%) was outstanding in Latin America. Asia and Central & Eastern Europe accounted for another 41% and Africa for 17% of the outstanding portfolio. Financing to Fair Trade Organizations in Western Europe and North America accounted for 1.4% of the total outstanding portfolio.

79% or € 216 million of this outstanding portfolio is in the hands of 396 partner organizations involved in providing Financial Services. These partners - cooperatives, non-bank financial institutions, NGOs, banks - provide savings, credit, insurance and other financial and non-financial products and services to micro entrepreneurs, community based enterprises, small and medium enterprises through individual or collective methodologies.



2. Oikocredit's SPM Initiatives

The empowerment of the poor, the alleviation of poverty through job creation and income generation, the creation of a more just society – these are at the core of Oikocredit's mission. These social goals are embedded in Oikocredit's project criteria. Oikocredit supports enterprises which:

- benefit poor and disadvantaged people
- contribute to the social and economic advancement of the larger community in which it operates
- directly involve women especially in decision-making and in conceptualization, implementation and evaluation of operations
- respect ecological impact and the protection of animals and species
- promote improvement in general well-being, political empowerment and economic structures
- possess appropriate management and technical leadership and which are technically and financially viable.

In the past, Oikocredit reported on its social performance primarily through client stories and case studies. Although these provided interesting insights into how individuals or organizations benefitted from Oikocredit financing, these were soon felt to be inadequate. What has changed?

First, within Oikcoredit, there was a desire for greater transparency in reporting on whether and how social goals were being realized. Stakeholders required reliable and regular information on whether and to what extent Oikocredit's social goals were being achieved.

Furthermore, since Oikocredit seeks to realize its social objectives by supporting intermediary organizations, the choice of these organizations is crucial. Do they share Oikocredit's values? By supporting their work, does Oikocredit reach the poor and help to bring about positive change in their lives?

Finally, the past 5 years has been a period of tremendous growth in profitability and sustainability for Oikocredit. This growth has been accompanied by a greater awareness of the importance of social performance and Oikocredit wanted to develop more ways of gathering, generating and sharing systematic and standardized information about its social performance with investors and the general public.

3. A variety of SPM initiatives

In 2000, processes to further develop Oikocredit's measurement and reporting on social performance were set in motion. Oikocredit's initial efforts involved the following:

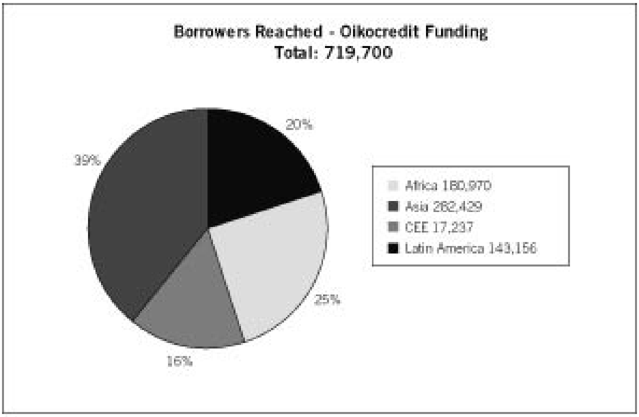
- Training on Impact Assessment for Oikocredit staff
- Participation as founding member, in the Netherlands Platform for Microfinance. This has been a valuable forum where Oikocredit is informed about developments in Social Performance Management within the microfinance sector.
- Definition of indicators for monitoring and database development
- Survey of randomly selected MFI partners to assess awareness and social performance management practices.
- Support for and collaboration with MFI partners on a number of Impact Studies

What are the initial results of these efforts?

4. Outreach Data

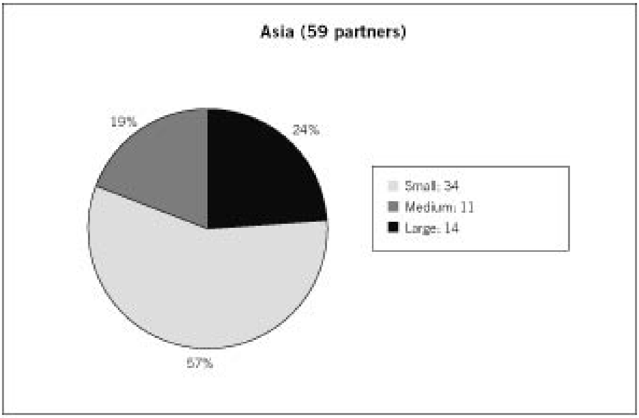
Today, with a profile of MFI partners and their operations available in the database, Oikocredit is able to respond more objectively and accurately to questions about outreach, focus, women's participation.

Information available as of 30 June 2007 shows that 273 partners reach over 11 million clients of which over 719,000 directly benefitted from Oikocredit funds.

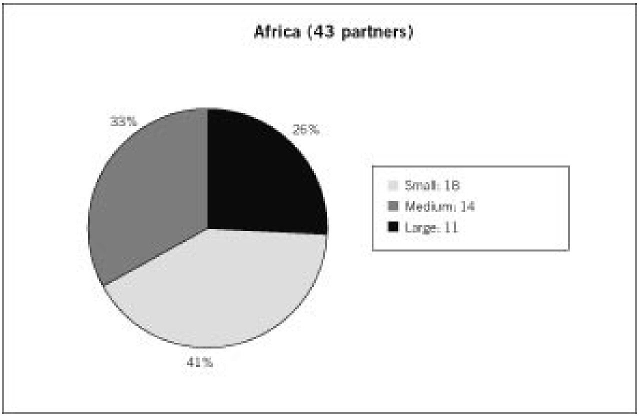


Oikocredit has also been able to use the information available to respond to concerns that perhaps, only big, mature and profitable, established MFIs are being supported. Oikocredit's partners, especially in Asia and Africa are a mix of small, medium and large scale[40] MFIs.

Profile of Partners by Scale of Operations



40 Mix Market Bulletin Definition of Scale (By portfolio size):
Large: Latin America= >$15 million; Other Regions=>$8 million;
Medium: Latin America>$4 million<$15 million; Other Regions>$2 million<$8 million
Small: Latin America<$4 million; Other Regions<$2 million

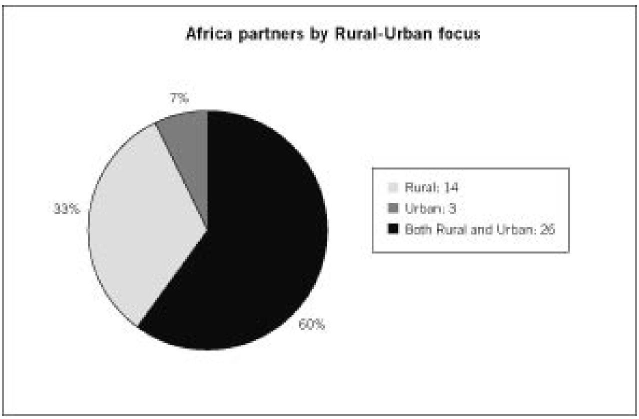


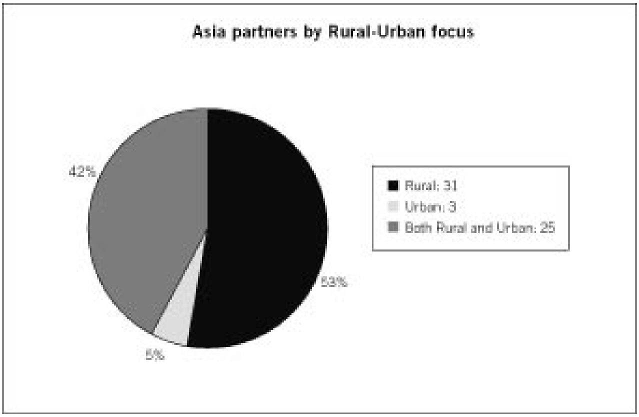
With information on the age of the MFI operations of partners, the database enables Oikocredit to monitor the extent to which it is able to reach its goal of supporting more new and young MFIs which have relatively more limited access to commercial sources of funding and for whom Oikocredit remains an important source of support.

5. Profile by rural-urban focus

In addition to this basic profile of scope of operations and age, Oikocredit has also gained insight into MFI partners' choice of areas for operations.

Partners reaching both urban and rural areas are the most numerous, but in Asia 53% of MFI partners have a predominantly rural focus and in Africa, a third of partners focus primarily on serving rural communities.

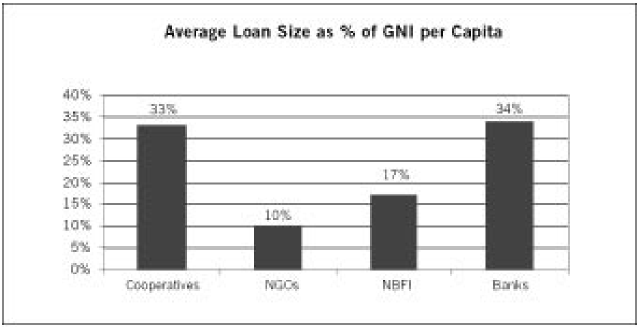




This insight is important for Oikocredit for although the phenomenon of migration may be changing rural-urban demographics, in Africa and Asia, the majority of the poor and financially underserved today are still to be found in rural areas.

By using proxies of percentage of women clients and average loan size as a percentage of GNI per capita, Oikocredit has an indication of MFI partners' outeach to the poor and the excluded.

NGOs are the most dominant type of MFI partners in Oikocredit's portfolio and have an average loan outstanding falling at 10% of the per capita GNI of the countries they operate in indicating an outreach to what is defined as the 'low market segment' – the poorer segment of the population.



Information is now available to complement the insight provided by client stories and case studies. Oikocredit has a better profile of its MFI portfolio and is able to confirm that Oikocredit's project criteria and the processes by which these are applied, have led to a selection of diverse partners in terms of age, scope of operations and geographical focus and that these partners share Oikocredit's social goals of reaching the poor and improving their lives. However, Oikocredit sees that much more needs to be done.

6. The SPM Challenge

In general, within the microfinance industry, appreciation for social performance management has deepened over the years although there still remains ambivalence about the effort and time it takes before significant information and trends can be seen. SPM is considered important and yet SPM work is also still perceived as being a "cost center", not having any direct impact on portfolio or sustainability and to a certain extent, peripheral to core business. Resources for SPM continue to be limited – in terms of personnel, systems, tools and capacity for analysis.

Reaching consensus on what to measure and monitor, defining the indicators, developing the systems to capture data systematically and facilitate data processing take time. Different countries have different reporting cycles and hammering out an agreement on a reporting framework that would yield timely information requires sustained dialogue at all levels. Counter checking submitted data for accuracy and revising, modifying systems as information comes in from the field requires constant attention.

In the face of all the effort needed, the time it takes before relevant and substantial data can be generated and analyzed for trends and conclusions often creates a lot of frustration.

Oikocredit has had to deal with all these challenges especially since operations are in over 60 countries and are to a large extent, decentralized. It has been crucial to keep things simple, to use information that is already available – both at the level of the MFIs and of the industry, to build on systems that are already in place and to develop commitment and support for SPM at all levels.

