STUDY

February 2019

Social Performance Management in Microfinance: Practices, Results and Challenges

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ACKNOWLEDGEMENTS

ADA would like to thank Cerise for sharing the database of SPI4 audits collected since 2014 and for its support in carrying out certain interviews with the microfinance institutions, which has made it possible to successfully complete this study. ADA would like to extend particular thanks to Cécile Lapenu, Jon Sallé, Bonnie Brusky and Alexandra Alvarado from Cerise, as well as to Laura Foose and Amelia Greenberg from the Social Performance Task Force, for their re-reading and contributions to this publication.

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List of Acronyms

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

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Executive summary

In 2012, the Social Performance Task Force published the **Universal Standards of Social Performance Management**, on the basis of a consultation process which brought together several hundred representatives from the inclusive finance sector. These Universal Standards, which were created both by, and for, practitioners in the sector, gather together a collection of good management practices which should enable financial service providers to accomplish their social mission. In 2014, the **social audit tool, SPI4,** which was developed by Cerise, was fully aligned with these standards so as to allow financial service providers to assess their social performance management practices, to identify their strengths and weaknesses and to target possible avenues for improvement.

Accordingly, since 2014, Cerise has collected all of the SPI4 audits which have been performed and submitted to it by the institutions within a centralised database. In 2018, ADA and Cerise joined forces to analyse this database and to carry out a study to review the current practices related to the assessment and management of social performance. The study places a particular focus on the profile of the financial service providers which carry out a social audit, on the main strengths and weaknesses of these actors in terms of social performance management, as well as the potential synergies between social, financial and environmental performances.

Profile of the institutions using the SPI4 tool

Between March 2014 and August 2018, 435 audits were performed and submitted to Cerise by 368 microfinance institutions from 73 countries; Latin America and the Caribbean and sub-Saharan African regions were over-represented compared to the institutions reporting to the Mix Market. The majority of audits were performed by unqualified external auditors, followed by self-assessments and then audits performed by qualified auditors. However, over the course of the years there has been an increase in the number of self-assessment audits, this type of audit becoming the most common in 2018. There are relatively few cooperatives amongst the institutions which have performed at least one audit and submitted it to Cerise, compared to the number of institutions reporting to the Mix Market. Furthermore, a majority of the institutions are large in terms of their portfolio size and there are as many for-profit as there are non-profit structures. Only 13% of the institutions have performed and submitted several audits, with the large majority of them having submitted two audits.

Strengths and weaknesses in terms of social performance management

In terms of the review of the practices related to social performance management, all of the institutions in the sample considered in the study obtained an **average (and median) score of 65.4%**. The institutions with the lowest scores are those located in sub-Saharan Africa, cooperatives, institutions which have a small portfolio and those which target urban areas. This means that these are the types of institutions which have a particular need for support on these issues. Amongst the six dimensions of the Universal Standards of Social Performance Management, the dimension with the lowest score is that related to the procedures and processes implemented to ensure the commitment of all of the institution's stakeholders to the social goals (dimension 2), whilst the dimension with the highest score is the dimension related to the balance between financial and social performance (dimension 6). Whilst the differences between the scores should be interpreted with caution, since certain good practices are easier to implement than others, they can, nevertheless, help to identify the areas in which particular support is required. As for the types of institutions which obtained the lowest global scores, it should be noted that this is not due to low scores on one particular dimension. In fact, these institutions are generally weaker across all of the dimensions and therefore it is likely that they require general support in the area of social performance management.

Social performance, transparency, environmental performance and financial performance

In 2018, a **Transparency index** was included in the SPI4 tool, which makes it possible to assess the seven main representative components of the integrity and transparency of the institutions. The global score in terms of the transparency of the institutions included in the sample is 69.7%. The scores are higher for the components related to the audit and the publication of accounts, as well as the human resource policy, whilst they are lower for the policy on aggressive sales technique and the mechanisms for complaints resolution, which once again highlights the practices which are the most difficult to implement and areas which require specific support.

The SPI4 also includes an optional module, the **Green Index**, which enables the institutions which wish to do so to measure their environmental performance. Of the institutions included in the sample, 28% completed this module, demonstrating their interest and commitment in this area. Generally speaking, these institutions perform better than the others in terms of social performance management: this indicates that the institutions which are the most committed to the achievement of their social missions are those which are also the most concerned with their environmental performance. On the other hand, their environmental performance score remains low from a global point of view, which shows that they probably have a significant need for support and capacity building in this area.

Finally, the SPI4 tool contains some data related to the institutions' **financial performances,** which makes it possible to analyse the possible links between good social performance management practices, the return on assets and the quality of the portfolio. Whilst the question of the links between financial and social performances is not new, this analysis is the first to be based on the Universal Standards to define social performance, which is considered here in terms of management, rather than results. The analysis shows that, all other things being equal, the link between good social performance management practices and the quality of the portfolio is significant from a statistical point of view and that it is both a strong and positive link: the higher the social performance management scores, the lower the portfolio at risk. With regards to the links between good social performance management practices and the return on assets, the link once again is significant from statistical point, all other things being equal, although it is not linear: for social performance management scores below the average, the return on assets tends to fall as the scores increase and then increases once again as the average score is reached and then exceeded. The absence of longitudinal data means that it is not possible to accurately analyse this complex relationship, notably the direction of its causal link or its temporality, which means that complementary studies are required to understand it better. However, today this continues to be compromised by the paucity and low quality of existing data; it is clear that currently, the production, collection and analysis of data, which is essential in order to generate knowledge, continue to be a major challenge for the inclusive finance sector.

INTRODUCTION

Microfinance has an intrinsic social mission: it is generally described as a system which makes it possible to provide financial services to those who are vulnerable and have very few resources, and it has been developed to fill a need and become an alternative solution to traditional banking and financial services, which do not serve this customer segment which is considered to be too risky or not sufficiently profitable. In this way, unlike these traditional systems for which profitability is the prime objective, the main mission of microfinance is to meet a double bottom line: first of all, a social objective, by serving the categories of the population which are excluded from the traditional systems, and a financial objective, which will enable it to perform this mission on a sustainable basis.

However, in the 2000s there have been several instances of mission drifts: some institutions have allowed the financial objective to become more important than the social objective, which has taken them to a profitability level which is sometimes higher than that of the banks, without allowing their clients to benefit from it, whilst others have made use of abusive practices, which has even resulted in them treating their clients in an irresponsible manner. In the face of these abuses, it appeared to be necessary for the sector to define a framework of good practices in order to avoid a proliferation of these cases. From a more general point of view, whilst microfinance's initial social objective has been clearly stated, it is not necessarily evident for the professionals in the sector how to identify the practices or the measures to be implemented to be able to achieve this objective, hence the need for this framework of good practices.

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

Cerise created the SPI4 tool in 2014 to enable the practitioners to assess their practices and to see where they stand in relation to these standards and to the other actors in the sector. This is a social audit tool which is fully aligned with the SPTF's Universal Standards for Social Performance Management and the Smart Campaign's Client Protection principles.

The financial service providers wishing to assess their social performance management practices can use the SPI4 tool on their own or can be accompanied during the process; in the latter case, the support provided may include the assistance of a SPI4 qualified auditor. Regardless of the chosen method, the users of the tool are encouraged to share their results with Cerise, which has been consolidating the results for several years in a database which is comprised of all of the SPI4 carried out.

In 2018, ADA and Cerise joined forces to carry out a global study of this database in order to establish a general review of the social performance management of financial service providers throughout the world since the launch of the SPI4 tool. The aim of this study is to shed light on the type of financial service providers which carry out a social audit, to identify the main strengths and weaknesses of these actors in terms of social performance management, and to analyse the potential complementarities of social, financial and environmental performances.

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

METHODOLOGY

THE DEFINITION OF THE CONCEPT OF SOCIAL PERFORMANCE

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

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

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

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

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

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

THE SPI4 TOOL

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

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

The tool, which is presented in Excel spreadsheet format, may be downloaded free of charge from the Cerise website[1]. It takes the form of a questionnaire composed of a series of questions to which a qualitative response must be given (yes, no, partially, not applicable). These qualitative responses are then converted into quantitative scores (yes = 100; no = 0; partially = 50) and are used to calculate an average score out of 100 for each indicator, practice, standard and dimension. The average of the scores per dimension then gives the final score.

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

As well as the questionnaire, the tool is also comprised of an information sheet about the organisation which has to be completed with data related to the portfolio, financial data, information about the structure's status and mission, etc. Unlike the responses to the questions posed in the questionnaire, which are compulsory in order to obtain the scores, it is still possible to obtain the scores if the information about the organisation is not provided fully. Consequently, certain information is missing for certain organisations and this explains why

[1] The tool may be downloaded here: https://cerise-spm.org/spi4/

the number of organisations varies in the different tables and charts, according to the criteria considered in the study.

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

THE DATABASE OF SPI4S

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

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

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

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

This means that a total number of 435 SPI4s were considered in the first part of the study, whilst 327 were considered in the second and third parts.

THE ANALYSIS

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

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

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

I. The assessment of social performance management: the situation in the sector in 2018

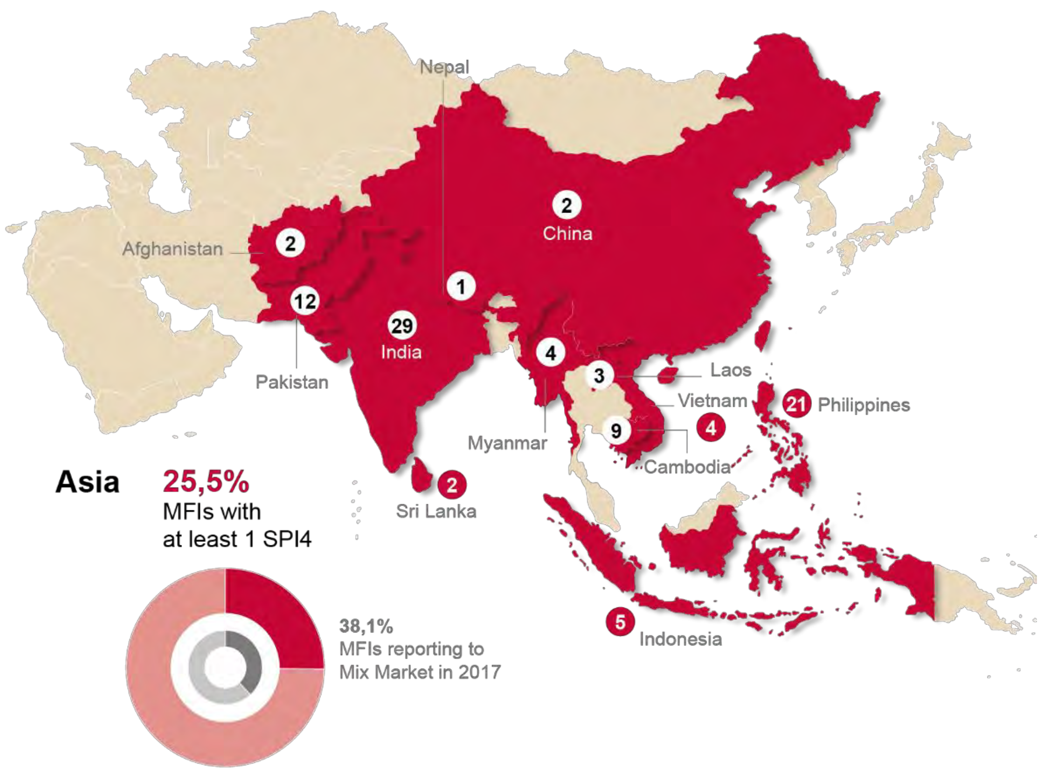
Since 2014, financial service providers have been able to make use of the SPI4 social audit tool to assess their social performance management and to see where they stand in relation to the Universal Standards and to the other actors.

From 2014 to 10 August 2018, a total number of 435 audits have been completed and submitted to Cerise by 368 Microfinance institutions (MFIs) from 73 countries, with some organisations having performed several audits.

