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# Reviewing

## the social performance of microfinance institutions

### **Imp-Act**

is a global action research programme designed to improve the quality of microfinance services and their impact on poverty.

**Imp-Act** promotes the development of reliable social performance management systems, which include impact assessment. These systems reflect and respond to client needs, as well as the priorities of microfinance institutions (MFIs) and their stakeholders.

The programme is a collaboration between 30 MFIs in 20 countries and a team of academics from the UK universities of Bath and Sheffield, and the Institute of Development Studies, Sussex University. The **Imp-Act** programme was initiated by the Ford Foundation, which funds all **Imp-Act** activities.

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## What is a social performance review?

**M**OST MICROFINANCE institutions (MFIs) have a **social mission**. They may aim to reduce poverty, to reach people excluded from financial services, to empower women or to promote community solidarity. This Practice Note is mainly intended for staff of MFIs who are trying to improve their organisation's **social performance** (the effective translation of their social mission into practice).

Research carried out under the *Imp-Act* programme suggests that social performance is most likely to improve when MFIs systematically assess how they are doing and amend their strategies, service delivery and products in the light of such information. Effective MFIs have simple, routine, reliable and cost-effective systems for managing their social performance. These tell them who their clients are, what they think about the services they use (including why some stop using them) and how their lives are changing.

To ensure that your system for assessing and managing social performance is as effective and

flexible as possible, it is important to regularly review the information being collected and how it is being used. Whether carried out internally or with outsiders, on its own or as part of a wider study, a **social performance review** (SPR) should take a comprehensive look at how well an MFI's overall social performance management system is working. This entails:

- Identifying strengths and weaknesses in SPM systems and processes
- Assessing the quality of information and findings
- Investigating how effectively information is used, and how it can be used better.

An SPR can identify new information needs, as well as more effective ways of sharing information that has already been collected. It can identify weaknesses in the quality of data collection or analysis, as well as ways of carrying out these tasks at lower cost.

Many MFIs already review their social performance in some way, often at

the request of actual or potential external sponsors. This may be in the form of an independent impact assessment study, for example, or it could be part of a wider “due diligence” study or evaluation of the MFI. This Practice Note is intended to direct such work more clearly towards investigating how internal and ongoing social performance management systems can be improved.

**How can this Practice Note help you?**

This Practice Note provides information on how to conduct reviews to improve the quality of an SPM system. A social performance review can help you: to consider how data collection, analysis and reporting can be improved; to ensure findings are being utilised; and to compare performance against your own objectives and the performance of other organisations. If you do this well, then it should also be easier to respond to requests for information from other agencies, as well as to convince them of the validity of your social mission and your success in achieving it. Section 1 asks ‘why carry out a social performance review?’ Section 2 outlines key questions, and Section 3 provides more detailed guidelines on how to carry out a review.

**BOX 1 REVIEWS, AUDITS AND RATINGS – CLARIFYING TERMINOLOGY**

MFI’s need reliable information about their performance with which to make strategic and day-to-day decisions. MFI’s also have to report on their performance to a range of investors, donors and regulatory authorities in ways that satisfy them. Rules and standards for collecting and reporting on financial performance are relatively clear; those for social performance are much less so. But this does not make it any less important.

A **social performance review** is conducted for the internal needs of an institution (usually with external assistance), providing internal quality assurance, and guidance on how to improve social performance management systems. An SPR can be regarded as an integral part of social performance management.