Oikocredit will continue to meet these challenges as it pursues continued improvement of its social performance management. Modifications to the existing database are underway and SPM is also being promoted actively among Oikocredit's MFI partners. The Progress out of Poverty Index developed by the Grameen Foundation is currently being piloted by Oikocredit partners in the Philippines and Peru, with the possibility of extending this also to partners in Central America. In Peru, the Oikocredit regional office is collaborating with MicroFinanza Rating on a Social Rating of an MFI partner; in Argentina, two Oikocredit partners have piloted the Cerise Social Audit tool (SPI

– Social Performance Indicators) and in the Philippines, partners will be receiving training on the tools and methodologies which will allow them to measure their Social Return on Investment. More intensive impact studies will also be conducted with selected partners.

Much more remains to be done and Oikocredit is fully committed to the process now underway to deeply embed social performance management within the organization. These initiatives are in response to the high level of interest expressed by Oikocredit's MFI partners in social performance and their need for assistance in building capacity in the use of various tools and systems for effective SPM. In the coming years, Oikocredit will continue to focus on:

- Promoting awareness of social performance in collaboration with various networks.
- Supporting the development of systems and tools for social performance measurement building on what MFIs already have available and encouraging the integration of these tools and systems into MFI operations.
- Participating in the industry-level dialogue to develop common standards and benchmarks for social performance.
- Developing the market for social performance audits and ratings by providing incentives or facilitating assistance especially for first time audits or ratings.

The result can only mean better services to clients, more transparency and accountability to stakeholders and a more effective allocation of resources in the pursuit of the social goals of microfinance as well as of Oikocredit.

Annexe: Countries in which Oikocredit operates

Albania	Ghana	Peru
Argentina	Guatemala	Philippines
Armenia	Haiti	Poland
Australia	Honduras	Romania
Azerbaijan	India	Russia
Benin	Indonesia	Samoa
Bolivia	Kazakhstan	Senegal
Bosnia and Herzegovina	Kenya	Serbia
Brazil	Kosovo, Republic of	Slovak Republic
Bulgaria	Kyrgyzstan	South Africa
Burkina Faso	Lithuania	Spain
Cambodia	Luxembourg	Switzerland
Chile	Mali	Tajikistan
Colombia	Mauritius	Tanzania
Costa Rica	Mexico	Thailand
Cote d'Ivoire	Moldova	Togo
Czech Republic	Mongolia	Tunisia
Dominican Republic	Montenegro	Uganda
Ecuador	Mozambique	Ukraine
El Salvador	Netherlands	United Kingdom
Gabon	Nicaragua	United States of America
Georgia	Panama	Zimbabwe
Germany	Paraguay	

Transparency and Sustainability in Finance

GEERT JAN SCHUITE, TRIODOS-FACET
GERA VAN WIJK, TRIODOS BANK

How Triodos Bank introduced Triple Bottom Line Reporting into the Microfinance Sector

Microfinance institutions (MFIs) in developing countries are important agents of social change. They provide vital financial services to low-income groups. These institutions often follow the double-bottom line principle, combining social objectives with commercial goals. A group of 10 MFIs and Triodos Bank are addressing a new challenge: Triple Bottom Line management and reporting ; i.e. they are financing 'green' business solutions and MF clients are encouraged to take environmental impact into account. By doing so, MFIs are becoming much broader agents of change.

Project Participants

The following MFIs participate in the Transparency and Sustainability in Finance project:

- ACLEDA Bank in Cambodia (www.acledabank.com.kh)
- BASIX in India (www.basixindia.com)
- Bellwether Microfinance Fund in India (www.bellwetherfund.com)
- Centenary Bank in Uganda (www.centenarybank.co.ug)
- FFP FIE in Bolivia (www.ffpfie.com.bo)
- FINDESA in Nicaragua (www.findesa.com.ni)
- K-Rep Bank in Kenya (www.k-repbank.com)
- Mibanco in Peru (www.mibanco.com.pe)
- XacBank in Mongolia (www.xacbank.mn)
- Reliance Financial Services in The Gambia (www.reliancegambia.com)

Sustainability Reporting as a Management Tool and Reporting Framework

In 2004, the Transparency and Sustainability in Finance project[41] was initiated by Triodos Bank and the Global Reporting Initiative (GRI)[42]. Participants in this project are investee MFIs of the three microfinance funds – Triodos-Doen, Hivos-Triodos Fund and Triodos Fair Share Fund – managed by Triodos Investment Management. These funds provide finance for over 80 MFIs in developing countries, Central Asia and Eastern Europe, with a total portfolio of EUR 120 million as of December 2007. Triodos Investment Management is a wholly owned subsidiary of Triodos Bank, the leading sustainable bank in Europe. Triodos Bank has formulated its own annual report according to the GRI Guidelines since 2001, and was the first bank worldwide to publish an integrated annual report following these guidelines.

Marilou van Golstein Brouwers, Managing Director of Triodos Investment Management: ´We see GRI as the best known and globally accepted social and environmental reporting framework. With the Transparancy and Sustainability in Finance Project we want to assist our investee MFIs in the implementation of GRI Guidelines. They can use these Guidelines for reporting on the economic, social and environmental performance of their activities, products and services, but also for decision-making processes and sustainability management.´ This principle is known as Triple Bottom Line Reporting, also referred to as people, planet and profit. It is both an internal management tool and an external reporting framework.

Phase 1 / 2004 – 2005 Looking for a Standard

Reporting on the Triple Bottom Line is quickly becoming a requirement for businesses around the world. A company's ability to attract capital, build brands and establish a solid reputation increasingly depends on how well it communicates not only its financial, but also its social and environmental goals.

41 Financial support for the Transparancy and Sustainability in Finance project came from the Hivos Foundation, Triodos Foundation and Triodos-Doen Foundation. Since 2007, budget has also been provided through SMARTRAC, a capacity building programme for MFIs in Africa who want to improve their skills and knowledge in the field of risk management and sustainability reporting. Funders of the SMARTRAC programme are the European Union, DOEN Foundation and Triodos Foundation.

42 Global Reporting Initiative
The Global Reporting Initiative (GRI) is a multi-stakeholder process and independent institution whose mission is to develop and disseminate globally applicable Sustainability Reporting Guidelines. Started in 1997, GRI became independent in 2002, and is an official collaborating centre of the United Nations Environment Programme (UNEP).

In its first phase, the Transparency and Sustainability in Finance project wants to anchor the Triple Bottom Line mission of the MFIs and to initiate a process in which the MFIs organize sustainability management and use it for planning, monitoring and decision-making.

Social indicators and assessment tools are already available to MFIs[43]. These indicators are the nuts and bolts of any sustainability report, because they measure the performance of companies in specific fields. As part of the project, Transparency and Sustainability in Finance coaches[44], senior management of the MFIs and Triodos Bank senior investment officers selected a list of existing indicators and discussed with the different participants.

There were frequent individual consultations between Triodos Bank, GRI and the MFIs. The participating MFIs also regularly shared information among themselves and with the project team on project findings and progress. These contacts brought to light that the participants are all very different in their approach and cultural context, but that they share similar challenges and solutions when it comes to sustainability reporting.

Main conclusion

The main conclusion from the meetings and discussions in the first phase is that GRI reporting is a very useful tool for improving goal-setting, evaluation, strategic management and decision-making in MFIs. The participants decided that it is not necessary to generate new sustainability reporting guidelines for the microfinance industry. The existing GRI Guidelines are sufficient to allow an MFI to communicate performance results and social, environmental, economic and financial aspects of their day-to-day business. However, there is a need to develop a set of specific indicators for MFIs, especially in the field of social performance.

All participating MFIs in phase I expressed commitment to include non-financial information in their 2005 annual reports. Additionally, the MFIs decided to implement consultations with internal stakeholders as part of the reporting procedures and to ensure active engagement of employees and management in the process.

43 Examples of initiatives: CGAP Poverty Assessment Tool, Poverty Assessment Research project by Accion International, Assessing the Impact of Microfinance Services, SEEP network SP Progress Briefs, Imp-Act initiative, Social Performance Indicators Initiative (SPI) administered by CERISE, and various other impact and outreach related initiatives.

44 (inter)national coaches come from consultancy company Triodos Facet and have specific expertise on Triple Bottom Line banking.

Phase II 2006 - 2007

There was strong support for a second phase of the Transparency and Sustainability in Finance project. Participants expressed their wish to receive overall guidance and technical support during the development of their annual reports, specifically on implementation of stakeholder engagement and environmental projects and initiatives. Furthermore, participants wanted to continue exchanging information and assist each other in developing a set of specific indicators and methodologies to compliment the existing GRI guidelines.

Participants said that most emphasis should lie on:

Organisational aspects such as:

- Corporate Social Responsibility (CSR) policy and principles
- Sustainability Performance and Monitoring Systems (Management Systems)
- Stakeholder dialogue

Socio-economic indicators such as:

- Outreach measurement (reaching low-income groups)
- Measuring client's satisfaction and client retention
- Measuring impact of services on the quality of life of clients at household level
- Measuring impact of services at community level
- Measuring impact of services at enterprise level such as job creation or value added

Environmental indicators especially:

- Energy use
- Water use
- Emissions (CO2) from transportation
- Environmental impact by client's activities

Social indicators including:

- Employee representation in the decision making process
- Employee ownership
- Policies and programmes on HIV/AIDS
- Human Rights policies
- Policies addressing bribery and corruption

In 2007, all project participants mentioned in the box (except Reliance Financial Services) formulated their annual reports referring to the GRI Guidelines. Marilou van Golstein Brouwers: ´A great achievement and we clearly see that the process of formulating sustainability reports has raised awareness on social and environmental performance issues among our MFI investees. All have indicated that they are dedicated and recognise the issues involved`[45].

Cases

The following four cases show how MFIs are taking up the challenge to implement Triple Bottom Line Reporting.

XacBank in Mongolia

XacBank aims at the low-income groups in Mongolia, offering them a broad range of products. The bank plays an active role in remote rural areas by offering loans to groups of nomads and herdsmen. It further supports local initiatives for setting up savings and credit cooperatives in the so-called 'soums', remote communities in the country. In addition to the social dimension of their activities the bank has also developed products with an environmental impact. The bank offers, for example, a financial product that enables clients in slums and remote rural areas to purchase fuel-efficient stoves. By using such stoves for heating and cooking, less fuel is needed, and CO2 emissions decrease. XacBank is currently also developing methods to measure and report its impact in terms of CO2 prevention. The bank has formed a dedicated sustainability team, which meets regularly and serves as the platform for triple bottom line management. XacBank presented its first integrated sustainability report, using GRI guidelines, in 2007.

ACLEDA Bank in Cambodia

In May 2006 ACLEDA Bank presented its first sustainability report. In it, the bank presents detailed information about its energy consumption and CO2 emission and includes the results of a survey among 1,200 clients, focused on the question of whether the services of ACLEDA Bank really improved their living standards. It has announced a dedicated plan, aimed at those clients who claim that their situation was not improving, despite the services of ACLEDA Bank. In 2007, in its second sustainability report, ACLEDA Bank reported an increase in their clients' perception of income growth, thanks to the bank's services.