Regional breakdown

The Latin American and Caribbean region is the mostly highly represented region in terms of the number of MFIs which have assessed their social performance management (34.2% of the MFIs in the database), followed by sub-Saharan Africa (32.6%) and then Asia (25.5%). However, Asia had the highest number of MFIs reporting to the Mix Market in 2017 (38.1%). This would seem to suggest that the actors in the sector, not only financial service providers, but potentially also regulators, investors, etc. are relatively more aware of social performance management in the Latin America and Caribbean and sub-Saharan Africa region than in Asia. In some countries of the Latin American and Caribbean region in particular, the regulation is more advanced and binding in the areas of client protection and social performance, which may explain why a relatively higher number of financial service providers have performed at least one SPI4 audit. Nevertheless, there is a certain intra-regional heterogeneity, with some countries being more active in this area than others, such as India, the Philippines and Pakistan in Asia, Bolivia and Ecuador in Latin America or Senegal in Africa. The first four countries mentioned are also those in which the regulations are strong.

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

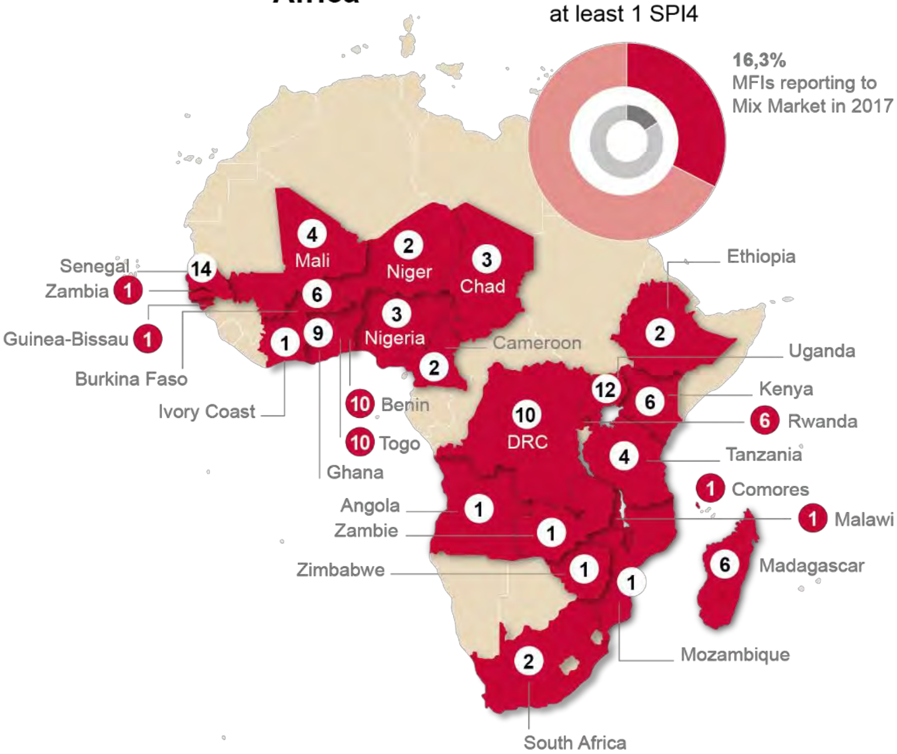


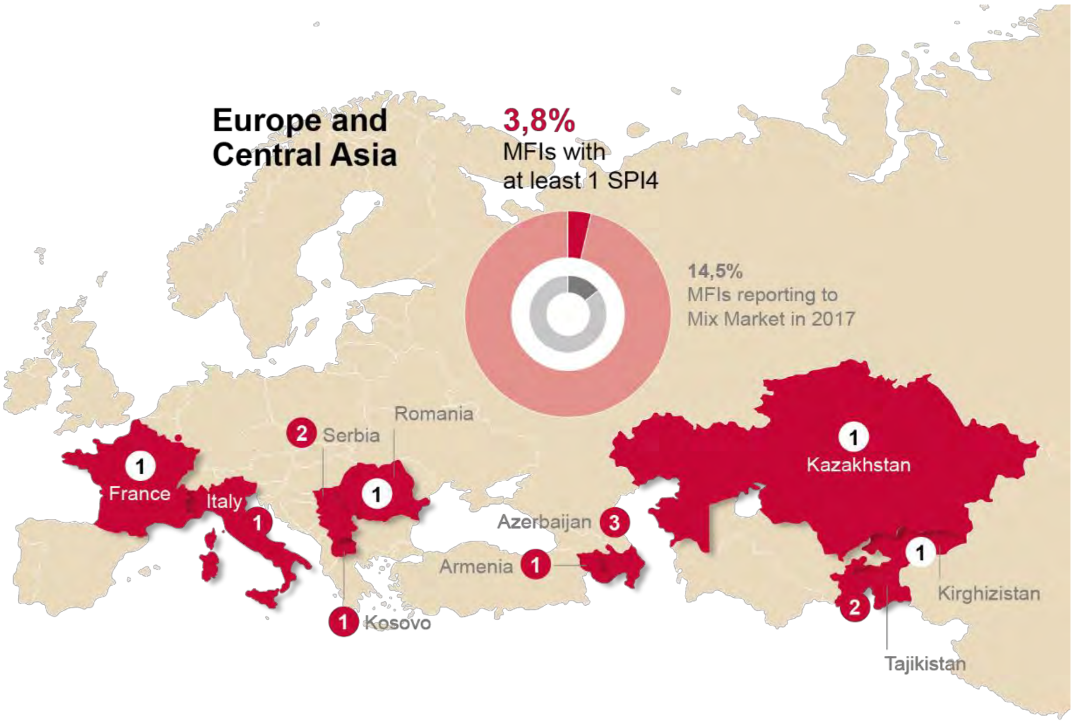
Latin America and the Caribbean

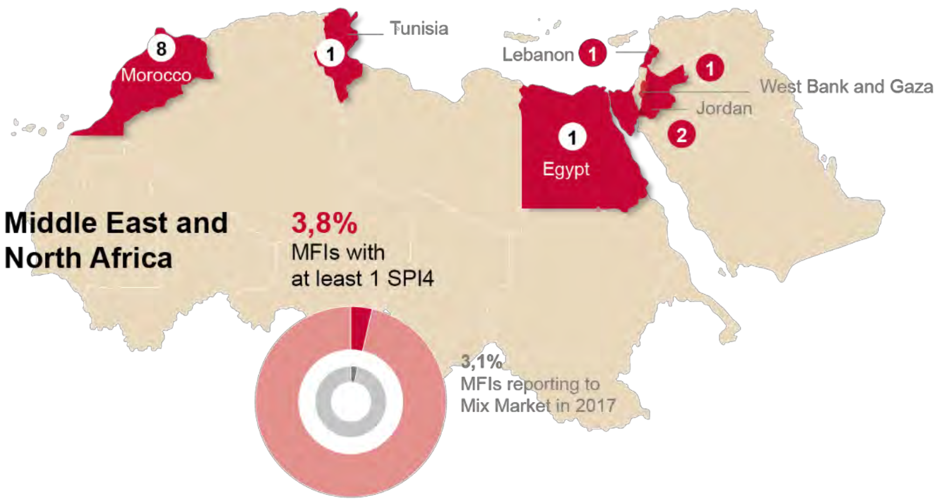
34,2%
MFIs with
at least 1 SPI4

Sub-Saharan Africa

32,6%
MFIs with
at least 1 SPI4



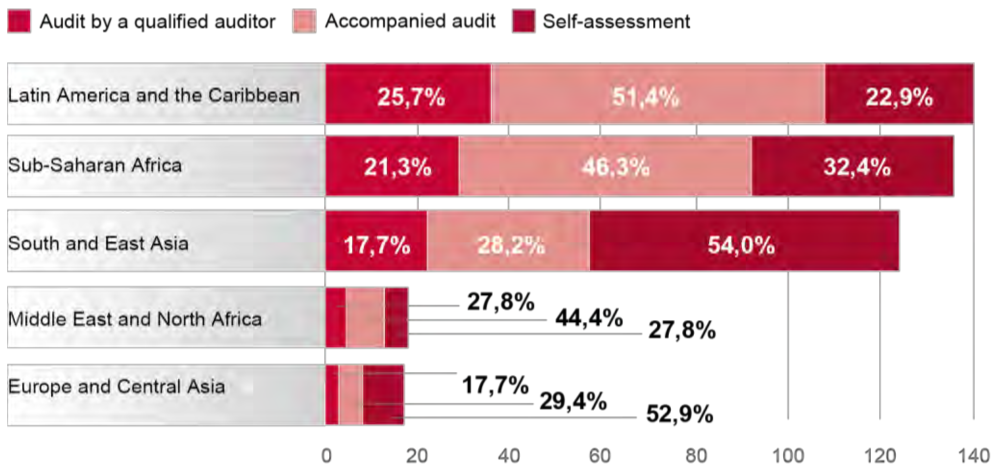

Europe and Central Asia
3,8%
MFIs with at least 1 SPI4
14,5%
MFIs reporting to Mix Market in 2017
1 France
1 Italy
2 Serbia
1 Romania
1 Kosovo
1 Armenia
3 Azerbaijan
1 Kazakhstan
1 Kirghizistan
2 Tajikistan


8 Morocco
1 Tunisia
Lebanon 1
1 West Bank and Gaza
Jordan 2
1 Egypt
Middle East and North Africa
3,8%
MFIs with at least 1 SPI4
3,1%
MFIs reporting to Mix Market in 2017

TYPE OF AUDIT AND QUALITY OF THE AUDITS PERFORMED

Out of the 435 SPI4s carried out, the majority are audits which have been performed with the support of an external person (42%), slightly more than one third are self-assessments (36%), whilst only a minority (22%) of the audits have been performed by a qualified auditor. The highest number of audits performed with the support of a qualified auditor is to be found in the Middle East and North Africa (MENA) and Latin America and Caribbean regions relatively speaking[2], whilst self-assessments are the most frequent in Asia and Europe and Central Asia. This may be explained, at least in part, by the fact that very few auditors have been certified by Cerise in these regions.

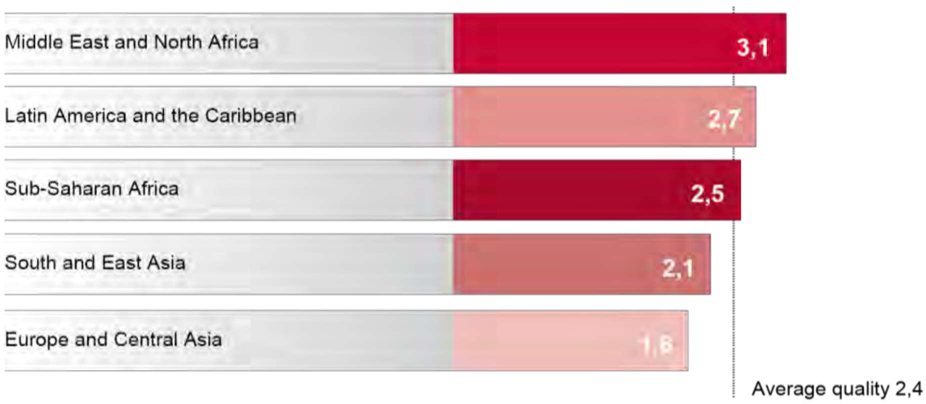
Figure 3. Number and type of audits per region



When assessing the quality of the audits, Cerise considers the type of audit performed[3]: the audits supported by a qualified auditor are considered to be of a better quality than those supported by an unqualified external person whilst, in turn, this type of audit is considered to be of a better quality than those performed through self-assessment. Indeed, the auditors' independence and qualifications are considered to be a guarantee of quality.

Consequently, the average quality of the audits is variable according to the regions, with audits of a substantially lower quality in Asia and Europe and Central Asia, where self-assessment audits are more common.

Figure 4. Average quality of the audits per region



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[2] However, since only 18 audits have been carried out in the MENA region to date, the large proportion of audits performed by qualified auditors is to be considered with caution.

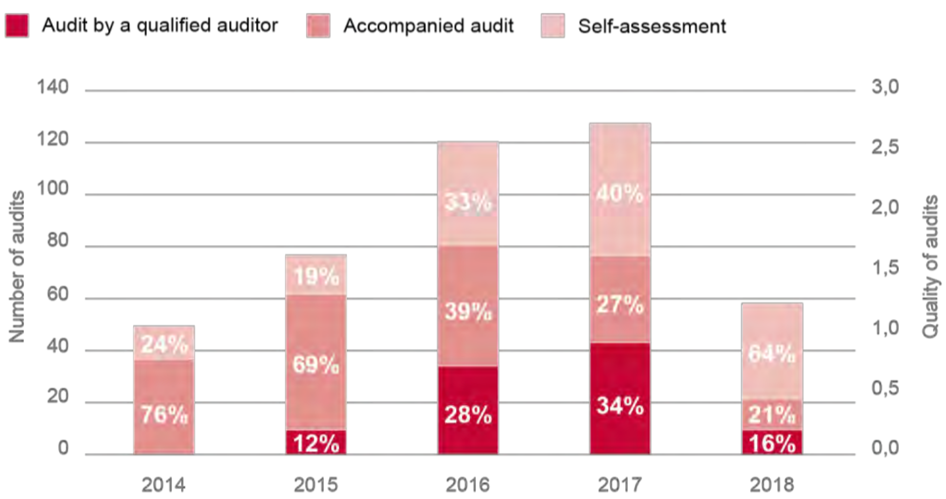
[3] The details of the method used by Cerise to assess quality are set out in the section on Methodology.