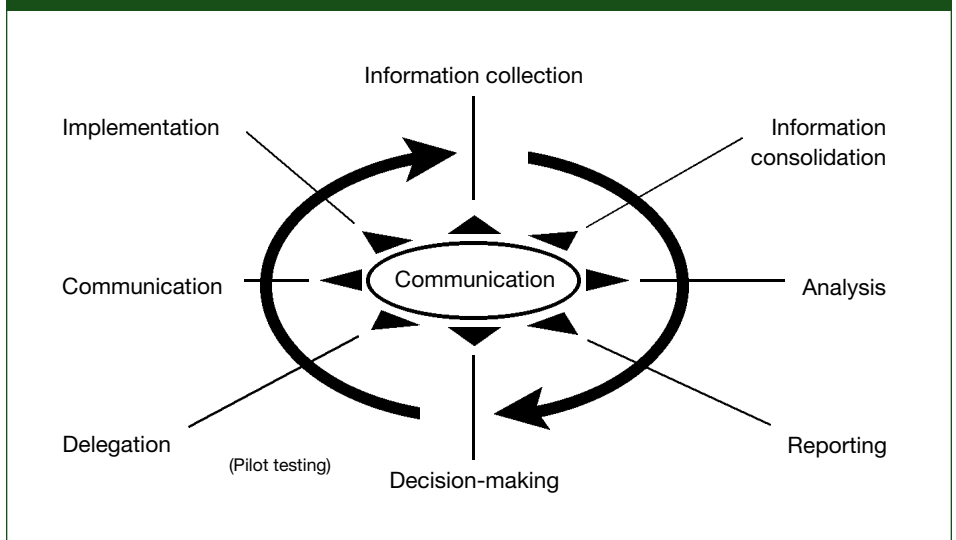
A more open and controversial issue is how far such reviews can be standardised and should be subject to external validation.

The term **social performance audit** suggests an independent assessment or check of the reliability of social performance data produced by the MFI.

**Social performance rating** suggests a formal independent review of the social performance assessment and management systems of an MFI, following a standard methodology. It implies the MFI is systematically compared with a **benchmark** of what the rating agency regards as best practice. This may include process indicators (e.g. whether the MFI has a complaints procedure), as well as outcome indicators (e.g. the proportion of its clients who are below the national poverty line). The rating would examine the institution’s operating environment and overall systems for monitoring and managing its social performance. A social performance rating would therefore provide an indication of the likelihood that an MFI will achieve its social performance goals.

There is currently much discussion of social audits, rating and benchmarking, but little agreement about how far it should be standardised. Meanwhile, the need to refine social performance management remains. The more effectively MFI’s can do this themselves through their own review processes, the more they are likely to do well if they are subsequently audited, rated or benchmarked by others.

**FIGURE 1 THE FEEDBACK LOOP**



# Social performance review

## 1 Why carry out a social performance review?

### Gathering feedback on your SPM system

The term “feedback loop” refers to the processes through which MFIs collect information from clients and use it to make changes (if needed) to strategies, practices and products (see Figure 1; also *Imp-Act* Practice Note 1 on feedback loops). The social performance management system of your MFI can be broken down into several feedback loops of this kind. For example, there should be feedback loops for monitoring who your clients are (e.g. relative to national poverty lines), why some of them leave, and your impact over time on longstanding clients. A social performance review is itself a “higher” feedback loop to check on whether all these parts of the SPM system are working. The design of a review will depend upon the goals, size, scope and other characteristics of your MFI (see Box 2).

### Validating information

The most important source of information about social performance is internal communication between staff. Good managers will combine formal reporting sessions and meetings with informal visits, discussions and checks on operations. However, these internal processes can miss important trends or

## BOX 2 LINKING SOCIAL PERFORMANCE REVIEWS TO OTHER ACTIVITIES

**Cerudeb** and **FOCCAS** both provide financial services in Uganda. As a commercial bank, Cerudeb is strongly profit oriented, but social performance is also important to its shareholders. As a non-profit organisation, the prime goals of FOCCAS are social, but financial viability is a necessary condition for achieving them. Mechanisms for reviewing social

performance management vary for each. Cerudeb’s main priority has been to increase client outreach, and mechanisms for monitoring this can be reviewed as part of routine financial audits. For FOCCAS, a review can be built into external evaluation of its combined “Credit with Education” approach.

be biased in the way they are interpreted. This is why they need to be complemented by more formal SPM systems, particularly in large organisations. Routinely comparing data between branches, for example, can reveal unexplained variation in the poverty status of clients, or in client satisfaction rates. A review provides an opportunity to check what trends and discrepancies have been identified and what action, if any, they prompted. A review can also be used to check key quantitative data using well-established internal auditing methods. You can keep the costs of doing this low by using appropriate sampling strategies (see Box 3).