45 For further information on new developments on GRI, the Triple Bottom Line and Microfinance, see http://tblmicrofinance.blogspot.com.

Findesa in Nicaragua

Findesa in Nicaragua was the first MFI worldwide to publish its annual report (2004) according to the GRI Guidelines. In its 2006 Annual Report, Findesa's management claims that "... all our financial effort would not be important if we could not balance it with triple results adding social and environmental impact to our goals."

Both Findesa and ACLEDA Bank Annual Reports received nominations for the GRI readers choice awards 2008[46].

Reliance Financial Services in The Gambia

When compared to the MFIs mentioned above, Reliance Financial Services (Reliance) differs, as it is a young and (still) small MFI, operational since December 2006. In its first annual report (published in March 2008) however, Reliance includes a reference to Triple Bottom Line banking and uses GRI reporting guidelines (see annexe of this article).

In line with its mission of providing financial services to the lower end of the market, Reliance is for profit, but at the same time its objectives go beyond profit, to 'changing lives' in the communities it serves. As a start-up, the management is determined to run the affairs of the organisation and measure whether it fulfills its mission, both in financial and non-financial terms. Reliance's management: '… While the priority currently is the credit process and risk management, we recognise the importance of setting up the management and reporting system including sustainability issues now, as it enables us to collect and manage on the basis of relevant data from inception to develop a concrete approach to improve our 'sustainability management' in a way that is good for the community, the environment and for our business.'

The Future

GRI has proven to be a good framework and is now used by over ten leading MFIs. Within this framework the reporting is not always comparable. A challenge is to come to a set of core indicators that can be used by all and coordinated with other initiatives like the International Social Performance Task Force.

Obviously, GRI and Triodos Bank wish to expand the group of participating MFIs. Future activities also include installing a group of experts and facilitating (web-based) knowledge exchange on GRI reporting and sustainability management. GRI and Triodos Bank coaches are currently looking into the possibilities of training local consultants

46 www.globalreporting.org

and advisors in a ‘train the trainer’ scheme, and the development of a comprehensive framework for use by MFIs, based on current experiences.

Marilou van Golstein Brouwers: ´Triodos believes that Triple Bottom Line reporting helps create socially responsible banks in developing countries and provides the basis for an integrated and continuous process of innovation, so that local financial systems become inclusive in every sense of the word.´

Since 2004, Triodos Investment Management has organised an annual workshop to discuss the status and developments of the project and to offer a platform for participants to exchange ideas and experiences. It will continue to do so in the coming years.

Annexe: Global Reporting Initiative and Triple Bottom Line Performance Index

Reliance Financial Services Company Limited – Annual Report 2007[47]

Some indicators mentioned in the GRI reporting Guidelines are available in Reliance's Management Information System, but further efforts are needed to present the captured information in a comprehensive way. Other indicators are considered relevant for our activities, but these are not yet captured in the GRI list of indicators.

The overview below relates the contents of the annual report on the GRI reporting guidelines (version 3.0) where applicable. In addition, it refers to reporting standards and guidelines, currently under development by the CGAP Social Performance Task Force.

Vision and Strategy

1.1 Statement of Sustainable Development
1.2 Statements of key elements

Corporate Profile

2.1 Name
2.2 Principal activities
2.3 Structure
2.4 Location of Head Quarters
2.5 Country
2.6 Ownership and Legal Form
2.7 Markets served
2.8 Key Figures
2.9 Shareholders
2.10 Awards received

Reporting Parameters

3.1 Reporting period
3.2 Date of most recent report
3.3 Reporting cycle
3.4 Contact point
3.5 Defining report content process
3.6 Boundary
3.7 Statement of reporting limitations
3.8 Outsourced activities
3.9 Data measurement technology
3.10 Re-statement
3.11 Significant changes
3.12 GRI content index
3.13 External assurance

Governance

4.1 Governance structure
4.2 Management structure
4.3 Independence
4.4 Shareholders recommendations
4.5 Compensation
4.6 Conflict of interest
4.7 Qualifications
4.8 Mission statement
4.9 Oversight
4.10 Performance evaluation
4.11 Precautionary principle
4.12 Endorsement of charters
4.13 Professional memberships
4.14 Stakeholder group

47 www.reliancegambia.com

Performance Indicators[48]

Economic Performance[49]

EC 1 Direct economic value added
EC 2 Implication of climate change
EC 3 Defined benefit plans
EC 7 Local hiring
EC 9 Indirect economic impacts

Environmental Performance[50]

EN 1 Paper consumption
EN 4 Energy consumption
EN 7 Energy reduction initiatives
EN 22 Waste production

Social Performance[51]

LA 10 Staff training
LA 11 Support of life long training
LA 12 Career development

48 Reference to the indicators that are being covered in the annual report, either qualitative or quantitative. Other (GRI) indicators are either considered not relevant or information is not available.
49 Economic indicators that are not included, but being considered for future reports are : local suppliers, local hiring.
50 Environmental indicators that are not included, but being considered for future reports are : water consumption.
51 Social indicators that are not included, but being considered for future reports are : health and safety, child labour, security practices.

CGAP Social Performance Task Force Indicators[52]	Description / reference
Social objectives about outreach (to poor, low income, SMEs, women)	Described in the vision and mission statement, elaborated under 'target group identification'
Social objectives about observing change (in the lives of clients, in communities)	Described in the vision and mission statement
Board management use of social performance information	Described in the Triple Bottom line paragraph
Staff incentives	Described in the HR chapter
Training on social mission	Described in the HR chapter
Entering client poverty level measurement systems	In progress
Services geared towards women's empowerment and gender issues	Described under 'target group identification'
Client satisfaction surveys	In progress
Dropout rate reviews and exit surveys	In progress
Social Responsibility to clients	Described in Business Development and Advisory paragraph
Social Responsibility to staff	Described in the HR chapter
Social Responsibility to community	Described in the Triple Bottom line paragraph
Social Responsibility to environment	Described in the Triple Bottom line paragraph
Outreach depth and width information	Described in the Product and Services paragraph
Achievement of change (3-5 yr clients)	In progress

52 See www.microfinancegateway.org

FMO Environmental and Social Risk Management Approach[53]

ROBERT BIERENS, FMO
ANTON G. VAN ELTEREN, FMO

A Social and Environmental Field Guide for Microfinance Institutions[54]

The Netherlands Development Finance Company (FMO), supported by consultants Facet and Triple Value, has developed a tool to help MFIs minimize the negative environmental and social impacts of the microenterprises they support. The FMO environmental and social risk management approach combines positive and negative aspects to promote greater environmental and social consciousness among MFI staff and clients and to bring clients' business practices in line with sound environmental and social practices. The FMO approach includes support tools, a course, and internet support to help MFIs build an environmental and social (E&S) risk management system.[55] It is highlighted here as a good example of an integrated approach to environmental and social management.

A premise underlying the FMO approach is that social and environmental factors must be included with other (traditional) factors in making loan decisions. The FMO approach breaks the lending process into four phases—application, appraisal, contracting and disbursement and reporting—and integrates environmental and social risk assessment and management into each phase.

53 The information and much of the language in this section is taken from the FMO website at www.fmo.nl/en/publications/environmental_social_risk_management_tools_MFI.php.

54 http://www.fmo.nl/smartsite.dws?id=531

55 Support tools offered by the FMO include: (1) exclusion list, (2) activity assessment tool, and (3) environmental and social evaluation guidelines. The latter of the three provides guidance on how environmental and social risk evaluation and follow-up processes can be implemented in alignment with an MFI's evaluation, approval, monitoring, and reporting processes

Loan Application

The "exclusion list" is the main instrument of the FMO approach during the loan application phase. The exclusion list is a list of sectors and activities, which, in the opinion of FMO, should under no circumstances be financed. It includes:

- Activities regulated or prohibited under international agreements and by national laws
- Activities that may give rise to significant environmental or social problems or that may lead to significant adverse public reaction
- Activities prohibited under the MFI's contractual agreement with FMO

MFIs financed by FMO are legally obliged to include all the sectors and activities of the FMO exclusion list, which include:

- Production or activities involving forced labour or child labour.
- Production of, or trade in, any product or activity deemed illegal under host country legislation or regulations or international conventions and agreements.
- Production of, or trade in, weapons and munitions.
- Trade in wildlife, or wildlife products regulated under CITES[56].
- Production, or use, or trade in, hazardous materials such as radioactive materials, unbounded asbestos fibers, products containing PCBs[57] and chemicals subject to international phase-outs or bans.
- Commercial logging operations or the purchase of logging equipment for use in any primary forest or forest areas with a high biodiversity value, or any other activity that leads to substantial clear cutting of such forests.
- Production of, or trade in, pharmaceuticals subject to international phase-outs or bans.
- Production of, or trade in, pesticides/herbicides subject to international phase-outs or bans.
- Production of, or trade in, ozone depleting substances subject to international phase-out.
- Drift net fishing in the marine environment using nets in excess of 2.5 km in length.

56 CITES = Convention On International Trade in Endangered Species, more information on www.cites.org

57 Polychlorinated Biphenyl

Loan Appraisal

In the loan appraisal phase, the MFI decides whether to make the loan. In reaching this decision, the MFI will consider environmental and social factors in addition to traditional loan criteria. Environmental and social factors include information, or projections, about the occurrences of environmental / health and safety / labor risks or defaults.

The source for information on environmental and social factors is the activity assessment tool and the sector factsheet. The former is a matrix summarizing the key environmental and social risks for the various sectors in which MFIs work, including agriculture, trade, services, and manufacturing. The latter lists observed clients behaviors, analyzes whether they pose a risk, discusses the relevance of the behavior, and offers suggestions to the client about possible mitigation strategies.

There are three possible outcomes of social and environmental appraisal:

1. Raise awareness of client about social and environmental impacts
2. Train/educate the client regarding social and environmental improvements
3. Include specific clauses in the loan contract to mitigate specific social and environmental risks

Which of the three outcomes occurs depends on the social and environmental risk and size of the loan, among other factors.

Loan Contracting

In principle FMO does not recommend to put all this strictly in the loan contract. Of course it is good if it is possible to do so, but in general we think that in an MFI setting it is more fruitful that the loan officer discusses the required actions with the client, more in terms of recommendations. For example the recommendations or contract clauses of an MFI could be:

- Operate and maintain machines and equipment professionally and with proper (safety)measures
- Don’t employ children
- Use (toxic) chemicals with proper safeguards and store them properly
- Comply with accepted standards and regulations regarding land cultivation
- Reduce the amount of waste by improving the process or recycling
- Prevent land erosion or degradation
- Take precautions in waste disposal, not dump liquid or solid waste in public places

- Avoid, reduce, control processes that pollute the air
- Take steps to protect one's own health and that of employees, clients, or neighbors
- Comply with municipal regulations on environmental protection, health and safety, hygiene, labor
- Comply with government regulations

In addition to the standard contractual language, the MFI may also specify specific loan clauses aimed at mitigating risks specific for that loan. In most cases, these can be simple adaptations of the standard clauses.