The performance of self-assessments is a very positive sign, since it shows that the financial service providers are taking ownership of the tool and the concepts and that they do not systematically need a qualified auditor to question their social performance management. Nevertheless, it may occasionally be useful to complete these self-assessments with external audits which, as a result of the auditors' independence, allow for a more objective view of the social performance management of the structures concerned. In turn, this facilitates the identification of the priorities related to the improvement of the practices.

Accordingly, priority should be given to the provision of training about the tool and to the dissemination of the audit guide[4] in these two regions, so as to create a larger pool of resource persons outside the institutions to carry out accompanied audits.

By observing the evolution of the number and of the type of audits over the years, one can see, on the one hand, that the number of audits performed and submitted to Cerise is growing (the figure for 2018 does not cover the entire year) and, on the other hand, that the proportion of self-assessments amongst the audits submitted to Cerise has increased, to the extent that they have become the main type of audit performed in 2017 and 2018.

Figure 5. Evolution of the number and type of audits over the years



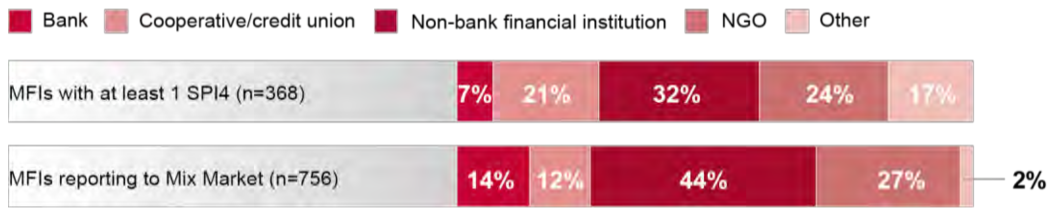
Whilst, once again, this evolution is a positive sign of the tool's approval at the global level, there is still a need to continue to both support the MFIs in this area, so that they can use the tool in the most efficient way possible and take full advantage of it, and to encourage the performance of audits accompanied by qualified auditors, so as to maintain a certain level of quality, objectivity and transparency.

[4] The guide to performing an SPI4 audit is available in several languages on the Cerise website, along with other useful resources : https://cerise-spm.org/en/spi4/ressources/getting-started//

PROFILE OF THE MFIS WHICH ASSESS THEIR SOCIAL PERFORMANCE MANAGEMENT

Data taken from the Mix Market are used as a reference to assess the potential representativeness of the MFIs which assess their social performance management in relation to the sector[5]. The MFIs which have performed and submitted at least one SPI4 since 2014 tend to have a different legal form compared to the MFIs reporting to the Mix Market: cooperatives, in particular, are represented to a greater degree amongst the structures which have carried out an SPI4 social audit (21%) than they are amongst the MFIs reporting to the Mix Market (12%), whilst the opposite may be observed for the banks[6] (7% of the MFIs which have submitted an SPI4 compared to 14% of the MFIs reporting to the Mix Market).

Figure 6. Legal form



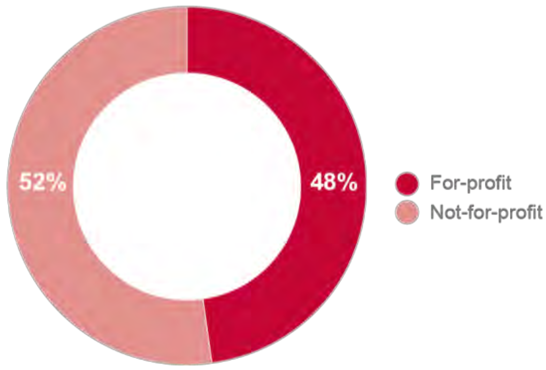
The relatively greater presence of cooperatives amongst the structures which have performed an SPI4 may be explained, at least in part, by the over-representation of sub-Saharan Africa, where the proportion of cooperatives is relatively higher than in other regions (25% of the African MFIs which reported to the Mix Market in 2017 are cooperatives, compared to an average figure of 12% across all of the other regions). Furthermore, certain cooperatives have shown themselves to be particularly aware of questions related to social performance, just like the CIF (Confédération des Institutions Financières en Afrique de l'Ouest - Confederation of Financial Institutions in West Africa), which is one of the pioneering organisations which has led the way in annually testing, training and reporting on social performance issues to Cerise. On the other hand, the smaller proportion of banks amongst the structures which have performed an SPI4 cannot be explained by their weaker presence in the region, given that the proportion of banks reporting to the Mix Market is higher than the average in sub-Saharan Africa (22%) and in Latin America and the Caribbean (15%), the two regions which account for the largest number of SPI4s. It is therefore probably due to the fact that the level of awareness of social performance management is not particularly well developed in organisations of this type.

This diversity of statuses leads to the existence of a relative balance between the number of for-profit (48%) and non-profit (52%) structures which have performed at least one SPI4 since 2014. This means that being a for-profit structure does not stop an organisation from being concerned with its social performance management and, indeed, this confirms the double bottom line approach taken by microfinance institutions.

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

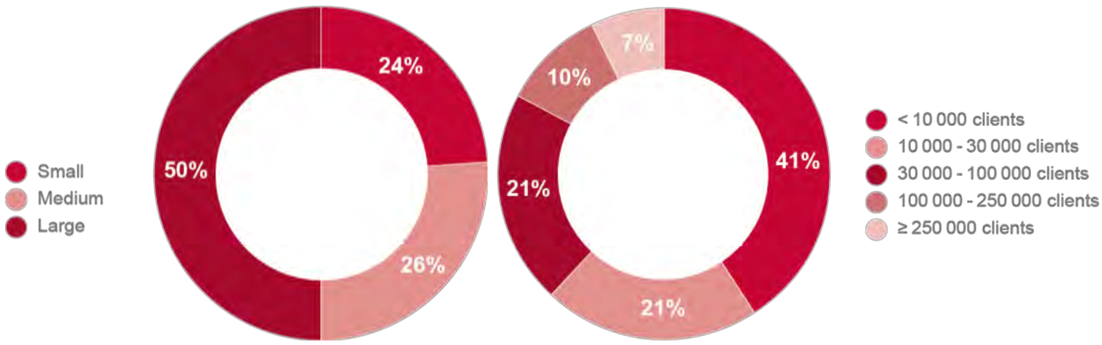
[6] Since the "Others" category is bigger for the SPI4 than it is for the Mix Market (which only includes rural banks in this category), it is not possible to draw many conclusions about the non-banking financial institutions, certain of which may well find themselves in the SPI4 "Others" category.

Figure 7. Status



With regard to size, the majority of MFIs which have performed at least one SPI4 are considered to be big in terms of their portfolio, with 50% of these MFIs having a portfolio of more than 15 million dollars for the Latin America region or more than 8 million dollars for the other regions, but are considered to be small in terms of their number of active borrowers, with 41% of the MFIs having less than 10,000 active borrowers.

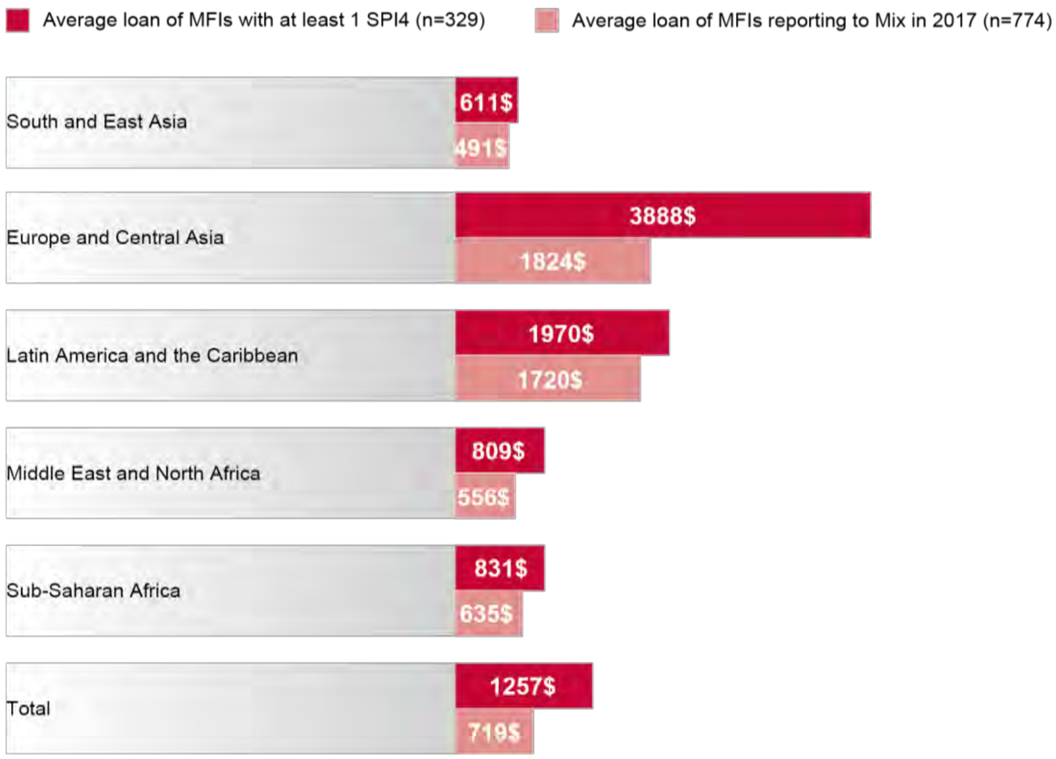
Figure 8. Size, in terms of portfolio value (USD) and number of clients



In other words, this means that the MFIs which have performed an SPI4 tend to grant relatively high average loans (1,257 USD on average in total). Indeed, when one compares the average loans granted by the MFIs which have submitted an SPI4 to those granted by the MFIs which reported to the Mix Market in 2017, the average loan is higher across all of the regions[7].

[7] The particularly high average for the Europe and Central Asia region is driven by two MFIs in Romania and Azerbaijan, which grant loans which are high compared to the other 11 MFIs in the region. Nevertheless, even without taking these two MFIs into account, the average in this region (2,740 USD) is still higher than that of the MFIs reporting to the Mix Market.

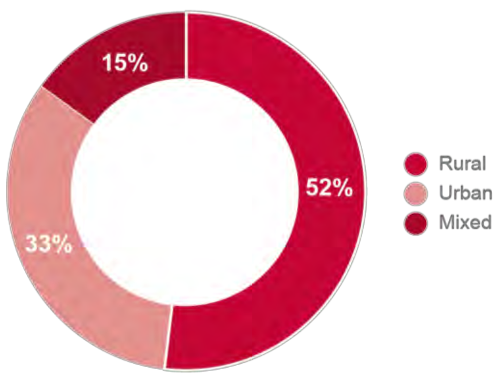
Figure 9. Average loan size (USD)



Nevertheless, the ratio of the average loans of these MFIs in relation to the gross national income per capita of the country concerned is 52% (the median ratio is 27%), which confirms that these MFIs grant loans which are relatively small and accessible to the populations which are potentially excluded from the traditional banking and finance systems.

In terms of target area, the majority of the MFIs in the sample target rural areas (52%), 33% target urban areas and 15% target both.

Figure 10. Target area



ASSESSING THE PROGRESS OF SOCIAL PERFORMANCE MANAGEMENT

The purpose of the SPI4 tool is to assess social performance management at a specific moment in time. Once its strengths and weaknesses have been identified, an institution may use this as a basis to implement actions to improve its performance in this area. It is for this reason that certain institutions decide to carry out several SPI4 audits so as to assess their progress in terms of social performance management.

Of the 368 MFIs in the database, 47 MFIs (13%) have performed and submitted several audits to Cerise: 32 have submitted two audits, 10 have submitted three and five have submitted four since 2014. Whilst it is probable that a greater number of MFIs have performed several audits but have not have submitted all of them, it would appear that this approach is not particularly widespread amongst the MFIs which assess their social performance management.