### Ensuring effective use of information

Many organisations that assess their social performance find that they try to do too much, and too soon. This leads to

poor use of the information collected, and failure to close the feedback loop. SPRs give the opportunity to step back from day-to-day work and look at whether the data collected is really needed, whether it is being collected in a consistent way, whether it is being processed and reported in a timely way, and most importantly, if it is feeding into management decision-making and being used to improve performance.

### Meeting external as well as internal needs

Donors, bank regulators, social investors, researchers and MFI networks have a legitimate interest in the social performance of an MFI. But this interest should not distract you from meeting your own needs first. Social performance assessment has often been planned and timed to fit the needs and funding cycles of donors. But if they share your mission, then they should be willing to invest in strengthening internal systems to serve. The very fact that you are using social performance data to make important decisions is a strong signal to them of the reliability of that data.

## BOX 3 SAMPLE SELECTION AND CHECKS ON DATA QUALITY

When checking the quality of data collection for a survey, instead of reviewing each questionnaire you can take a sample of them at random and check their quality as representative of the whole. A similar random sample could be done to check whether the data shown has been entered reliably onto computer. Such checks could be written into the terms of reference of a social performance review.

One sampling technique that requires only a small sample size (less than 20) to judge whether a predetermined threshold of quality has been met is called lot quality assurance sampling (LQAS). LQAS is particularly useful to determine whether there is evidence that a given threshold has been achieved. For example, **Prizma** (in Bosnia and Herzegovina) uses a scoring system to monitor the poverty status of new clients. Using LQAS, Prizma is able to verify from a small sample of randomly selected clients whether its target of 50 per cent of clients falling below an agreed poverty score is met. See the Resources section for more information on how to do this.

## 2 What should the review ask?

A social performance review should examine both the process by which social performance is assessed and managed, and the data that is produced.

### Reviewing social performance process

*Imp-Act*’s framework for social performance management sets out six questions that should form the core of

the SPR. These questions look at your MFI's commitment to social performance, the systems it uses to monitor and understand it, and how far the system is institutionalised or integrated into overall management.

1. What are your social performance objectives and how do you seek to achieve them?
2. How do you monitor who uses your services and who is excluded from using them?
3. How do you monitor and understand the reasons why some clients leave or become inactive?
4. How do you monitor and understand the effect of your services on your active clients?
5. How do you use social performance information to improve your services?
6. How do you improve the systems through which you answer these questions?

#### BOX 4 THE BENEFITS OF A SMALL SET OF INDICATORS

An initial study by **LAPO** in Nigeria revealed that it was suffering from mission drift because it was expanding into less poor geographical areas. To monitor this they introduced a poverty assessment form for new clients. A review of this tool revealed that credit officers and branch managers understood the need for the new form, but also highlighted some difficulties in winning their full support for it. Findings and decisions informed by the information gathered by the tool needed to be shared with operational staff more quickly. The review also identified the potential to make more use of research findings to inform decisions about service delivery and product development. But first the research and development team had to be shifted into the operations department. The research manager now participates in weekly operational meetings. This has resulted not only in more effective use of information, it has also ensured that research responds more directly to operational needs.

These questions are all concerned with organisational processes, and can be answered just by talking to staff. But in answering them, a review will also look at what these processes are saying about real outcomes.

#### Reviewing social performance outcomes

- **QUESTION 2** addresses what you know about **outreach**. For example, how many clients are poor and how is their level of poverty changing? Indicators should cover total numbers actively using different services, and the percentage in each category – for example, women, people below the poverty line, people from minority groups. Statistics on market share and share of estimated total market are also useful.

- **QUESTION 3** is relevant to **delivery of appropriate services**: What are exit rates during the specified period? How does the composition of those leaving compare with the composition of those remaining? What reasons were given for leaving? What action, if any, was taken as a result? What data is available on client satisfaction and patterns of use of services?