Reporting

Once a lending decision has been made, the next step is to integrate the information into the MFI's management information system (MIS). Information entered into the MIS includes:

- Whether an environmental and social appraisal has been performed
- What the most important environmental and social aspects of a client or a loan are
- What clauses have been added to the contract
- Whether a client has made the necessary improvements

Once this information has been logged into the MIS, the MFI can utilize it in a number of ways:

- monitor progress and compliance with loan clients' contractual obligations,
- assess status and progress for future loan appraisals with the same client,
- generate cross loan-book overviews about the nature and magnitude of the environmental and social risks, and
- report to investors and donors about environmental impacts.

FMO is investigating the possibilities to produce a specific set of monitoring indicators based on the experiences of MFIs using the tool.

Social Performance Monitoring in the European Fund for Southeast Europe

MARTIN HEIMES, FRANKFURT SCHOOL OF FINANCE & MANAGEMENT
KLAUS MAURER, FRANKFURT SCHOOL OF FINANCE & MANAGEMENT

1. Background on the European Fund for Southeast Europe

Building on refinancing initiatives managed by KfW in Southeast Europe, the European Fund for Southeast Europe (EFSE) was established as a Luxembourg investment fund (SICAV-SIF) in December 2005 for an unlimited duration. The Fund Manager is Oppenheim Asset Management Services. Frankfurt School of Finance & Management acts as advisor and supports the fund management.

"The Fund aims to foster economic development and prosperity in the Southeast Europe region through the sustainable provision of additional development finance, notably to micro and small enterprises (MSEs) and to private households, via qualified financial institutions".

It implements this mission currently in nine countries: Albania, Bosnia and Herzegovina, Bulgaria, Kosovo, FYR Macedonia, Moldova, Montenegro, Romania and Serbia. It will start operations in Ukraine in the coming months. In these countries, the Fund refinances microfinance banks and organisations, commercial banks, and non-bank financial institutions, such as leasing companies, which serve the micro- and small business segments or the low-income housing finance segment.

The Fund has an innovative funding structure: donors and governments provide a first-loss tranche (European Commission, Austrian, German and Swiss governments as well as DANIDA on behalf of the Danish government), International Financial Institutions supply mezzanine capital (EBRD, FMO IFC, KfW, EIB), while more than 30 percent of committed funds are sourced from commercial financiers in the form of Notes (Bank Sal. Oppenheim, Deutsche Bank, Omidyar-Tufts Microfinance Fund, Credit Cooperatif,). The first-loss tranche is used as a risk cushion to offer investment opportunities to institutional and private investors interested in combining attractive financial returns with demonstrated social impact. In this way the Fund works as a true public-private development partnership. Through this mechanism, private capital can be leveraged, substantially enlarging the total amount of funds available for development purposes. Up to seven times the first-loss tranche can be raised for the target group, representing significant leverage.

At the end of 2007, the Fund has made investments worth EUR 377 million with 50 partner lending institutions (PLIs). The PLIs include 8 commercial banks with majority foreign ownership, 15 commercial banks with majority local ownership, 7 microfinance banks, 18 non-licensed micro credit organisations and 2 non-bank financial institutions. Investments are mainly made in the form of senior loans, but subordinated debt and guarantees are also granted. Recently, the Fund has also made its first equity investment in a rural MFI in Kosovo.

At inception, EFSE was targeting capitalization of EUR 500 million by 2010, an amount which was already achieved by year-end 2007. Until 2012, the Fund is expected to refinance 174,000 loans to micro and small enterprises and farmers, refinance around 43,000 loans to families to rebuild or modernise their homes, and contribute to the creation of around 43,000 jobs.

The fund is a socially responsible lender that adopts high standards of business ethics in its operations and also expects its partners to stick to these ethical principles. In this regard, the Fund requires PLIs to adopt adequate credit technologies that cater to the specific needs of the target group and ensure equal access to end-borrowers. EFSE also applies a comprehensive set of guidelines to ensure that PLIs grant loans in compliance with international environmental and social best practices. Finally, EFSE also expects that PLIs are engaged in fair business practices: for instance, that they refrain from lending practices that lead to over-indebtedness, and that they provide transparent information to their clients and public at large.

2. Social Performance Monitoring of the Fund

The rationale to include social performance criteria in the monitoring and evaluation activities of the Fund stems directly from its mission. As the target groups are primarily defined as micro- and small enterprises and low-income private households for housing investments, the Fund needs to look beyond pure financial performance data of the Fund and PLIs through which it works, and include social performance vis-à-vis the target groups as well. Social performance criteria are therefore engrained into the Fund's operations in the following three areas:

- Selection process of PLIs in view of social performance
- Regular monitoring of PLIs' development performance
- Annual in-depth evaluation of development impact

2.1. Selection process of PLIs

The Fund carries out eligibility checks and on-site due diligences with each potential PLI. Both serve the purpose to assess the financial viability of an investment as well as a number of social dimensions. Firstly, the due diligence and the eligibility checks establish whether a potential PLI has a significant outreach to the target groups of EFSE. In this regard, EFSE requires that potential PLI perceives business with the target groups as one of its core activities into which it invests and grows. The Fund subsequently engages in a discussion of the particular loan portfolio of the PLI or potential PLI, i.e. the capacity to grow this portfolio and the percentage of growth that can be refinanced by the Fund. The Fund also actively supports PLIs in developing new products for the target groups or improving its services to them in general. However, the Fund does not start collaboration with an institution that does not show sufficient target group orientation at the outset.

Secondly, the Fund scrutinises through its due diligence studies whether the potential PLI complies with the Fund's social and environmental standards. The Fund's standards are a synthesis of the standards of its IFI shareholders (EBRD, KfW, FMO and IFC), and are reviewed during the due diligence in the form of a checklist (e.g. questions on the integration of environmental aspects in risk management or the issue of staff treatment). Furthermore, a targeted analysis of a sample of a potential PLI's portfolio is carried out, and detailed follow-up analysis is started in case any problematic investments are detected.

Compliance with the Fund's social and environmental standards is ensured through the inclusion of these standards in the investment contracts. The PLI subsequently implements the standards in its investment contracts with clients as well as implementation support of social and environmental factors into the PLI's risk management systems. To this end, the Fund invites PLIs to training courses on social and environmental management (e.g. courses offered by FMO), and the EFSE Development Facility (see section 3.2.) organises dedicated social and environmental management courses.

Thirdly, the Fund scrutinises the integrity of institutions, and especially their shareholders, prior to an investment. A standard checklist is part of the due diligence, and if any red flags are raised during, or prior to, the due diligence, separate in-depth integrity studies are commissioned.

All three areas are reflected in the investment proposals that are submitted to the Fund's Investment Committee. In case of significant shortcomings of an institution in these areas, an investment will not be considered, i.e. either by not being presented to, or declined by, the Committee. Through the EFSE Development Facility, the Fund also has the opportunity to implement targeted technical assistance to mitigate critical areas as a condition for an investment.

2.2. Regular monitoring of PLIs' development performance

Focussing on development outcomes, key development performance indicators measuring outreach and sustainability of the Fund's operations are monitored quarterly. Providing detailed data in this regard is important for the public shareholders of the Fund who watch over the development orientation of the Fund.

Monitoring the criteria entails that the Fund requires its PLIs to report details about sub-loans that have been granted within the respective refinanced MSE or housing portfolio. Consequently, the Fund is currently monitoring more than 68,000 individual sub-loans. In order to keep the reporting burden on the PLIs as light as possible, the Fund works with a web-based reporting system, in which PLIs can easily upload data files that have been created by their standard MIS. This procedure requires that the regular monitoring is restricted to data that every single one of the Fund's PLIs track in their MIS as part of their ordinary business activity.

Target group outreach is certainly the most important indicator for measuring social performance. The Fund has decided to use the following indicators to monitor outreach:

- Number of borrowers. This indicator gives an idea of the bread of the outreach, i.e. the number of clients or beneficiaries who have obtained financing through the Fund's refinancing.
- Average sub-loan balance outstanding and percentage of sub-loans outstanding below EUR 10,000. These two indicators give an idea of the depth of outreach, i.e. the extent to which the investments of the Fund are reaching down in the market. Certainly, using figures on outstanding loan amounts are only a second best solution compared to amounts disbursed. The reason, again, behind this choice is the practicability of the system, as it is easier for the Fund's partner institutions to report on their current portfolio than on their historical disbursements.
- Distribution of sub-borrowers by economic sector. The Fund monitors sectoral distribution according to four categories: production, trade, agriculture, and services.
- Sub-loan Purpose. Regarding loans to MSEs, the Fund monitors the share

of financing for working capital and fixed assets, respectively, to have an idea of the contribution to the capital stock generation in the region. With regard to housing loans, the Fund monitors loan purposes according to the categories of home improvement, construction, and purchase.

- Maturity of sub-loans. Since the Fund grants long-term refinancing, it monitors to which extent the maturity of the refinancing is translated into a longer maturity for the target group.

Regarding the sustainability of the Fund's investments in its PLIs, the Fund monitors the quality of the sub-loan portfolio, i.e. the portfolio at risk of a part of the portfolio. This certainly gives only an indication of the overall sustainability of the PLI's operations. The Fund thus monitors the overall portfolio quality of all its PLIs within the context of its risk monitoring system.

Development Performance in a Nutshell (all figures as of December 2007)