Figure 11. Number of MFIs which have carried out several audits, per region

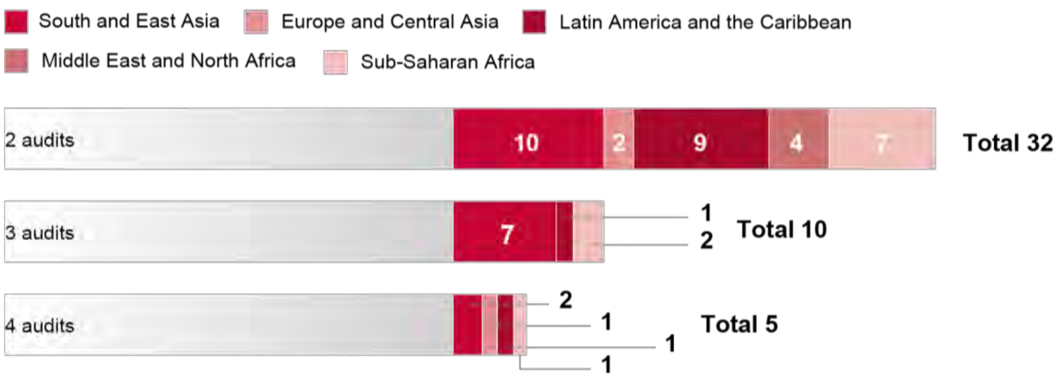
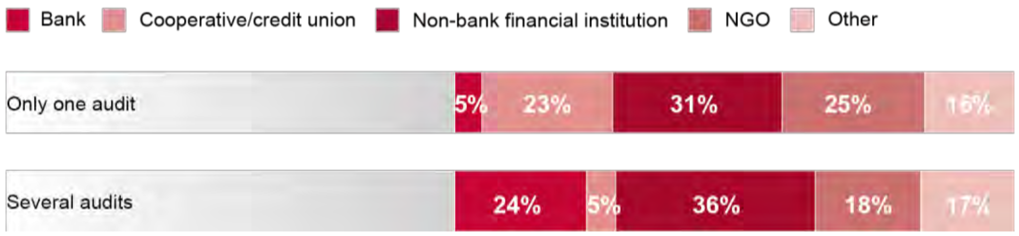


Figure 12. Legal form of the MFIs which have carried out several audits



We can see that for-profit MFIs are relatively better represented amongst the MFIs which have performed several audits than they are amongst the total sample (65% versus 51%): in fact, it is the banks and non-bank financial institutions which have performed several audits, rather than the NGOs or cooperatives. More than anything else, this confirms that this type of assessment is relevant for all types of financial service providers, including for-profit structures, for which good practices in social performance management seem as desirable as they are for the other institutions. On the other hand, this relative over-representation indicates the existence of a more professional form of management amongst these structures which, once they have begun to use it, would seem to have integrated the SPI4 audit within their global management practices. This may reflect a strong willingness within the structure, but may also reflect requirements made by the board, the investors or regulations.

II. Strengths and weaknesses of MFIs in the area of social performance management

Sample

To assess the social performance management levels of MFIs in the most reliable way, in this part of study only the audits of quality level 2 to 4 have been taken into consideration, as well as the 14 quality level 1 audits which have been performed by a qualified auditor or someone from outside the organisation (quality level 1 self-assessments have been excluded).

This means that the sample used in this part is smaller and contains only 327 audits, compared to the previous figure of 435. The composition of the sample is also slightly different:

- The proportion of audits from Latin America and the Caribbean, cooperatives, not-for-profit organisations, small organisations in terms of the value of their portfolio and MFIs which target urban areas, is relatively higher in this smaller sample than it is in the overall sample;
- The proportion of audits from Asia, banks, for-profit organisations, large organisations and MFIs which target rural areas, is relatively lower, which indicates that these audits were of a relatively lower quality than those mentioned previously.

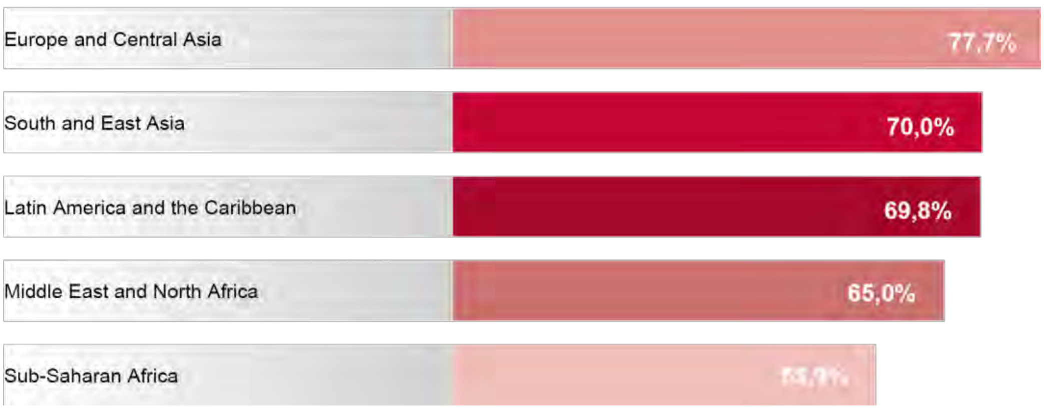
The details of the differences in the composition may found in Annex 1.

Global Score

On average, the global score obtained by the MFIs in the sample is 65.4%, which is also the median score; in other words, 50% of the MFIs obtain a score of less than 65.4% and 50% obtain a higher score, with a minimum score of 10% and a maximum of 99%. Whilst certain financial service providers would appear to be already well advanced in terms of their social performance management in a general sense, for others there is still scope for improvement and, probably, a need for training and support on this subject.

This global score differs according to the characteristics of the MFIs[8]. Therefore, the MFIs in the sub-Saharan region obtain a global score which is significantly lower than the global score obtained by the MFIs in the other regions.

Figure 13. Global score per region



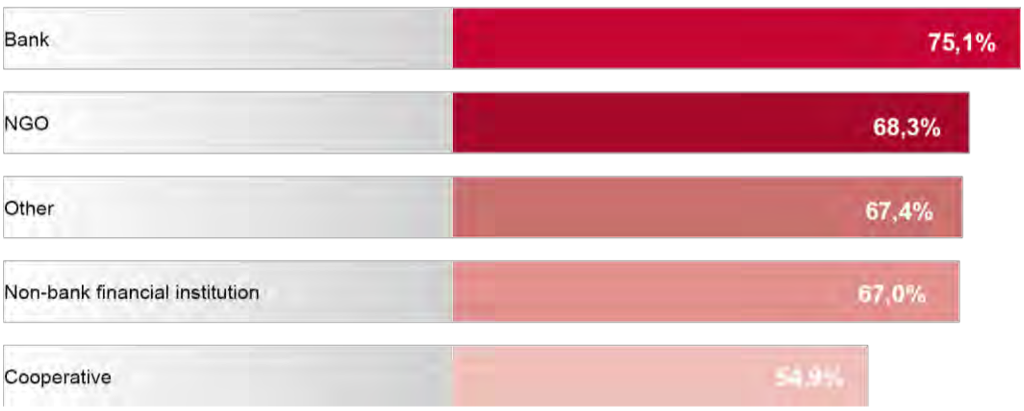
[8] As mentioned in the Methodology section, all of the differences in scores mentioned are statistically significant at the 1% level.

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

Figure 14. Global score according to portfolio size

Banks also perform better compared to the MFIs which have another legal form, whilst cooperatives obtain a significantly lower score. Here, once again, formalisation, the professionalisation of management methods, structuring and good governance practices are all key factors in the establishment of good social performance management; these factors are often to be found in banks, which are also more regulated, but they may sometimes be missing in cooperatives (the analysis of the scores per dimension in the next section sheds more light on this point). On the other hand, in certain regions or countries, the regulations are more demanding of structures which have a particular status in relation to certain aspects of social performance, notably with regards to client protection or transparency, and this enables the regulated structures to obtain better scores.

Figure 15. Global score according to legal form



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

Figure 16. Global score according to target area

By contrast, good social performance management would not appear to be dependent upon the MFI's status: there is no significant difference between the scores recorded by for-profit and not-for-profit structures, which seems to indicate that the social and financial objectives are not contradictory. This question will be analysed in greater detail in the next section of the report.

Figure 17. Global score according to the status

All things being equal, these differences in the scores by region, legal form, size and target area are significant[9]: thus, the lowest global score recorded by the MFIs from sub-Saharan Africa cannot be explained solely by the higher proportion of cooperatives in this region. Indeed, even when they have the same legal form, size and target area, the MFIs from sub-Saharan Africa still obtain a lower global score. Similarly, for the same region, size and target area, cooperatives obtain lower scores. The status (for-profit or not-for-profit) remains non-significant in the assessment of the global scores, all things being equal.

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

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

SCORES PER DIMENSION

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

Figure 18. Scores per dimension

Across all of the audits, the MFIs obtain the lowest average score (52%) for dimension 2, which refers to the commitment of all of the institution's stakeholders to the social goals. This dimension covers the practices which an institution may put in place to ensure that the board of directors, the management and the staff are all committed to the achievement of the institution's social goals. It considers, for example, the existence of criteria related to the social goals in the recruitment procedures, training, staff and management appraisals, as well as the results required by the board of directors.

This dimension is closely linked to the first dimension, which focusses on the definition and monitoring of specific social goals on the basis of the institution's mission. In fact, if an institution has not clearly defined its social goals with indicators and a process to monitor these indicators, then they cannot be included in the training and employee appraisal procedures and the board of directors cannot require the achievement of results related to these objectives. Therefore, a fairly low score for dimension 1 often means that the institution will obtain a similarly low, or even lower, score for dimension 2. Indeed, the average score for dimension 1 (62.6%) is lower than the average global score, which contributes, in part, to the low average score for dimension 2.

On the other hand, the MFIs obtain the highest score (74.8%) for dimension 6, which refers to the balance between social and financial results. This dimension focusses on the institution's decision making with regards to key financial areas (growth targets, objectives and distribution of profits, funding sources, staff remuneration), which are also elements that ensure the integration of the social mission within the institution's strategy. However, certain aspects of this dimension, particularly the criteria related to responsible pricing, are complex to analyse and there is therefore sometimes the chance that they will be over-estimated by the people performing the audit. On the other hand, the organisations which are prepared to perform a social audit are probably already aware of the importance of the balance between social and financial results, which makes it easier to achieve a better score for this dimension.

Dimension 3, which focusses on the different ways in which institutions can collect information on the needs and the preferences of their clients and adapt their products, services, and delivery channels accordingly, is also a dimension for which the MFIs obtain a score below the global average (62.2% compared to 65.4%). This dimension is, in fact, relatively demanding and requires the MFIs to have implemented a certain number of regular procedures and processes to collect and analyse information about their clients' needs and preferences. It fits into the "do good" (for the clients) approach, which requires a certain level of involvement on the part of the institution.

On the other hand, the MFIs do better in terms of responsible treatment of the clients (dimension 4), the dimension which includes the majority of the Client Protection Principles set out by the Smart Campaign, (prevention of over-indebtedness, transparency, fair and respectful treatment of clients, privacy of client data and mechanisms for complaint resolution), as well as the responsible treatment of employees, for which their scores are higher than the average (71% and 70% respectively). These dimensions fit more within the "do no harm" principle, which today constitutes the minimum requirement in terms of social performance management. It is therefore probably easier to obtain a higher score for these dimensions, particularly since certain of these criteria are often included in certain countries' regulations.