- **QUESTION 4** addresses **impact**: What evidence is there for improvement in clients' poverty status and livelihoods? How is the MFI contributing to wider processes of social change within its area of operation?

### 3 Designing a social performance review

There is no one SPM system to suit every MFI. In the same way, the appropriate design of a review will depend upon the goals, size, scope and other characteristics of your MFI. This section provides guidelines on how to carry out a social performance review, based on *Imp-Act's* experience. It focuses more on reviewing SPM processes than on validating data quality, and assumes an external reviewer is recruited (but for no more than a week) to lead the review. However, these and other details can be adjusted to suit particular organisations and circumstances.

#### STEP 1 Involve staff and the board from the start

Before carrying out a review it is necessary to have the full commitment and support of the board and director of the MFI. The board should approve the involvement of any independent reviewer, and nominate at least one member of staff to facilitate the review process and to assist in preparation of a final report. This person should be very familiar with the social performance activities of the MFI. The director should also authorise other staff to participate in the review as needed, and provide a letter for the reviewer introducing them to clients and other stakeholders that it may be appropriate for them to meet.

#### STEP 2 Select and recruit (if possible) one or more independent reviewers

If money permits, it is good to involve at least one external reviewer. But if money is not available, then it is still worth carrying out an internal review as a way of sitting back from and reflecting on day-to-day tasks. An independent reviewer can bring a fresh perspective, and add to the credibility and importance attached to findings. Any independent reviewer should have previous experience in both microfinance and performance assessment.

#### STEP 3 Plan the review, and draft an initial report outline

The first task is to draw up terms of reference and recruit members of the review team (at least two people). The lead internal reviewer should then gather materials needed for the review, and produce an initial report outline. Indeed if possible, it is desirable to produce a more complete initial draft. The external reviewer should review this draft (along with key supporting documents) ahead of his or her visit.

#### STEP 4 Initial meeting with senior staff and board members

An initial meeting between the reviewers and the board is important to confirm the extent of board commitment to the review, and to elicit issues of particular concern. A central concern of the review should be to identify how (and how effectively) social performance data has influenced management thinking and key decisions.

### STEP 5 Interviews with clients and junior staff

The external reviewer should have an opportunity to become familiar with the operations of the MFI, and this can be combined with focus group discussions and interviews with clients and junior staff. Think carefully about who you will interview, to make sure your study reflects different interests and experiences as fully as possible (see Box 5). These meetings can also reveal staff views on the MFI's social mission and their awareness of (and participation in) social performance assessment and management. The reviewer may then need to follow up with semi-structured interviews of staff in more senior positions, checking for variation in awareness and consistency in understanding of social performance at each level. The feedback loop tool can serve as a useful visual guide for these discussions.

### STEP 6 Data validation

The reviewer can also be asked to check how valid the findings are, rather than only focusing on process. For example, they can follow through on a sample basis how primary data is aggregated, analysed and interpreted. They should also investigate the MFI's own internal quality control activities.

### STEP 7 Analyse and report on findings

The next stage is for the external reviewer, in consultation with the lead staff member, to revise the draft review report in the light of his or her findings. The review process should end as it began, with a meeting between the external reviewer, director and board to discuss findings and recommendations.

### STEP 8 Production of a final report

A final report is useful both as a formal record of findings, and also as the basis for follow-up discussions. Box 6 provides an outline of what it might include.

#### BOX 5 SELECTING BRANCHES, STAFF, GROUPS OR CLIENTS FOR INTERVIEW

There should be some random element in the process of selection of groups – even if sampling is not strictly scientific. Participatory ranking is a useful method for doing this. Start by writing the names of all groups on separate cards. Then invite one or more members of staff with a good knowledge of these particular groups to sort them into sets according to a similar level of social performance. The piles can then be sorted into “better”, “average” and “weaker” groups. This exercise can also provide insights as to what different staff think of as good social performance.

## 4 Beyond social performance reviews: developing national and international standards and benchmarks?

This Practice Note provides guidance to help MFIs strengthen their social performance management systems through periodic reviews, chiefly to meet internal needs but also to satisfy external accountability.