Number of active borrowers
68,691

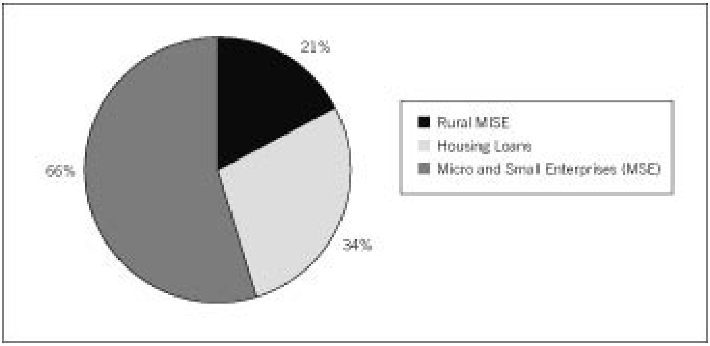
Subloan portfolio
295,8 million EUR

Average loan outstanding
4,307 EUR

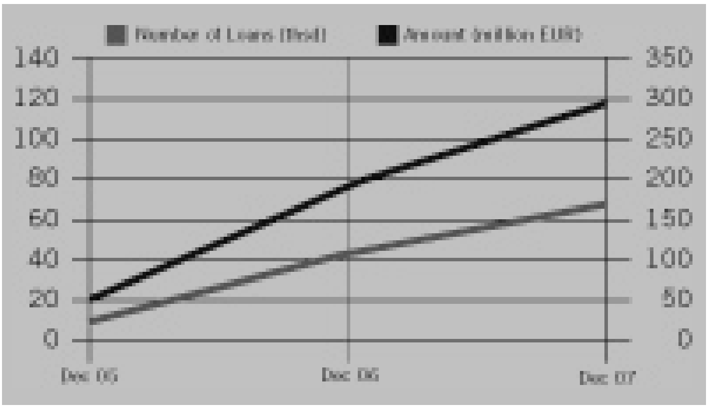
Subloan Portfolio

by Product

based on loan amount

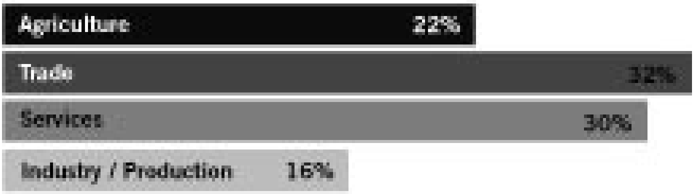


Development

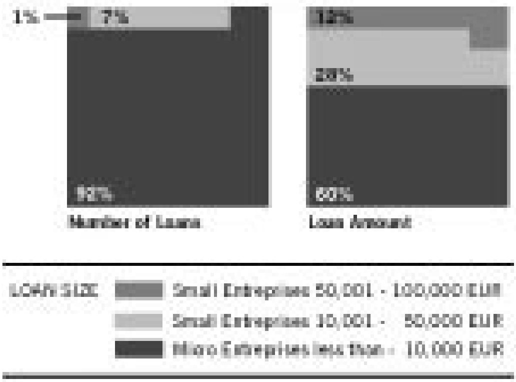


MSE/Rural MSE Loan Overview by

Economic Sector
based on loan amount



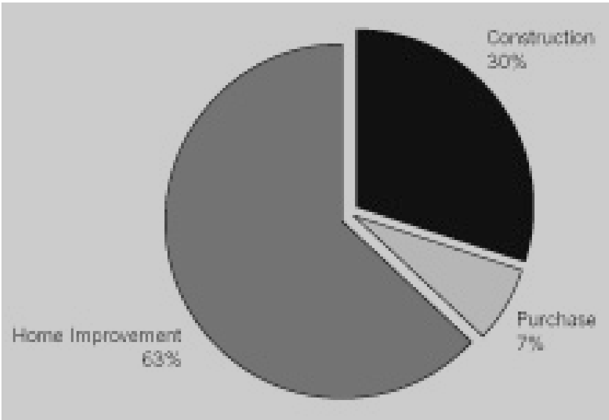
Loan Size



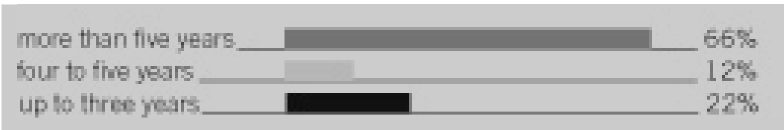
Loan Purpose
based on loan amount

Housing Loan Overview by

Loan Purpose
based on loan amount



Maturity
based on loan amount



2.3. Annual in-depth evaluations (including assessment of development impact)

While the regular quarterly monitoring is highly standardised, the Fund looks at other dimensions of social performance and development impact through 'Annual Impact Studies', whose scope is defined in a more flexible and comprehensive manner. These in-depth evaluations are carried out by independent research/consultancy institutions and include, among others (such as client satisfaction studies), the assessment of development impact at three levels: the level of the ultimate target group, the level of the PLI and the level of the financial sector and economy, including compliance with environmental and social standards.

The first 'Annual Impact Study', conducted in 2006, focussed on the impact of the Fund's refinancing of housing loan portfolios in Kosovo and Bosnia and Herzegovina by providing answers to the following questions:

1. Development impact on the ultimate target group
   - Were low income households reached? Were disadvantaged groups reached?
   - How important were loans for housing improvements?
   - What were the improvements in the borrowers' housing conditions?
   - What was the impact on the household budgets and on the general well being?
2. Development impact on the PLIs
   - Were new products introduced? How important was TA in this respect?
   - Is the housing lending part of mainstream business? Is it profitable and sustainable?
   - What was the impact on the competitiveness of the PLI?
   - How do the borrowers assess the loan product and the PLI's service?
3. Development impact on the financial sector and economy, including compliance with environmental and social standards
   - Was there a demonstration effect within the sector regarding housing lending?
   - How can policy makers contribute to the development of housing finance?
   - What is the environmental effect of housing loans?
   - How can the Fund increase the development impact of its investments?

The 2006 Study showed that on the end-borrower level, positive outcomes for the overall quality of housing have translated into wider improvements of the conditions and livelihoods of households in both countries. The majority of the clients have used the loans for home improvement (more than 60%), and the majority improved bathrooms (57%) and kitchens (50%). Households positively responded to questions about effects of the heat retention of their house, the noise level and their general appreciation of it. Only 7% of the clients would have carried out the improvement in the same way without access to a loan.

On the PLI level, all but one PLI stated that without EFSE (or its predecessors), they would not have started housing lending – due to TA and the availability of long-term refinancing. All PLIs considered the product to be profitable and of moderate risk, and the majority has built a significant housing portfolio from their own or other non-EFSE resources over time – in this regard, EFSE funding was leveraged by a factor of six for the target group. The wider financial sector responded as well, implementing similar products as did the EFSE PLIs. It can thus be claimed that the Fund has opened up a new market for the financial sector in the two sample countries.

The full study report can be downloaded at www.efse.lu.

The second 'Annual Impact Study' on MSE lending, the core area of involvement of the Fund, is in the process of being finalised. It addresses primarily the employment effects of MSE financing, certainly one of the main indicators of social performance. Overall, the study is expected to serve the following aims:

- Establish a sound base for the estimation of employment effects of MSE lending refinancing
- Confirm (or deny) that MSE finance has positive and very few negative environmental impacts in Southeast Europe (SEE) and define areas or segments in MSE finance where negative impacts might be expected in SEE
- Develop an innovative approach to scrutinise "responsibility" in the delivery of financial services
- Produce data regarding the "responsibility" of MSE lending in PLIs to guide follow-up initiatives etc.

The study results are expected for Summer 2008 and will be posted on the Fund's website.

3. Institutional assurance of the development mission

3.1. Incentive structure for fund manager

The monitored performance criteria that were mentioned in section 2.2. have been made part of the performance evaluation of the management of the Fund. Targets for these criteria are set annually, and 40% of the annual management bonus is determined with reference to them.

Social performance relevant to management bonus criteria for 2007:

- Number of PLIs with active investment (weight 10%): 48 (target) vs. 50 (achieved)
- Number of sub-loans outstanding (weight 10%): 47,500 (target) vs. 68,691 (achieved)
- Average sub-loan amount outstanding (weight 7%): EUR 5,200 (target) vs. EUR 3,696 (achieved)
- Share of sub-loans disbursed below EUR 10,000 (weight 7%): >80% (target) vs. 90% (achieved)
- Sub-loan portfolio quality (weight 7%): PAR 30 of 3% (target) vs. PAR 30 of 2.1% (achieved)

Forty percent of the management bonus is based on the Fund's financial performance (investment portfolio, arrears on loans to PLIs, composite yield), and 20% on qualitative indicators regarding efficiency, effectiveness and quality of management services.

3.2. EFSE Development Facility

The EFSE Development Facility (DF) is a trust fund which complements EFSE's financial assistance to partner lending institutions with non-financial services, supporting technical assistance, consulting and training in areas such as strategy and transformation, product development and up/down-scaling and responsible finance.

Grant contributions for the Facility are obtained from various donors (including the BMZ, DANIDA, FMO and SDC), from VR Leasing as a first private contribution[58], and from the Fund itself through an annual contribution from its income. The DF is steered by a committee consisting of representatives of its major contributors, and its day-to-day management is carried out by the fund manager and the fund advisor.

The DF has launched the following programmes that are strengthening the social performance of the Fund's PLIs and mobilising stakeholders of the financial sectors under its geographical coverage:

- 'Social Responsible Finance Programme' supporting socially responsible financial service provision with technical expertise and/or funding: So far, the DF has organised a responsible finance conference jointly with the Serbian national bank and co-financed a client education booklet of a PLI. Two studies looking at access to finance and the responsibility of service provision in Bosnia and in Moldova are planned for 2008. Furthermore, the DF will support PLIs in a transparency campaign, and to carry out sales and marketing trainings that contain sessions on responsible client relationship management and transparency.

- 'Housing Energy Efficiency Programme' supporting PLIs in the development and marketing of housing energy efficiency loan products: The Fund is piloting its first investments in the area of housing energy efficiency. The DF supports these pilot projects through technical assistance as well as a direct contribution to the marketing budget of the pilot institutions. The pilot projects will implement dedicated housing energy efficiency products, targeting clients that carry out home improvements, with the aim to raise the home improvement standard with regard to their energy efficiency. A study (the Annual Impact Study 2008) will accompany the pilot and assess its

58 VR Leasing AG is part of the German cooperative financial services association known as FinanzVerbund, which belongs to the Volksbanken und Raiffeisenbanken organisation. The company provides sales- and investment-financing products including leasing and credit facilities for SMEs throughout Europe.

effectiveness.

4. Conclusion and outlook

EFSE's shareholders consider the Fund as a flagship initiative, which implements a very innovative approach to provide refinancing for the region. In this regard, the shareholders have ensured that the Fund is also innovative in its handling of social performance aspects, including its monitoring system, and acts as a trendsetter. Especially with regards to the transparency of social performance, the Fund sets standards through its regular monitoring and the conducted studies.

Being one of the largest refinancing vehicles world-wide and an important funding source in the SEE region, the Fund also takes up its responsibility in the arena of policy dialogue. Advancing issues such as responsible finance or housing energy efficiency finance with regulators and policy makers is on the agenda of the Fund as well.

The Fund has had good experience with its current social performance monitoring system. Particularly, the division in standardised regular reporting, which comprises basic indicators and flexible annual studies that are able to address areas not monitored by the PLIs themselves, has proven to be very successful.

Financial reporting standards for institutions involved in the provision of micro credit, as well as to some extent for refinancing institutions, have become fairly standardised. Improvements in social performance measurement and reporting will become necessary, and ultimately more standardised, especially in anticipation that social investors will become more educated and will no longer take for granted the positive development impact of micro credit. In this light, the Fund would like to continue its efforts as a socially responsible investor to advance the cause of social performance reporting.

Monitoring and Evaluating Social Viability

ANNE BOSSARD, SIDI - SOLIDARITÉ INTERNATIONALE POUR LE DÉVELOPPEMENT ET L'INVESTISSEMENT, PARIS

Designing a Tool to Assess Vulnerability Among Members of a Coffee Producers Cooperative in the Peruvian Amazon

SIDI (Solidarité Internationale pour le Développement et l'Investissement) is a private company established in 1983 by the Comité Catholique contre la Faim et pour le Développement (CCFD) to support microfinance in developing countries. SIDI's mission is to offer technical and financial support to local organizations providing financial services to populations excluded from the traditional banking sector. With nearly 60 partners (NGOs, microcredit organizations, farmer organizations, savings and credit cooperatives, credit union networks, microfinance institutions, banks, non-bank financial institutions) in over 30 countries, SIDI is both an investor and service provider, offering equity, loans and guarantees as well as short and long-term technical assistance (TA) to strengthen governance, foster operational autonomy and encourage institutionalization of local financing structures. To this end, SIDI relies on "the solidarity chain for financing": Northern-based institutions and individuals make resources available to SIDI (public and private shareholders and savers who opt to share the income generated from their savings deposits), which are used by local, pro-poor financial service providers in developing countries. By the end of 2006, SIDI's portfolio was valued at 6.6 million Euros (57% loans, 40% equity and 3% guarantees).