If we compare the results per dimension according to the region, the legal form, the size or the target area, two main observations emerge:

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

Figure 19. Scores per dimension per region

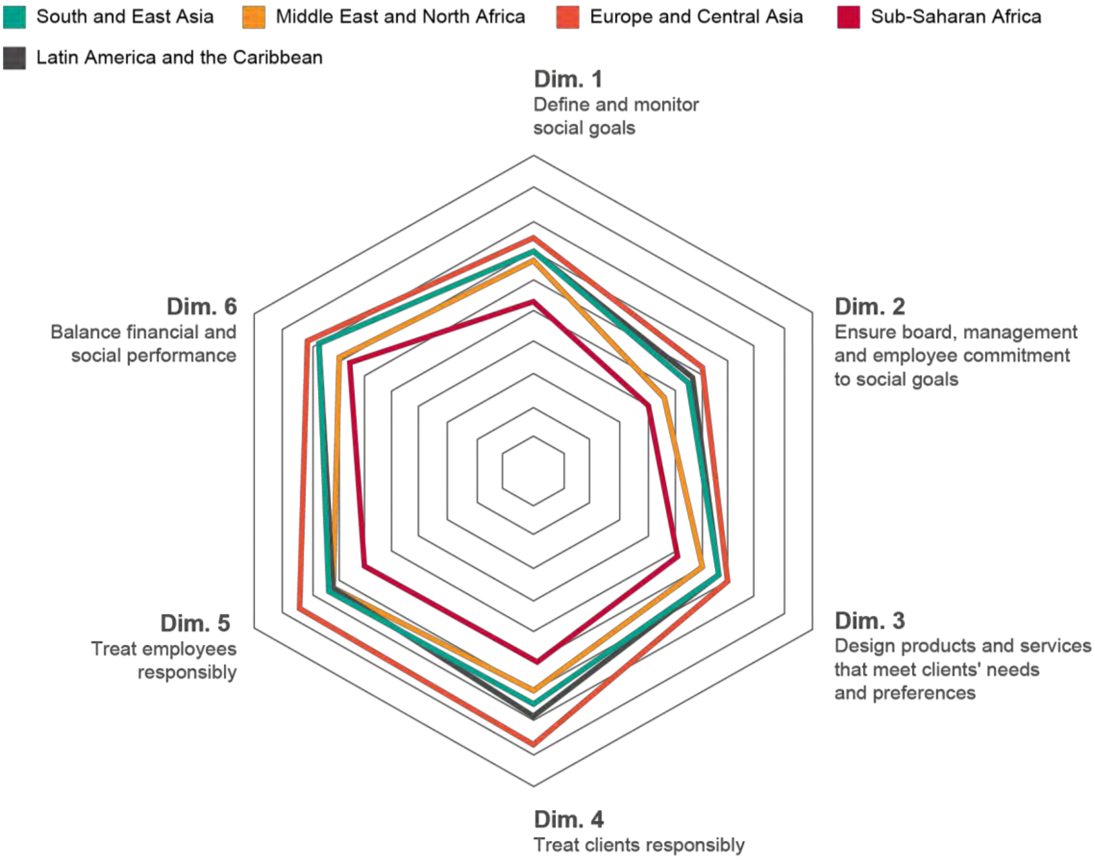
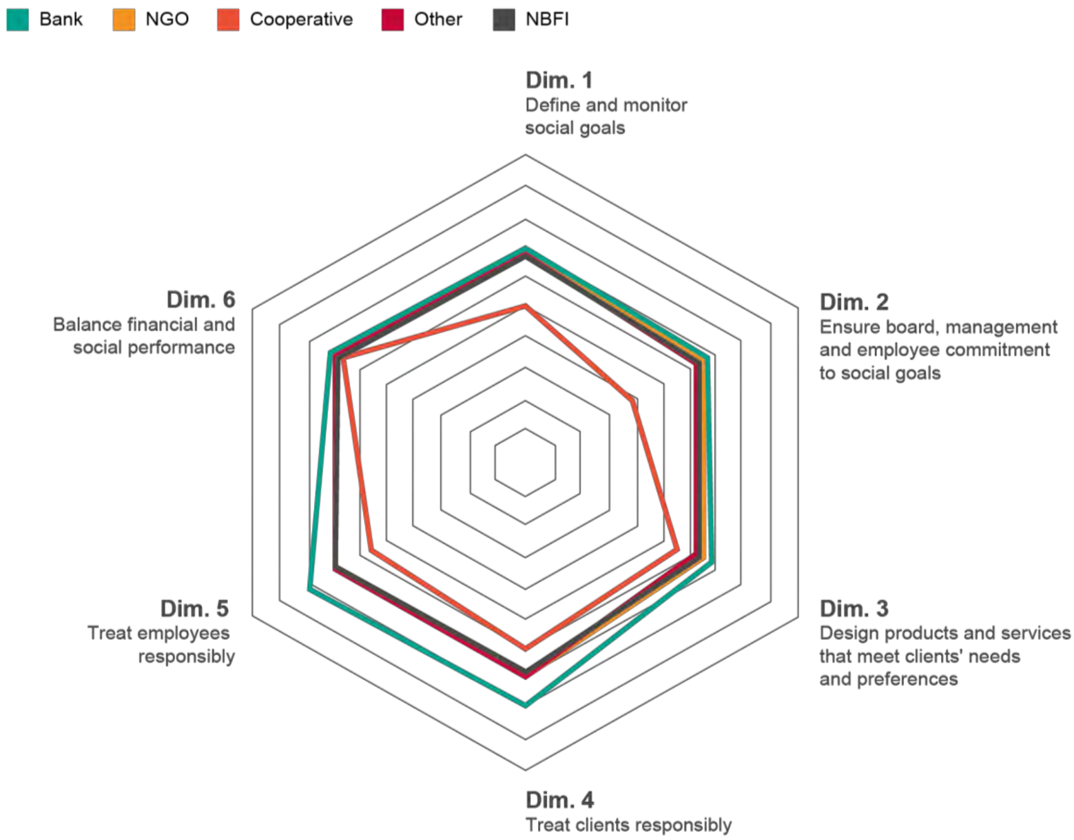


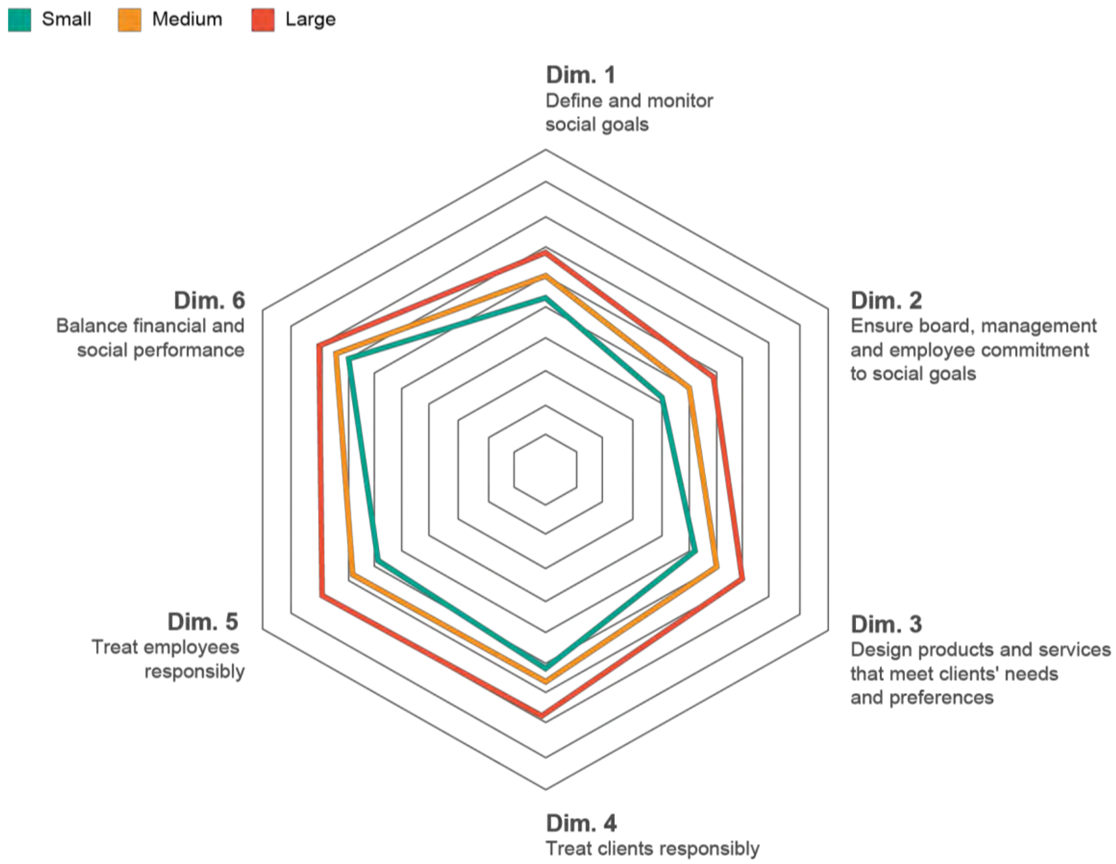
Figure 20. Scores per dimension according to the legal form



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

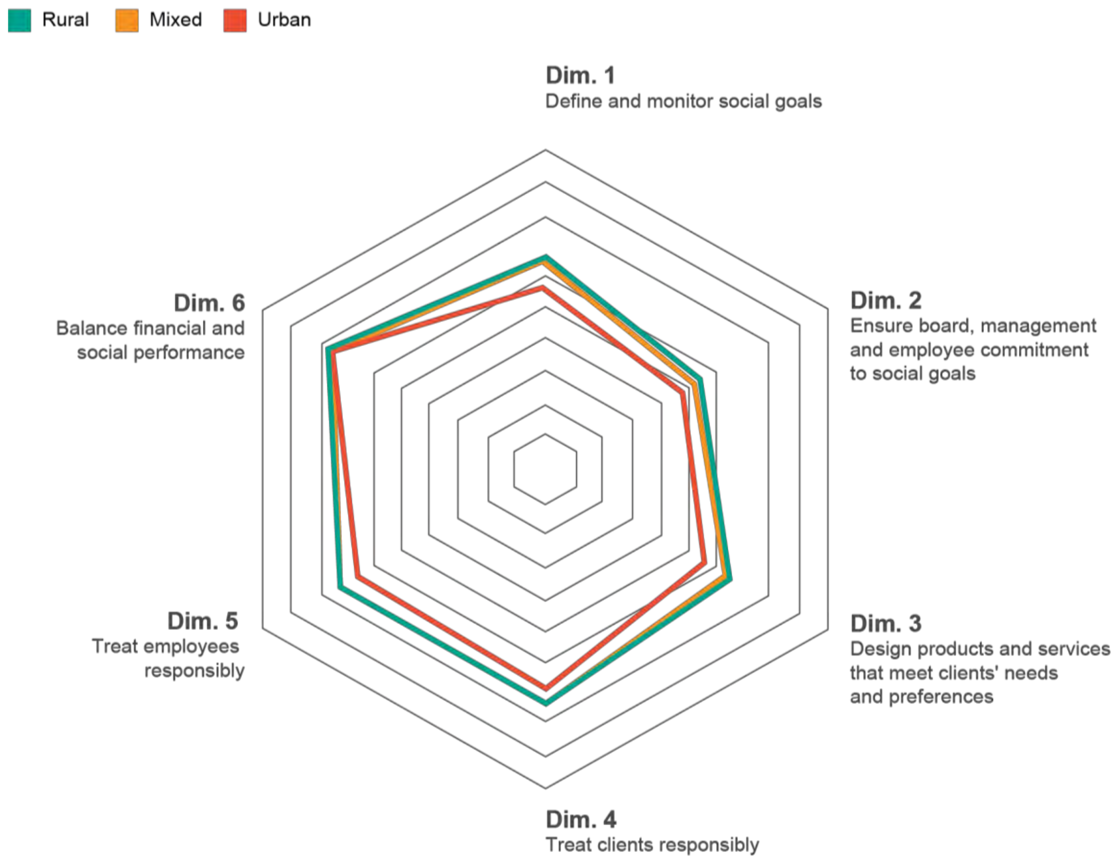
As far as dimension 6 is concerned, then this remains the strongest dimension, with the exception of the banks and for the MFIs in Europe and Central Asia and the MENA region. In fact, they all obtain a better score for dimension 4 than they do for dimension 6, and the MFIs in Europe and Central Asia also obtain a better score for dimension 5. These high scores for dimension 4 show that a large number of MFIs have integrated the Client Protection Principles and, once again, this may be due to the existence of a more demanding regulation of these questions for the banks or in certain regions.

Figure 21. Scores per dimension according to size



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

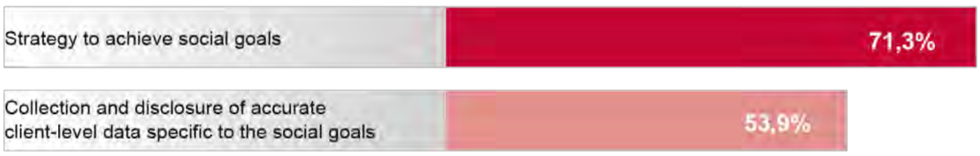
Figure 22. Scores per dimension according to target area



SCORES PER STANDARD

The scores obtained per dimension are, themselves, the average of the scores obtained for each standard which composes the dimension. The same reservation related to the comparability of the scores per standard is also applicable to the scores per dimension; however, an analysis of the scores per standard makes it possible to go further in the identification of the strengths and weaknesses of the institutions[10].