There is also scope (discussed in Box 1) for developing industry-wide standards and benchmarks for reviewing SPM, in the same way that there are accepted standards for financial auditing and rating of the financial performance of MFIs. Developing industry-wide standards needs to be approached with care and sensitivity. MFIs vary widely in their social mission and strategies, and it

#### BOX 6 SUGGESTED OUTLINE FOR A SOCIAL PERFORMANCE REVIEW REPORT

**1. Mission and vision:** What are the MFI's social and financial performance goals? What strategy is used to achieve these goals? How does the MFI monitor performance towards these goals?

**2. Outreach:** How does the MFI monitor the number and composition of its clients? What role does this information play in organisational management?

**3. Exit:** How is client exit monitored and assessed? What role does this information play in organisational management?

**4. Client satisfaction:** What activities are undertaken to gauge how satisfied active clients are with the services they receive? What role does this information play in organisational management?

**5. Impact:** What activities were undertaken to assess the impact of services on clients' lives and livelihoods? What role does this information play in organisational management?

**6. Service improvement:** What were the main changes introduced during the specified period with respect to goals, strategy, products and service delivery? What prompted these changes? To what extent were these changes a response to evidence generated on outreach, exit, client feedback and impact?

**7. System improvement:** What strengths and weaknesses, if any, were identified in the social performance assessment and management systems used during the specified period? To what extent were the systems in place able to respond to unexpected opportunities and threats? How satisfactory was the mix of staff and external support? What changes were made to social performance assessment and management systems? What changes, if any, are planned? Are they likely to make the SPM more cost-effective? What resources have been earmarked for social performance assessment during the next period and how does this compare with the past?

is not easy to develop guidelines that can accommodate all these differences. Performance in meeting social goals is harder to measure than financial goals and often slower to change. However, it is possible to standardise methods and processes of social performance assessment even when MFI goals vary. Networks such as Finrural in Bolivia are developing standard approaches at the national level. International networks such as Finca are developing global norms for their affiliates, and independent rating agencies are exploring how social performance can be incorporated into their benchmarks. It is unlikely – and perhaps undesirable – that a single global standard for rating the social performance of an MFI will emerge quickly. But there is certainly scope for more transparent reporting. Rather than waiting for others to impose this on them, MFIs can themselves take a lead by improving their own internal review processes.

## BOX 7 POSSIBLE ANNEXES TO THE REVIEW REPORT

### 1. Financial performance

Present a small table summarising the recent financial performance of the organisation over the specified period: value of services provided or outstanding; financial and operational self-sustainability; portfolio at risk.

### 2. Background and context

Provide a very brief summary of the history of the organisation, its current organisational and governance structure, and contextual factors affecting its recent performance.

### 3. Review methodology

Provide a chronology of the review visit, including names and designations of all those interviewed. Include also a brief CV for the external reviewer. Include here

technical details of particular review activities, such as sampling of clients for interview.

### 4. Tools and indicators review

Include here any comments on the tools and indicators employed by the MFI for social performance assessment. Was the choice of tools appropriate? What were their strengths and limitations? Was the choice of indicators appropriate? What were their strengths and limitations? How were these analysed and reported? How can choice of tools and indicators be improved?

## Resources

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### **Imp-Act case studies**

This Practice Note draws on experience of conducting reviews with MFIs who participated in the *Imp-Act* programme. A summary of findings from many of these reviews can be found on the *Imp-Act* website. ([www.Imp-Act.org](http://www.Imp-Act.org))

More detailed discussion about aspects of social performance management systems is detailed in *Imp-Act* Practice Notes (available from *Imp-Act* secretariat or website).

1. The feedback loop: responding to client needs
2. QUIP: understanding clients through in-depth qualitative interviews
3. Learning from client exit
4. Using surveys effectively for social performance management
5. Indicators of social performance: choosing and using indicators for effective social performance management
6. Planning research to assess social performance: guidance for managers
7. Monitoring systems for social performance management