Within the framework of its monitoring and TA activities, SIDI has created a Social Viability and Development (SVD) department. This department aims to promote discussion on the social objectives of local financing structures, including how they are pursued and how coherent they are with the institution's overall mission. Guided by a vision of socially sustainable development, this department monitors the relevance of SIDI's activities and those of its partners in terms of fostering sustainable social change, so that shareholders may be better informed.

The objective of this paper is to present an example of the activities conducted by the SVD department with one of SIDI's Latin American partners. It describes the development of a monitoring and evaluation (M&E) tool to assess the vulnerability of the members of CAC La Florida, a Central Amazonian coffee producers cooperative located in the Chanchamayo province of Peru.

Project background

As a cooperative, La Florida espouses certain social values:

- Pursuit of both economic and social development
- Unified growth of the network (member-driven governance, strategic decision-making during general assemblies where one member = one voice)
- Decentralized management thanks to the 17 Integral Development Committees (Comites de Desarrollo Integral-CDI) which, via elected officials, represent each community covered by the cooperative and participate in establishing economic and social action plans
- Participation in community development (infrastructure improvement, road maintenance, etc...)
- Promotion of education (support to schools, distribution of school supplies), training (establishment of a training center) and information dissemination (plans to start a trimestrial information bulletin).

La Florida's operations are based on strong social values and a clear social mission. The cooperative considers that to reach its objective of social viability, it needs to have an integrated approach to family production units, incorporating social and economic dimensions.

Sustainability of family units requires:

- At the social level: cohesiveness; shared vision; projects that take into account each member of the family unit (so that young people have perspectives for the future and older members do not represent a burden); integration of native Indian communities and their cultural diversity; improved living conditions, especially in terms of housing, health, infrastructure; ability to cooperate and negotiate with others.
- At the economic level: diversification of agricultural and non-agricultural activities to avoid dependence on coffee; training young people so they will stay in rural areas, have the skills to manage their plots and assume responsibilities in the cooperative; develop economic activities, taking care to conserve natural resources, respect the environment and expand infrastructure.

As a way to achieve sustainability of family production units, the cooperative has already pursued a number of activities such as creating a youth training center, establishing a savings and credit institution (CREDIFLORIDA), launching an organic coffee program and participating in infrastructure improvement works.

Nonetheless, the cooperative wants to further strengthen its members' social viability. In order to develop a coherent action plan to do so, it decided to conduct a study of each of its 17 CDIs. The studies involved establishing an activity calendar based on gender; creating a map for each zone where family units are located, with data on production and infrastructure; applying a questionnaire on the history and characteristics of the zone; conducting a participatory SWOT analysis with each CDI and assessing the family units for their level of vulnerability.

As one of the cooperative's partners, SIDI was called upon to assist La Florida in this process. Over the course of several missions, SIDI and La Florida jointly defined the objectives, methodology and ultimately developed a tool to assess the socio-economic situation of the cooperative's families.

Presentation and implementation

With this tool, the cooperative aims to categorize family units according to their degree of vulnerability, comprehend the rationale behind their internal functioning, understand their financial and capacity-building needs, design a program of relevant activities and evaluate effects and changes on family units. The cooperative's education, technical and management units all contributed to defining the variables and indicators needed to differentiate family units and categorize them. La Florida's integrated approach made it necessary to take into account both social and economic elements, as well as the context.

As a basis for the tool, SIDI drew from the capability theory of Amartya Sen. The fundamental idea is that a family is vulnerable if it does not have the capabilities to make the necessary changes to protect itself from negative events. These "capabilities" are made up of the family's "potentialities", i.e. their social, human, financial and physical capital, as well as the "opportunities" offered by the environment. These "opportunities" correspond to a context that may or may not permit families to develop their "potentialities". Another important element in this analysis of vulnerability is the diversification of productive activities.

The tool developed by SIDI was based on this approach. A series of variables were defined for each type of capital and opportunity, based on discussions with members and analysis of the context. For example, a variable for migrant remittances, an element of financial capital, was not retained, cooperative members judging it irrelevant in their context. For each variable, indicators were defined to determine whether family units were "vulnerable", "under development" or "viable". The following table offers an overview of the indicators used.

Variables for characterization and classification of family units

Variables	**Viable**	**Under Development**	**Vulnerable**
Internal Social Capital			
Primary decision-maker	Father, mother, children	Father and mother or children	Father or mother
Leadership capacity	Existent		Non existent
Agreement/Harmony	Existent		Non existent
Shared values	Good	Average	Poor
Role of the woman (self-esteem, participation, family planning)	Good	Average	Poor
External Social Capital			
Integration/recognition by the community	Leaders with responsibilities	Recognition	Isolation, tension, discrimination
Participation in cooperative life: responsibilities	Has responsibilities	Could have responsibilities	Cannot have responsibilities
Physical Capital			
Land			
Landowner	Property title	Certificate of possession	Communal title
Size of plot	$\geq$ 10 ha	Between 5 & 10 ha	$\leq$ 5 ha
Area cultivated	$\geq$ 5 ha	Between 5 & 3 ha	$<$ 3 ha
Altitude	$\geq$ 1200m	Between 900 & 1200m	$\leq$ 900m
Yields per ha	$\geq$ 15qq	Between 10 & 15qq	$\leq$ 10qq
Value of machinery	$\geq$ 4000ns	Between 2000 & 4000ns[59]	$\leq$ 2000ns
Human Capital			
Education			
Educational level	Post secondary	Primary or secondary	None
Dependants			
Age	$\geq$ 40 yrs	Between 30 & 40	$\leq$ 30 yrs & the elderly

59 1 Euro = 4.263 nuevos soles as of 10 April 2008.

Civil status	Married, concubine		Single/widowed
No. of dependants	≤ 3	Between 7 & 3	> 7
No. of grown children	≥ 6	Between 3 & 6	≤ 3
Housing			
Perception of quality of housing	Good	Average	Poor
Financial Capital			
Monthly family income (coffee deposited at the cooperative)	$\geq$ 600ns	Between 600 & 300ns	$\leq$ 300ns
Net monthly income per person (coffee deposited at the cooperative)	$\geq$ 120ns	Between 120 & 60ns	$\leq$ 60ns
Savings	Existent		Non Existent
Share capital and contributions to cooperative	5000ns	Between 2000 & 5000ns	2000ns
Indebtedness of family unit	Existent		Non existent
Diversification of Activities			
Agricultural activities	Diversified	Little diversification	Not diversified
Non-agricultural activities	Several	At least one	None
Forest activities	Forest reserves and plantations	Forest reserves or plantations	Neither forest reserves nor plantations
Opportunities			
Access to health care	Yes		No
Access to education	Primary and secondary		Only primary
Access to markets	Good	Average	Poor
Access to quality inputs	Good	Average	Poor
Access to drinkable water	Yes		No
Access to electricity	Yes		No
Access to information (primarily economic information)	Frequently	Occasionally	Rarely

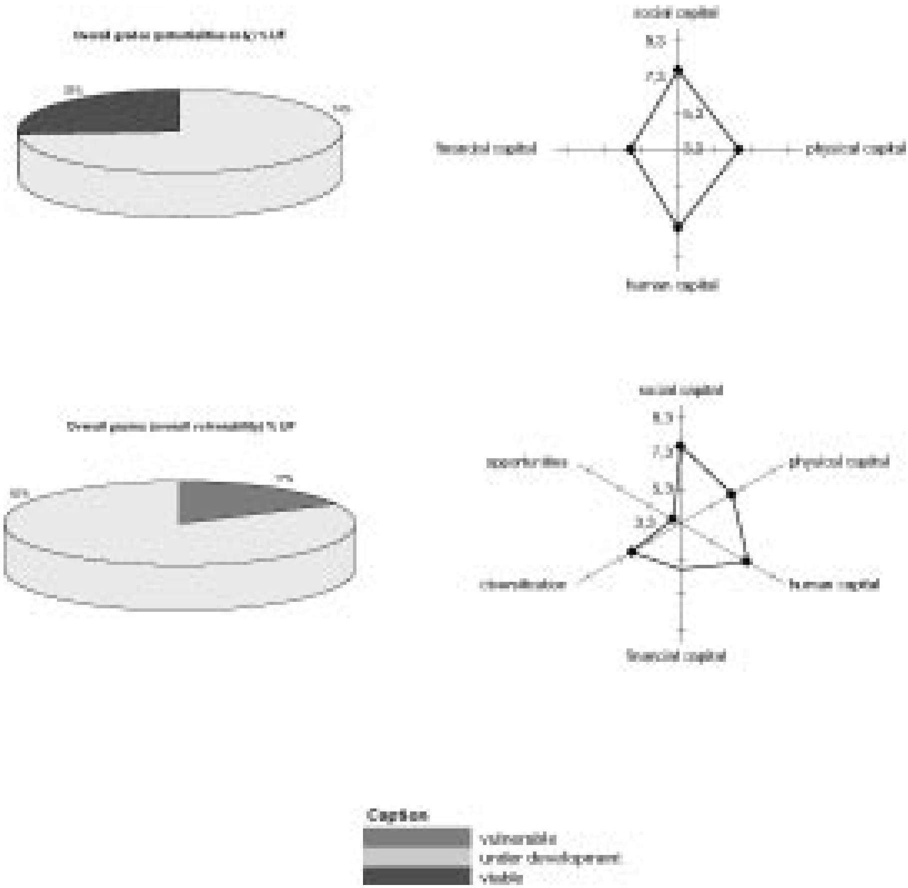
Once these variables and indicators were defined, a questionnaire was designed to collect the necessary information from a sample of 30% of the all families in each CDI. Families were selected on the basis of the surface area planted with coffee, which seemed to be the most relevant criteria of vulnerability for members. Because of their intimate knowledge of each family, the technical staff from each CDI was responsible for data collection.

SIDI's in-field technical support started processing these questionnaires by entering data in a tool designed in Excel. Data had to be re-processed and the Excel tool adapted due to problems interpreting the questionnaire and the lack of responses to certain questions (members were reticent about sharing financial data), but information for each family was ultimately entered into the database. At the same time, visits were made to each CDI to conduct the participatory SWOT analyses to collect data for the "opportunities" variable. Once this data was processed by the Excel tool, it was possible to attribute a "grade" to each family for each variable.

When this part of the analysis was completed, data was transferred to a database so that results could be disaggregated at the level of each CDI. Indeed, the cooperative's objective was not to offer personalized follow-up (which would have been impossible due to sampling), but have an overall vision of the family units in each CDI. Processing this data made it possible to visualize via graphs the strengths and weaknesses of each Committee, both in terms of families' potentialities and their level of vulnerability in light of the overall context.