Figure 23. Dimension 1: Define and monitor social goal

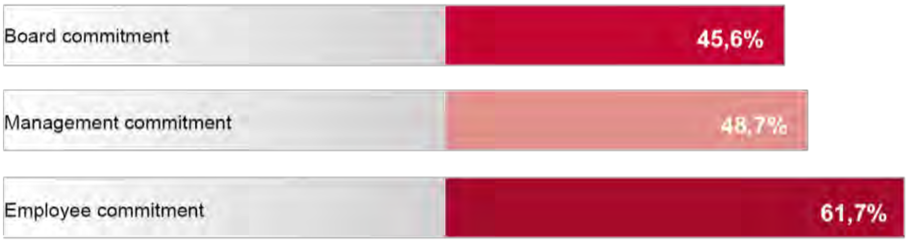


Therefore, for the first dimension, the strategy to achieve the social goals is relatively well defined on average, with targets which are often clearly identified, as are the means mobilised to respond to their needs, even if the definition of the expected changes for these targets and indicators of the results is more problematic (practice 1A3).

[10] The scores per essential practice (a lower level in the hierarchy) may be consulted in Annex 2.

However, the collection, analysis and reporting of client data regarding these social goals is often missing. This may be due, notably, to a lack of capacity within the management information system, which does not allow for the centralisation of the information about the clients, so that this information remains on paper and cannot be analysed, or may even simply be the result of the inadequate collection of client data, regardless of the form in which this information is stored. The MFIs probably require support to define the indicators to be followed and the method to be used to collect, centralise and analyse this information.

Figure 24. Dimension 2: Ensure commitment to the social goals



Turning to the second dimension, it would appear that the Boards of Directors have yet to fully integrate the social goals within their management practices; in particular, holding the managing director accountable for the achievement of the social goals is not yet current practice (practice 2A3[11], which has the lowest average score). The same observation may also be made for the managing director, who rarely holds senior managers accountable for the achievement of the social goals (practice 2B3). This can be explained, in particular, by the fact that these social goals are rarely clearly defined and therefore are not part of the objectives on which the managing director and the senior managers are assessed.

Figure 25. Dimension 3: Design adapted products and services

The scores for the third dimension suggest that the MFIs encounter greater difficulties in understanding the needs and preferences of the different types of clients, in other words the practices implemented to collect information about the needs and the preferences per type of client, than they do in designing products and services containing features which have been adapted to a vulnerable client base and which therefore benefit the clients. The lowest score for this standard is related to the failure to carry out client surveys on a systematic basis, notably market studies or satisfaction surveys, as well as the failure to distinguish between the different types of clients in the analysis of the needs (client segmentation). In other words, it would appear that the MFIs have not yet fully integrated a highly client-centric approach when defining their products. However, whilst this type of survey represents a cost in the short term for the MFIs, it has the potential to enable them to gain a better understanding of demand and to adapt their provision accordingly. It is probable that there is a need for both technical and financial support for these elements.

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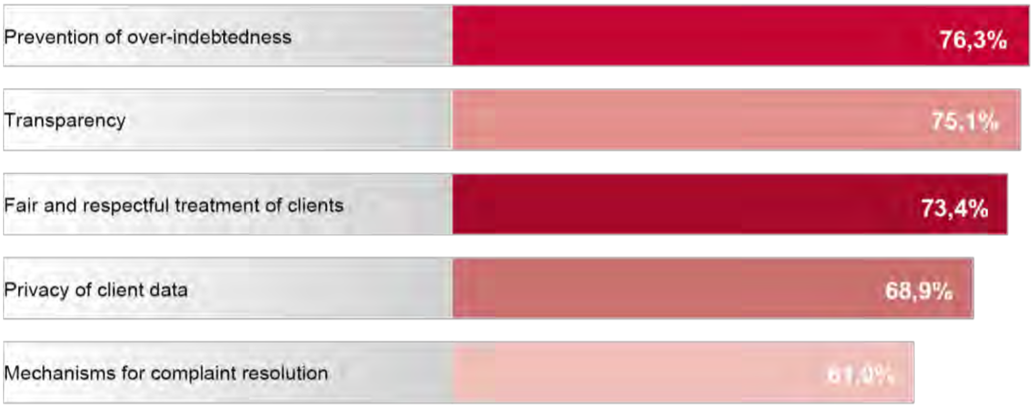
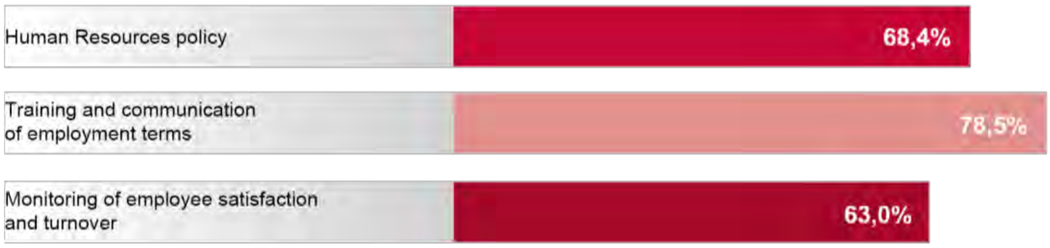
[11] The scores per essential practice may be consulted in Annex 2.

Figure 26. Dimension 4: Treat clients responsibly



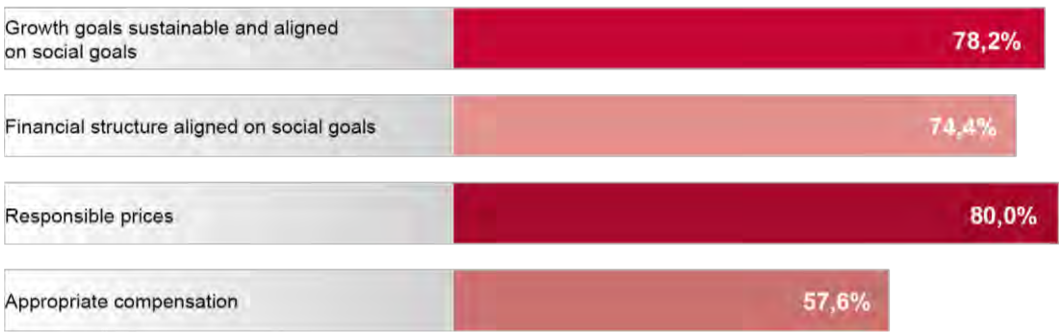
With regards to the fourth dimension, which includes a certain number of the Smart Campaign's Client Protection Standards, the prevention of over-indebtedness is the standard most respected by the MFIs, whilst the establishment of a mechanism for complaints resolution is rarer. The MFIs also perform fairly well with regards to transparency, whilst it would appear that they find it more difficult to ensure the privacy of client data.

Figure 27. Dimension 5: Treat employees responsibly



With regards to treating employees responsibly, the human resource policy is not always formalised or clearly defined, and it is even rarer for employee satisfaction to be monitored and analysed.

Figure 28. Dimension 6: Balance financial and social performances



Finally, whilst the scores obtained for responsible pricing and the alignment of the growth rate and the financial objectives with the social goals contribute to the good scores achieved for dimension six, the standard related to the remuneration of the senior management in a way which is consistent with the social goals, obtains a lower score. However, as previously mentioned, certain aspects of this dimension, notably responsible pricing, are possibly poorly analysed and overestimated. This means that the good scores obtained for this dimension do not necessarily reflect the existence of good practices.

Evolution of the scores from one audit to the next

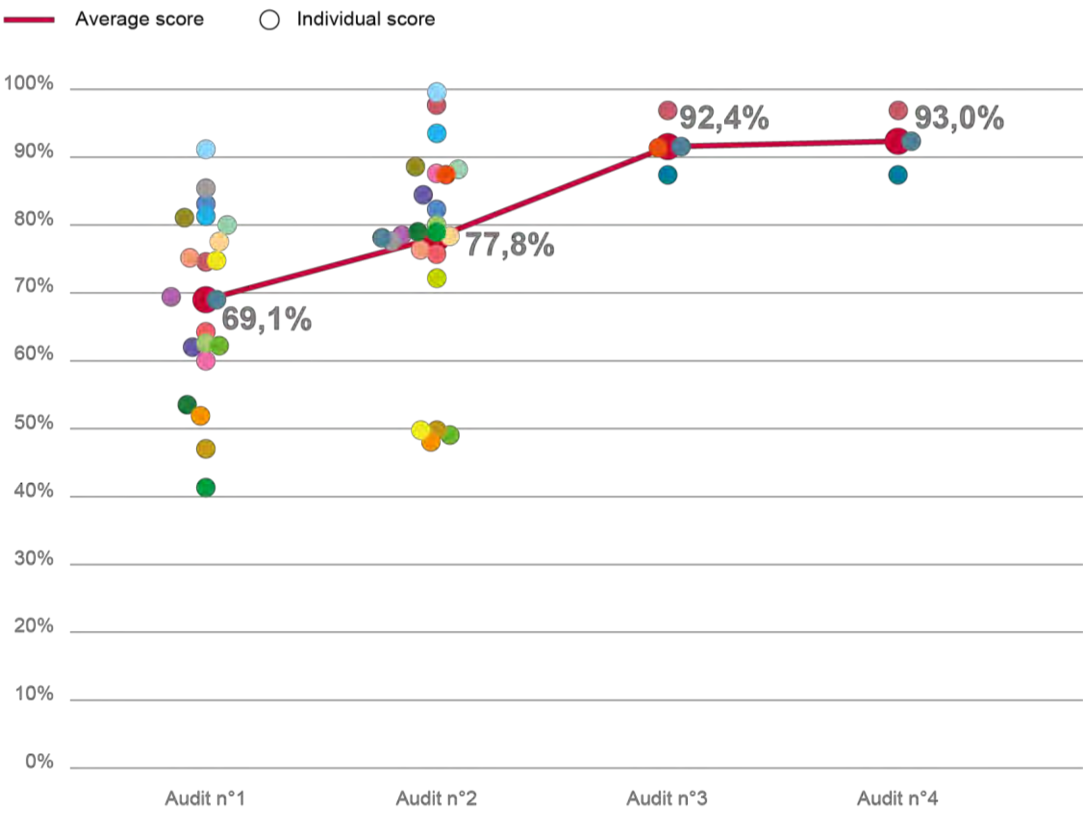
For the MFIs which have carried out several SPI4 audits, it is possible to observe their scores over time. In this sample (high quality audits), 29 MFIs have performed several audits: 23 have performed 2, 4 have performed 3 and 2 have performed 4 audits.

For the MFIs which have performed several audits, the average score for their first audit is 69.1%, compared to 63.6% for the MFIs which have only submitted one audit[12]: it would seem, therefore, that the MFIs which perform several audits already have a better score starting from their first audit, which suggests that they are, without doubt, already more invested in social performance management and more motivated to assess their progress in this area.

Thereafter, the average of the scores recorded by the MFIs which have performed several audits increases from one audit to the next; only five MFIs have seen their score fall between the first and the second audit. In the five cases, the second audit was of a better quality than the first, and for three of them, the second audit was performed by a qualified auditor, which was not the case for the first audit. It is therefore possible that this fall in the scores reflects an increase in the requirement level, rather than a deterioration of the practices.

Generally speaking, the increase in the scores from one audit to another means that between two audits the MFIs have implemented actions based on recommendations made during the previous audit, which has enabled them to improve their social performance management. Therefore, it would appear, at least for the MFIs which have performed several audits, **that the use of the SPI4 as a social audit tool really has encouraged the improvement and the formalisation of practices**.

Figure 29. Evolution of the scores over several audits



[12] The difference is significant to 10%.

III. POTENTIAL SYNERGIES BETWEEN THE PERFORMANCES

The definition of the Universal Standards of Social Performance Management and the development of the SPI4 tool reminds us that, as well as ensuring the required level of financial performance and sustainability, microfinance institutions are also expected to provide themselves with the means to achieve their social mission. However, as the sector develops, there is a tendency for the expectations placed on financial service providers to expand and multiply. Looking beyond social performance management, there is an increasing demand, for example, for the institutions to be as transparent as possible. On the other hand, certain institutions believe taking account of climate change and environmental protection should be an integral part of their mission, since the vulnerable populations, namely their clients, are the most likely to be negatively impacted by climate change. Today, these institutions are therefore also concerned with their environmental performance.