The analysis revealed that in many cases, as in the example below, family units have strong potential, expressed as a grade for the "capital" variable, but they are unable to optimize this potential due to an unfavorable environment that makes them vulnerable and brings down their overall vulnerability grade. As the example shows, an assessment of only the "potentialities" of family units, i.e. the various types of capital, finds that 26% of all families are "viable" and 74% are "under development". These results change significantly when "opportunities" are taken into account, i.e. the context. No families fall under the "viable" category and 17% become "vulnerable". Presenting the data in a radar-style graph makes it possible to determine the forms, levels and criteria of vulnerability most present in each CDI.

Example of graphs representing the level and forms of vulnerability for one CDI



Results

Information from the database was summarized in a report drafted by SIDI which explained the results and conclusions for each CDI. The report also offered recommendations for future activities that could reduce member vulnerability, namely training, financial support and investment in infrastructure.

This socio-economic study combined with the mapping exercise, activity calendar and SWOT analyses have helped the cooperative better understand its members and the geographical areas it works in, as well as design a strategic plan that is coherent with its members' social characteristics. On the basis of this strategic plan, which defines priorities per zone and area of activity, each CDI will implement its own action plan. There are also plans to present the results of this study to each CDI, to allow comparison across Committees and encourage less "viable" CDIs to learn from the strategies of the more "viable" ones. These knowledge sharing meetings will moreover offer the occasion to start implementing the action plans of each CDI.

The analysis also provides the cooperative with a baseline from which to measure the evolution of member vulnerability. Indeed, La Florida intends to reapply the tool in two to three years to assess the evolution of the same member sample, to evaluate the results of its activities. The cooperative's Education department, in charge of the project, was particularly involved with SIDI field mission, so as to adopt and learn the ins and outs of the tool for the next time around. SIDI also designed a user's guide with this in mind.

The tool is not standardized. It is based on theories of vulnerability analysis, but indicators were defined according to La Florida's specific context and designed to meet the cooperative's current need for a socio-economic analysis of its members and its future need for a monitoring and evaluation tool. It cannot be transposed as is into another context; the variables and indicators must be adapted to each environment. As this was SIDI's first foray into designing M&E tools, the field mission also conducted an analysis of the technical and methodological challenges it encountered in the process and reflected on opportunities for improvement, so as to be able to repeat the exercise even more successfully with other partners interested in assessing member/client vulnerability.

This example illustrates SIDI's approach to social viability, the latter referring to the sustainability of social changes resulting from the activities of local financial providers in view of engendering socially sustainable development. SIDI recognizes the importance of improving the well-being capabilities of all; the importance of social cohesiveness, equity and reducing inequality; and the need to strengthen potentialities and opportunities for families to reduce their vulnerability. SIDI's approach is not universal, nor is it a model to be applied systematically to its partners. Rather, it is redefined on a case-by-case basis, to best respond to the needs, mission and specific context of each partner. The goal is not just to measure the effects of services, but also encourage partners to reflect on how they can improve their social performance. This case-by-case approach is nonetheless time-consuming, since tools, methods and strategies cannot be replicated. Moreover, it requires strong commitment and availability of the partner organization, something that is not always easy to ensure, given the lack of resources and means that plague many local financial providers.

This approach reflects SIDI's overall strategy. It is based on the concept of partnership, which implies a long-term relationship, risk sharing and a shared vision of development with local organizations that take many forms. It fosters a shared learning dynamic that respects the specificities of each partner. Moreover, it is coherent with SIDI's dual role as investor and service provider, as it promotes a deeper understanding of partners, involves personalized assistance over time, and facilitates sustainable financial service provision, an enabling environment, empowerment of local actors and enduring improvements to clients in the long-term.

Social Performance in Microfinance, Recent Developments and Issues for Investors

CÉCILE LAPENU, CERISE

This edition of European Dialogue examines an essential issue that is fundamental to current developments in microfinance. Social performance assessment is increasingly accepted as an approach that can improve impact on clients while strengthening financial performance in the medium term. Two or three years ago, social performance was still a marginal issue. It was often considered potentially damaging for MFIs, which must not be 'diverted' from their financial performance. The methods used for social performance assessment were judged overly subjective and not sufficiently 'mathematical', and it supposedly simply added to the burden of reporting for operators.

However, an increasing number of actors in the sector today recognise the importance of social performance and are working to promote awareness of its principal dimensions: targeting the poor and excluded, encouraging the creation of 'decent' jobs through support to small businesses, adapting services to clients, increasing benefits to them and their families, and ensuring MFIs' social responsibility towards their employees, their clients, the community and the environment.

This development has been sustained by the involvement of several MFIs and their networks. These MFIs share the vision of the sector's social mission and of the possibility of reconciling social and financial performance. Practice shows that positive relationships are already flourishing, as demonstrated by the examples presented in this Dialogue such as Ashi in the Philippines, Reliance Financial Services in The Gambia, la CAC La Florida in Peru, etc or other examples in the microfinance sector: Promujer in Bolivia, Crédit Rural de Guinée, and even small institutions such as Busaa Gonofaa in Ethiopia or the Sanduks in the Comoros Islands.

The analysis of numerous examples reveals positive correlations between the social and the financial on several levels. Working with the poor and excluded naturally implies higher transaction costs, but it also allows MFIs to intervene where competition is less fierce. Moreover, adapting services and economic and social benefits to clients means that risks are diversified, making products more competitive and reducing over-indebtedness. Responsible behaviour by an MFI also builds trust between the MFI and its clients and reduces social tensions within both the MFI and the community. **Hence, these measures can together lead in the medium term to increased client loyalty, a better rate of return, a reduction in transaction costs (as some will be covered by clients), improved opportunities for the community and greater social capital, an increased capacity for innovation etc.**

The issue of social performance was highlighted by the appearance of critics who, in the wake of media coverage of microfinance, challenged it to demonstrate objectively that it was a sound tool for aiding economic and social development. Various initiatives worked on methods for assessing and managing social performance and today simple tools exist for assessing MFIs' social performance in a practical and credible manner and for strengthening social performance management. To ensure coherence, the principal initiatives that created these instruments co-ordinated their efforts through working groups at global level (i.e. the Social Performance Task Force[60]) or at European level (i.e. the European Microfinance Platform's working group on social performance[61]), and this collaboration was fruitful. MFIs' perceptions of social performance assessment and management have progressed; they no longer simply consider these as a cost, but instead as an opportunity to develop sound and socially responsible institutions. Combined assessment of financial performance and social performance (through initiatives such as the database of members of the ProsperA MFI network that uses CERISE's Social Performance Indicator SPI tool[62], for example) could be used to analyse the links between social performance and financial performance and to verify the theory that these are compatible in the medium term. As an indication that this issue is recognised at sector-level, the global platform for information on microfinance, MIX Market, will soon complement its financial performance indicators with social performance indicators.

This European Dialogue shows that investors are also in the process of taking this issue on board and are seeking to incorporate it into their decision-making by putting various mechanisms in place. In the appendix, the analysis by Micol Guarneri, from MicroFinanzas Rating, a rating agency proposing social ratings, also shows the

60 http://www.microfinancegateway.org/resource_centers/socialperformance

61 http://www.microfinance-platform.eu/

62 For more information on assessment, see the SPI (Social Performance Indicator) tool on Cerise's web site, http://www.cerise-microfinance.org; ProsperA, the Alliance for the Promotion of Social Performance, is a network of practitioners who are concerned with social performance and work on tools for assessment (such as SPI tool , poverty assessment tools and impact analysis) and management (i.e. governance) in order to increase the impact of microfinance.

involvement of the investors in this field. At European level, efforts are being made to facilitate exchanges of experience and encourage joint reflection. This Dialogue forms part of this effort by analysing the various strategies and practices put in place by European investors.

The studies cover a wide range of investors who are concerned with these issues: they differ in terms of size, maturity, intervention methods and geographic focus of their operations.

The cases presented in this Dialogue cover almost half of microfinance investment funds recorded at the end of 2007, of which, we should remember, 50% are less than three years old[63]. First and foremost, they illustrate the range of size of investors. Giants such as EFSE with total outstanding loans of USD 200 million and Oikocredit with USD 198 million (the biggest funds after the Procredit holding) and more modest funds such as the SIDI with its portfolio of USD 10 million, are far removed from local funds with a few hundred thousand dollars of investments. They are no more homogeneous as regards geographic focus: SIDI concentrates 46% of its investments on Africa, while more generally, Eastern Europe and Latin America are the best served areas, far ahead of the rest of the world. The most common form of intervention is providing loans, normally in hard currency, although many funds provide a variety of services following the example of Oikocredit, SIDI and Incofin, which devotes 35% of its investments to equity finance. This method of intervention is used, in three quarters of cases, when a new MFI is launched. Building an institution's capital can also attract local investors.

Investors are seeking to include the concept of SP in their analyses and practices to ensure that they are carrying out their mission more effectively, i.e. supporting microfinance, improving living conditions for beneficiaries, reducing poverty and so on. The case studies presented show that the investors concerned are aware that a professional and collaborative approach is essential to ensure and increase the positive impact of microfinance.

Each case study shows that investors are seeking on the one hand to better understand the objectives and actions of their partner MFIs in terms of their social mission through a process of collecting information (due diligence), in an attempt to understand the social dimension as a basis for their judgements. These tools and the resulting data should help them to decide their strategies (for example, which partners to work with, what services to offer and how to support MFIs). On the other hand, they are trying

63 See Reille, X. & Sananikone, O., 2007 (April). Microfinance Investment Vehicles, CGAP Brief, Washington D.C., 2 p. and Reille, X. & Forster, S., 2008 (February) Foreign Capital Investment in Microfinance - Balancing Social and Financial Returns, CGAP Focus Note N° 44, Washington DC, 24p.

to increase the visibility of their actions, either to their own financers or in a desire to clarify their strategy within their organisation. Lastly, investors are able to use this information to support and strengthen their links with MFIs and improve the SP of their partners. This requires an in-depth and individualised analysis of results that necessitates appropriate expenditure.

Various measures have been presented:

- One-time assessments: selection processes which cover the objectives and processes put in place by MFIs, especially with regards to their target group; consideration of social and environmental standards
- Monitoring and reporting systems: selection of social performance indicators to be monitored over time; financial incentives for fund managers; impact evaluations
- Support to management: assistance, training and information for MFIs on these issues; trialling tools for managing and measuring social performance, etc.

The various articles describe autonomous and individualised strategies that have strengthened links between MFIs and investors in specific circumstances, or measures inspired by advances in the sector as described above to adapt processes to investors' and their partners' needs for information and actions. Each case study illustrates a process of research, trial, questioning and progressive adaptation, most often in close connection with feedback from partner MFIs.