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

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

SOCIAL PERFORMANCE AND TRANSPARENCY

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

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

The average transparency score for the MFIs in the sample is 69.7%.

Figure 30. Transparency scores per region

The transparency index is closely correlated to the global social performance score, which is not surprising given that it is an extraction of it. Thus, the weakest MFIs in terms of social performance management also appear to be the least transparent according to this index: the MFIs in sub-Saharan Africa, cooperatives and the smallest MFIs all obtain the lowest scores for transparency.

Figure 31. Transparency scores according to the legal form

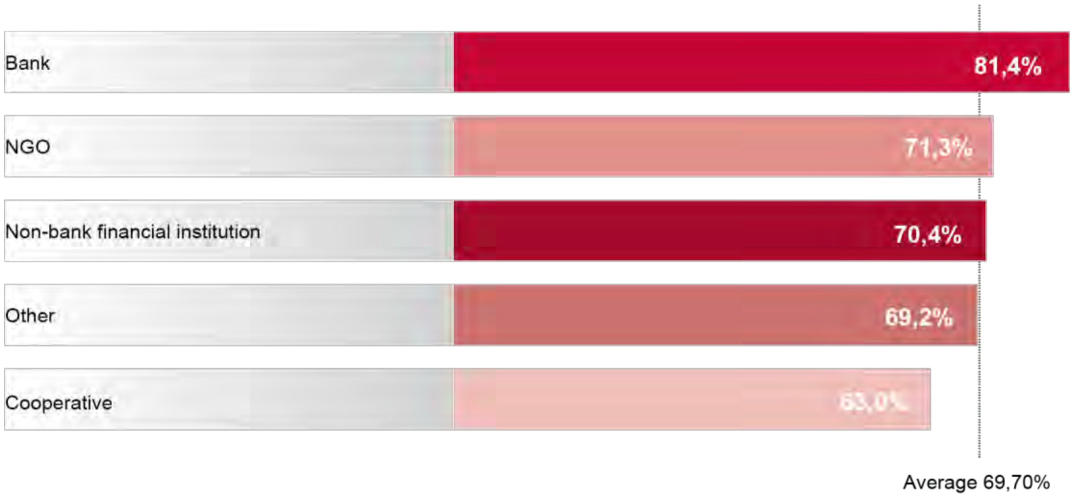
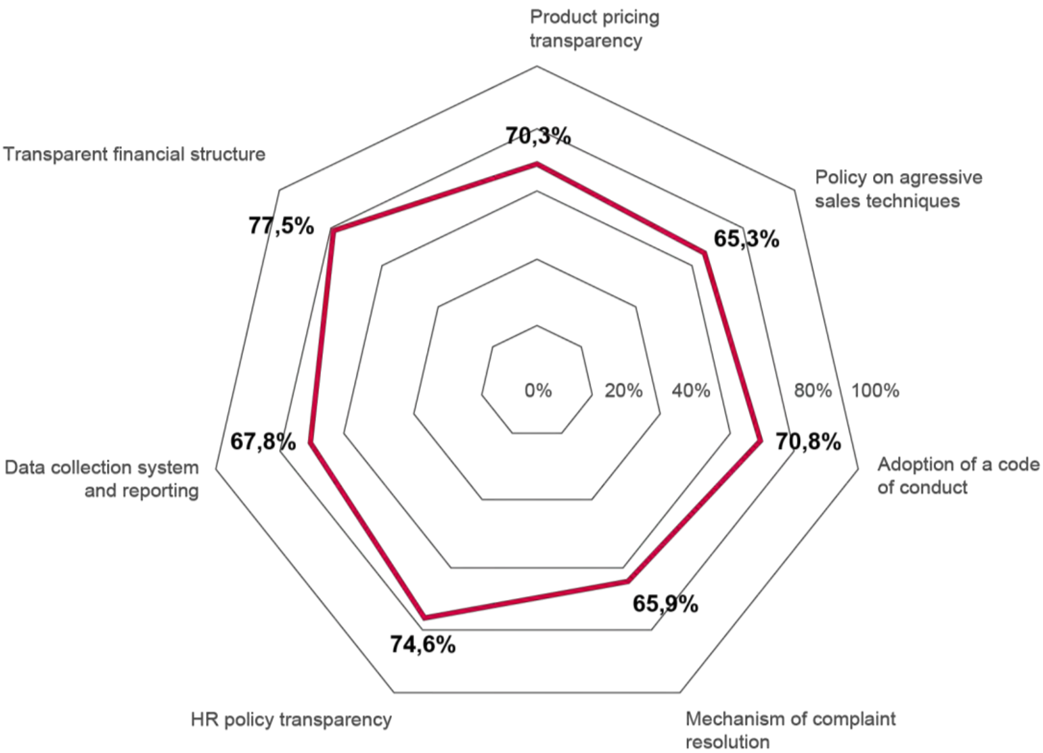


Figure 32. Transparency scores according to portfolio size

The index may be broken down into seven components. As is the case for the dimensions of social performance management, these components have not been established in exactly the same way and therefore their comparability is limited. Nevertheless, looking at the scores for each of these seven components of the index (Figure 33), can, once again, help to identify the transparency practices which are the most widespread and those which appear to be more difficult to implement and which may therefore require specific support.

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

Figure 33. Transparency scores per component



A breakdown of the scores per component per type of MFI reveals even wider differences.

Figure 34. Transparency scores per component according to region

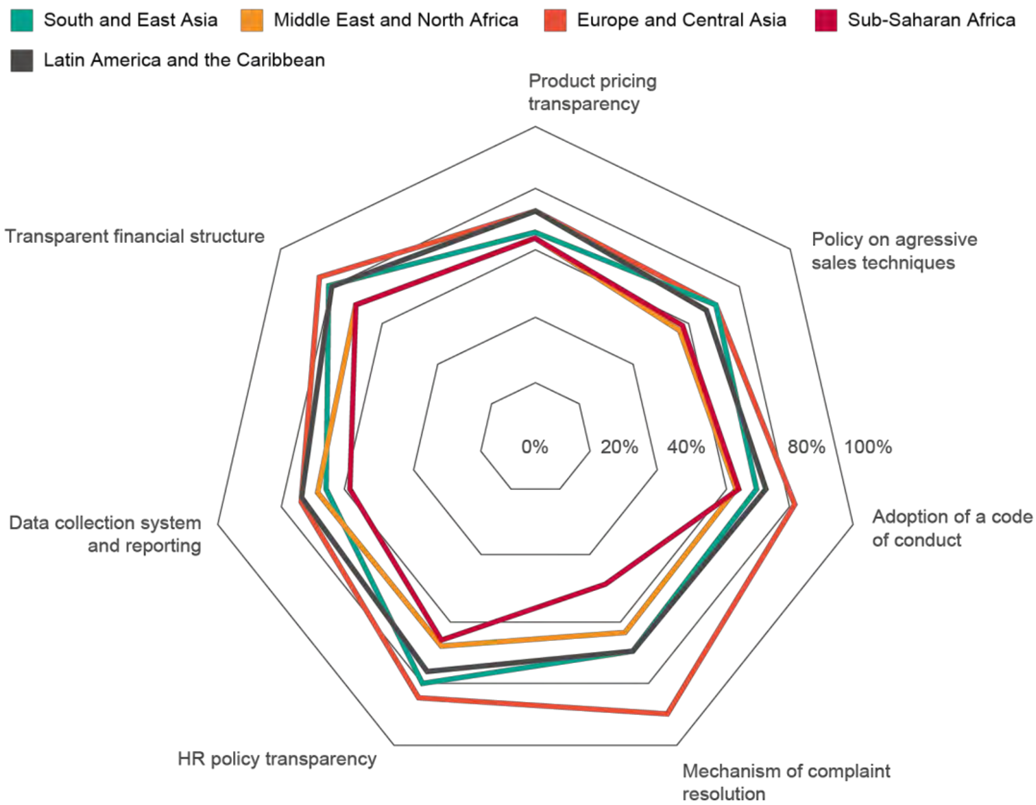
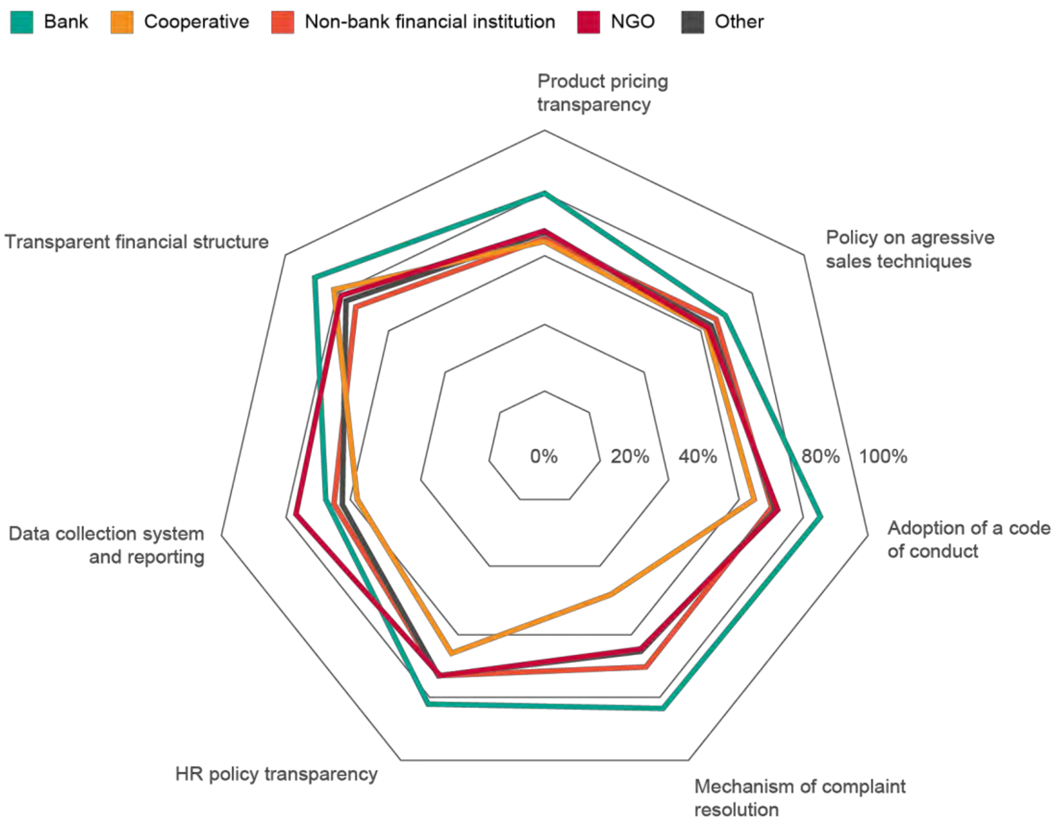


Figure 35. Transparency scores according to portfolio size

Figure 36. Transparency scores according to the legal form



We can see that there are fewer differences between the MFIs with regards to price transparency and the prevention of aggressive sales, than there are in relation to mechanisms of complaint resolution or the reporting of social data.

In particular, whilst the MFIs in the MENA are amongst the least transparent for the majority of the components, they are amongst the best performers in terms of the reporting of social data.

Similarly, the NGOs are also the most transparent in terms of the reporting of social data, although their scores for the other components are rather average. The cooperatives are amongst the most transparent with regards to their audited accounts, but they are the least transparent in terms of the other components.

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

SOCIAL PERFORMANCE AND ENVIRONMENTAL PERFORMANCE

Today, a certain number of institutions believe that taking climate change and environmental protection into account is an integral part of their social mission.

The SPI4 tool includes a module which enables MFIs which use the tool to assess their environmental performance. This module contains the four dimensions of the Green Index, which has been developed by the Environment Action Group of the European Microfinance Platform. Unlike the transparency index, which is integrated within the SPI4's core questionnaire, this environmental module is optional, which means that only the MFIs which choose to complete it will obtain a score for a seventh dimension which is dedicated to environmental performance.

In our sample of high quality audits, 28% of the MFIs (85 MFIs out of 302) have completed this optional module, which indicates that 28% of the MFIs express an interest in their environmental performance and wish to engage, or are already active, in this area.