At this stage, no standardised common processes seem to have developed among investors. Although at the moment this demonstrates that investors are pursuing an innovative and proactive strategy, this could in time become a burden for MFIs, who would be subjected to as many different reporting procedures as they have partner investors. This therefore, presents investors with the major issue of eventual harmonisation: how can reporting procedures based on common indicators be combined, whilst maintaining an individualised relationship with each MFI in keeping with each investor's strategy? MIX Market could be a first step towards a 'smaller common denominator' on which each investor could base its own requests for information.

No measure presented at this stage has completely succeeded, and difficulties and constraints have been highlighted: how is it possible to combine standardisation, comparisons and consideration of the different contexts in which interventions take place? How are investors to interpret information and use it in their relations with MFIs? How can it be ensured for both MFIs and funds that the notion of social performance is not 'peripheral' to their central activities and is not considered simply as a burden of additional expense?

Investors have emphasised their wish to continue their 'joint' progress, by strengthening, both internally and with their partners, measures for managing social performance; by pursuing, along with other international initiatives, attempts to standardise and define common tools; and by seeking to use MFIs' results in terms of social performance to establish the specific terms of investments etc. The production of this special issue reflects this wish to exchange information, innovate and continue progress in order to increase the sector's social impact on its clients. We would therefore like to take advantage of this conclusion to thank those involved for their availability, openness and willingness to participate and to share their knowledge and experience in order to better develop and pioneer initiatives.

Investors are increasingly incorporating the social (including environmental) dimension into their strategies and relationships with partners. However, investors must not confine their activity to the MFIs with the best social performance, as the objective should be to raise the performance of all MFIs in order to improve impact. An investor's social performance must not be reduced to the social performance of its partners and should take into consideration its own practices.

Points raised by European Dialogue, by the Cerise network's experience with MFIs and a number of investors and analyses by Koenraad Verhagen in article 2 allow us to identify some fundamental principles to be built on regarding the social performance of investment funds.

Based on the framework that the SPI tool uses to judge the social performance at the level of the MFIs[64], we can start to assess the social performance of investors and attempt to analyse what makes a microfinance investment socially responsible.

Dimension 1: What are the target MFIs? Do investors target the leading MFIs in the sector (the 150-200 which concentrate access to investment funds) or do they adopt a deliberate policy of supporting smaller, more rural or developing MFIs, African MFIs, etc?

Dimension 2: Do the services provided respond to the needs of partner MFIs? Do investors offer a range of services: do they offer mainly short term loans, or do they also provide long term loans, loans at concessional rates, equity investments, guarantee funds and innovative services that for example encourage the development of local refinancing markets (such as interbank loans, guarantees), etc? Do they respond to the needs of MFIs by offering for example loans in local currency rather than in euros or dollars? As CGAP states, microfinance will develop in its local market and its future lies in local intermediation rather than in massive recourse to loans at international level.

64 A reminder of the four dimensions of SPI that inspired the definitions of the Social Performance Task Force: 1) targeting of the poor and excluded, 2) adaptation of services, 3) client benefits and 4) the MFI's social responsibility (see http://www.cerise-microfinance.org).

Do they ensure that their services are suitable?

Dimension 3: What are the benefits for MFIs? Do investors make sure that their services allow MFIs to build their capacity: through better access to local resources (mobilisation of savings in particular), but also through technical assistance and training that enables the sector to become more professional, resulting in increased social impact for clients and better governance for the MFIs: Are these major challenges for the sector in the future?

Dimension 4: What is the investor's social responsibility? What attention do investors pay to the social orientation and/or (expected) social performance of MFIs in the selection and evaluation processes (due diligence)? Do investors monitor and encourage the social performance of their partners, in particular when they are involved in the MFI's governance? Do they take account of 'social risks' - the risks that social objectives will not be achieved or that actions taken will also produce negative effects? How transparent are their policies and practices? To what extent do they participate in international dialogue and debates on topics relating to social performance in order to promote and strengthen tools and methods and their correct use?

Other questions could also be explored, with related indicators. However, this list shows that although significant progress has been made in recent years to develop an appropriate format for MFIs, a complete framework for assessing the social performance of investors and donors, rewarding innovative approaches, rural outreach, etc. is yet to be drawn up.

Measuring and managing the social performance of MFIs helps them to fulfil their mission and increases their impact on target groups (especially the most disadvantaged). Some investors are now making this a criterion in their decisions and are using existing practices and research on this issue to develop decision-making tools. Today, social performance assessment is recognised as a completely separate and technically valid area of inclusive finance. Challenges still remain in terms of standardising approaches and the introduction of tools that are suitable and specific to the 'new class of assets' represented by microfinance to further improve its social performance.

Annexe: Exchanges with Micol Guarneri, MicroFinanza Rating

How do the rating agencies see the role of the investors in promoting social performance for the Microfinance sector?

The increasing amount of public and private resources invested in the microfinance sector together with some recent very criticised experiences (e.g. Compartamos) has put pressure on the sector to better understand the social aspects of microfinance, intended as the effective translation of an institution's mission into practice and achievement of the main recognized social goals. This trend has led to an increase in attention by social investors towards the concept of Social Performance Management (SPM).

In addition to choosing the term 'social investor', the mere fact of investing in microfinance is no longer sufficient to demonstrate that one is a real socially responsible investor.

Many social investors are nowadays asked by their financiers not only to give evidence of financial returns of investments but also of actual social returns as well, aligned with their own social mission.

In this scenario, social investors and donors can (and should feel bound to) play a significant role not only in the dissemination of social performance concepts and tools but also in promoting the practice of SPM at the MFI level, strengthening the capacities of their partners to put in place effective SP monitoring and management systems.

Apart from the genuine interest and willingness of a still limited number of MFIs, We believe that social investors are currently the key drivers (together with donors of course) for the effective dissemination and mainstreaming of SP in reporting requirements on a broader scale, thus resulting in improved social performance transparency in the microfinance sector.

This belief is confirmed by our experience in the provision of our social rating services. Some MFIs (generally quite big and well developed) have actually covered themselves for the cost of a social rating, but in most cases the actual drivers for the dissemination of this tool are public and private social investors and donors. What are the reasons for this? I believe there is a genuine desire by social investors to effectively meet their social expectations and missions and to work with MFIs that can actually have an impact on the lives of their clients. In reality, some social investors ask for our social rating not only in order to receive a reliable independent assessment of the social performance of a partner MFI, but also with a view of introducing social performance management and monitoring systems in the partner organizations on a continuous basis (e.g. social rating as the first step to design SPM projects). These investors consider that it is of vital importance to strengthen the capacity of their partner MFIs in SPM since it will enable them to better understand the characteristics, needs and preferences of their clients, enabling them to offer high quality financial products that better respond to the needs of the microentrepreneur clients. Moreover, the establishment of effective SPM systems within their partner MFIs in turn gives the investor the opportunity to effectively demonstrate to their own financier the actual impact of the investments on the lives of the poor.

I believe that the support of social investors in this kind of concrete action as well as the strong interest they show in tools like social ratings are proof of their real involvement and commitment to the social mission.

The strong interest in our social rating services among social investors stems from the fact that the social rating is considered to be a tool which meets several objectives:

- as a reporting tool to inform external stakeholders of the social returns of their investments and make allocation decisions on the basis of the social performance considerations;
- as a diagnostic instrument highlighting the strengths and weaknesses of the social performance dimensions and enabling the identification of strategic priorities and areas that require interventions, thereby facilitating subsequent possible capacity building initiatives. This is mainly true for equity investors wanting to establish long term relationships with MFIs. This long term perspective allows for a constructive dialogue leading to collaborative projects (MFIs-investors) aimed at proposing processes for the design and implementation of SPM strategies and systems;
- as a way to facilitate the identification of formats and tools for ongoing monitoring of the social performance of social investors partner MFIs, identifying and defining simple standards and a set of indicators for reporting;
- to increase social transparency in the MF sector. It is probably too soon, but I think that we can already observe a trend among investors towards giving priority investment status to MFIs rated as strong social performers, thus making them eligible for financing and equity investments under more favourable terms and conditions (for example: reduction of interest rates).

Are the examples from European Dialogue only exceptions in the microfinance sector?

For the time being, the examples shown in this publication seem to be exceptions to the norm (even though there are many more examples not included), yet I am convinced that a generalization is possible. In order to make this possible, it is necessary to establish standards and to simplify criteria for the identification and collection of social performance indicators to be reported by the MFIs, while leaving to the rating providers the task of more detailed SP analysis. Of course, a constraint to the important role of social investor is the current limited transparency of self evaluations undertaken by the MFIs (lack of standardized format for reporting, poor diffusion of best practices,etc.). This limitation yields a further role to social rating which acts as an external evaluation and a way to promote agreed-upon standards, towards a consensus on what to measure, definitions, etc. and an improved transparency in reporting.

What is the opinion of the MFIs? How do they see the involvement of the investors in the issue of Social Performance? What can be expected? Is it just for communication, or can it improve the impact on the clients?

Apart from possible exceptions (MFIs with a poor transparency culture or MFIs not willing to communicate about their real target or priorities and/or willing to dissimulate their mission drift), this trend is normally positively accepted by MFIs.

This is mainly a consequence of:

- MFIs' willingness to align to social investors' expectations to access more funds at better conditions;
- MFIs' willingness to be better perceived by local governments and to improve microfinance acceptance in some countries (Ecuador case);
- but also MFIs' real willingness to improve their SPM systems and to meet their original social objective in a situation where they are subject to an increasing pressure to achieve financial objectives and self-sustainability. We observe a rising interest from microfinance institutions with a strong social focus, which are more and more willing to pay for services like social rating and to genuinely commit to putting in place strategies and systems for the achievement of social goals.

Of course, the marketing and communication aspect has also had its effects and MFIs may be interested in presenting themselves as more socially-oriented than they actually are only for fund raising and/or image purposes.

To avoid this, the following is particularly important:

- the role of social rating as an external validation has to be acknowledged and recognized;
- MFIs' awareness about social performance management and measurement has to be enhanced;
- MFIs must not only be asked for reporting but also assisted to put in place SPM systems, involving them fully so as to enhance ownership of the tool;
- case studies demonstrating a higher general/financial performance of socially performing MFIs and the benefits of social performance need to be disseminated.

Appendix

APPENDIX: REFERENCES ON SOCIAL PERFORMANCE

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INTERNET LINKS TO DIFFERENT INITIATIVES

ACCION: www.accion.org

Alterfin: www.alterfin.be/en/index.html

CERISE: www.cerise-microfinance.org

CGAP: www.cgap.org

EFSE: www.efse.lu

e-MFP: www.microfinance-platform.eu

FMO: http://www.fmo.nl/smartsite.dws?id=531

GRI, Triple Bottom Line and Microfinance, see www.tblmicrofinance.blogspot.com

Imp-Act: www.imp-act.org

Incofin: www.incofin.be

Mix Market: www.mixmarket.org

Oïkocredit: www.oikocredit.org/site/en

PPI: www.microfinance.com/#Poverty_Scoring

SEEP Network: www.seepnetwork.org

Sidi: www.sidi.fr/english.php

Social Performance Task Force: www.microfinancegateway.org/resource_centers/socialperformance

Swiss Intercooperation: www.intercooperation.ch/finance

USAID-IRIS PAT: www.povertytools.org

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