These MFIs present several specific characteristics: in comparison to our sample of high quality audits, MFIs from Europe and Central Asia are represented to a relatively higher degree amongst the MFIs which assess their environmental performance, and this is also the case for MFIs which target rural areas only and banks, whilst cooperatives and MFIs which target urban areas only are relatively fewer in number. The details of these differences may be consulted in Annex 3. Some of these differences are not surprising: it is logical for the MFIs which target rural areas to be more concerned with the issue of climate change, since it affects these areas in particular; as far as the banks are concerned, they probably have more capacity and greater incentives to take action on these issues. On the other hand, the over-representation of the Europe and Central Asia area seems more difficult to explain.

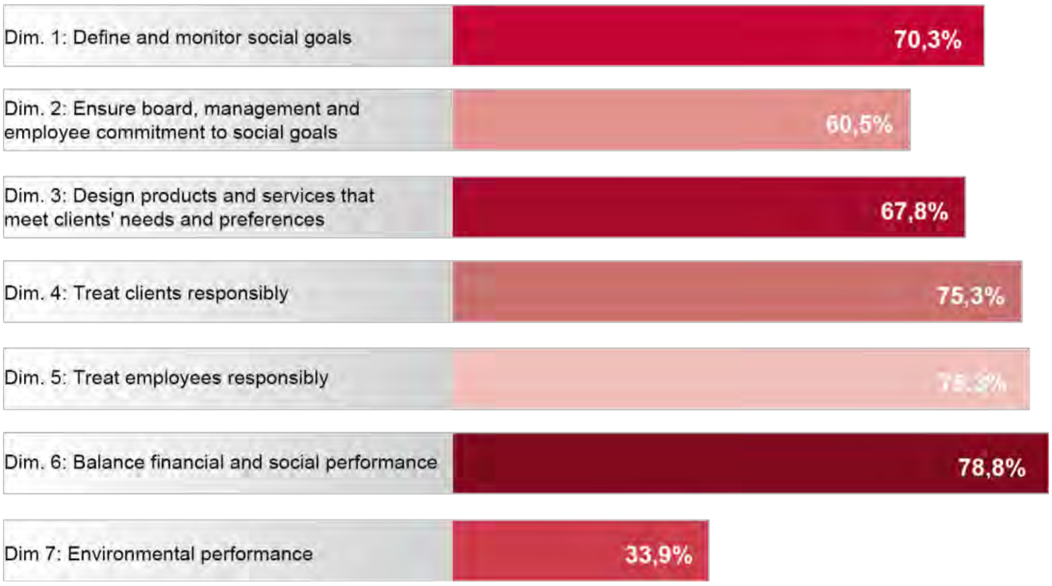
Generally, the MFIs which assess their environmental performance have better than average social performance practices: their global SPI4 score is 71.5%, versus 63.1 % for the others and 65.4% for all IMFs[13]. It is clear, therefore, that the MFIs which are the most invested in terms of their social performance management are those which are the most concerned by their environmental performance.

[13] The difference remains significant in an analysis by linear regression which includes the target area and the legal form as control variables.

Figure 37. Social performance of the MFIs which assess their environmental performance

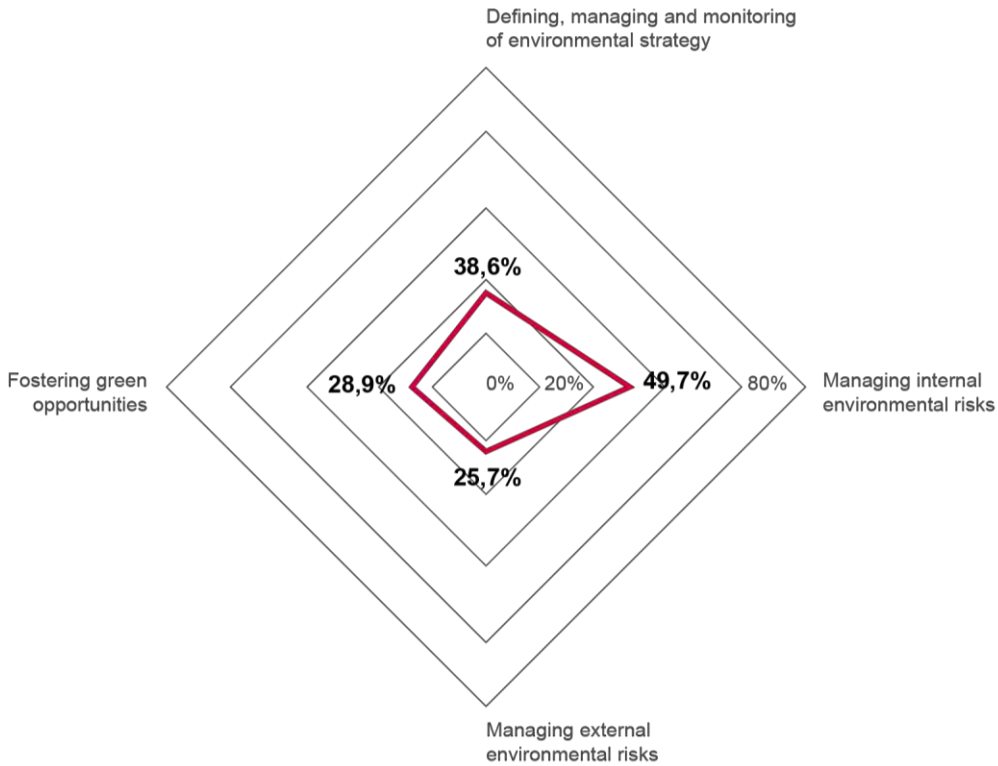
On the other hand, when we observe the scores per dimension, their level of environmental performance remains low compared to the other dimensions, with an average score of 33.9% for the environmental dimension. This would seem to reflect a need for support on these issues.

Figure 38. Social performance per dimension of the MFIs which assess their environmental performance



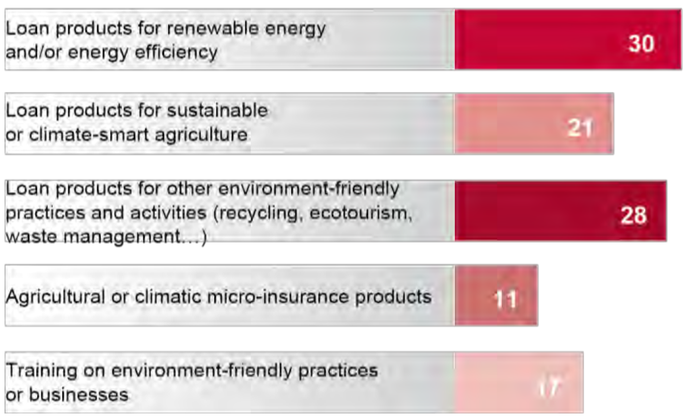
If we look closely at each of the four pillars of the Green Index, we see that the MFIs which are concerned with their environmental performance have rarely clearly defined their environmental strategy, given that the average score for this pillar is 38.6%. The MFIs would appear to perform to a higher level, on the other hand, in terms of the management of internal environmental risks (49.7%), in other words in relation to the implementation and monitoring of measures designed to reduce the institution's ecological footprint. This demonstrates the MFIs' awareness of these issues and the efforts which have been implemented internally to address these concerns in practical terms. In contrast, they do not perform so well with regards to the management of external risks, in other words the assessment and prevention of the environmental risks of their clients' activities (25.7%).

Figure 39. Environmental performance per pillar



Similarly, the provision of green financial and non-financial services would not yet appear to be highly diversified (Pillar 4: The provider fosters green opportunities - 28.9%): in our sample, the mostly widely offered green financial service is the provision of loans to finance technologies related to renewable energy and/or energy efficiency, followed by loans for environmentally-friendly activities (recycling, waste management, clean water, etc.). Loans for sustainable agriculture, agricultural micro-insurance and non-financial green services are less common.

Figure 40. Number of MFIs offering green products and services



This suggests that good practices in this area have not yet been well integrated by the institutions and/or that they are more difficult to adopt. There is no doubt that MFIs require support in this area.

SOCIAL PERFORMANCE AND FINANCIAL PERFORMANCE

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

Four studies in particular have already been published on the links between social performance management and financial performance[14], although none of them have used the Universal Standards of Social Performance Management as a basis to define social performance management. Bédécarrats, Baur, & Lapenu (2012) base their work on an old version of the SPI tool, which is not aligned with the Universal Standards defined in 2012 and integrated within the SPI4 tool in 2014. Therefore, the present study is the first to examine the potential links between financial performance and social performance management as defined in the Universal Standards, which are today considered to be the point of reference in this field.

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

- The operating expense ratio (OER[15]), which is an indicator of efficiency;
- The portfolio at risk at 30 days (PAR30[16]), which is an indicator of the quality of the portfolio;
- Operational self-sufficiency (OSS[17]), which makes it possible to estimate sustainability;
- The return on assets (ROA[18]), which makes it possible to estimate profitability.

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

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

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

[15] OER = operating expenses/average gross loan portfolio.

[16] PAR30 = (outstanding balance on arrears over 30 days + renegotiated loans)/total outstanding loan portfolio.

[17] OSS = operating revenue/ (financial expense + loan-loss provision expense + operating expense)

[18] ROA = net income/average value of assets.

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

Figure 41. OER according to the SPM score (average and variation)

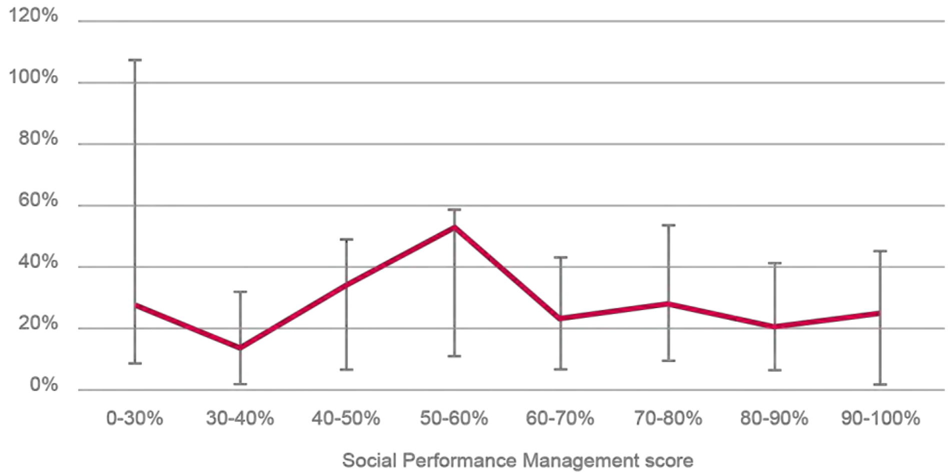


Figure 42. PAR30 according to the SPM score (average and variation)

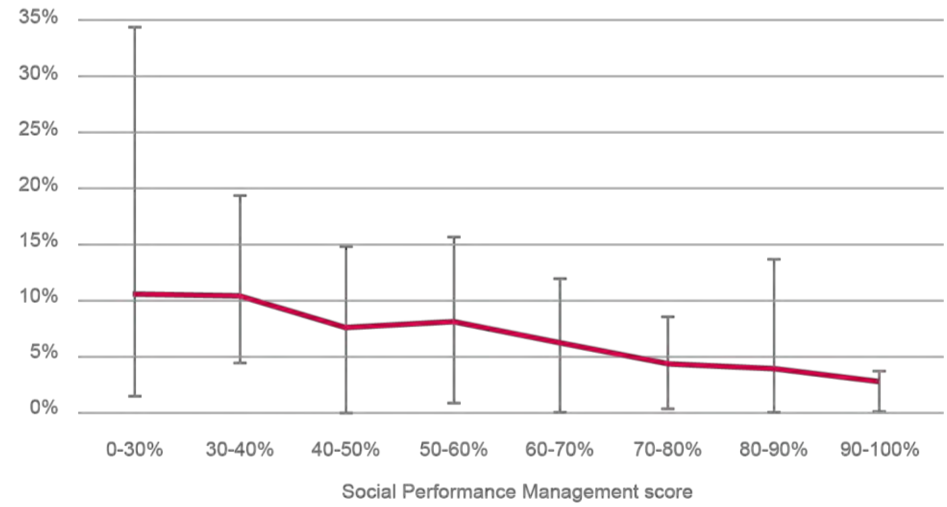


Figure 43. ROA according to the SPM score (average and variation)

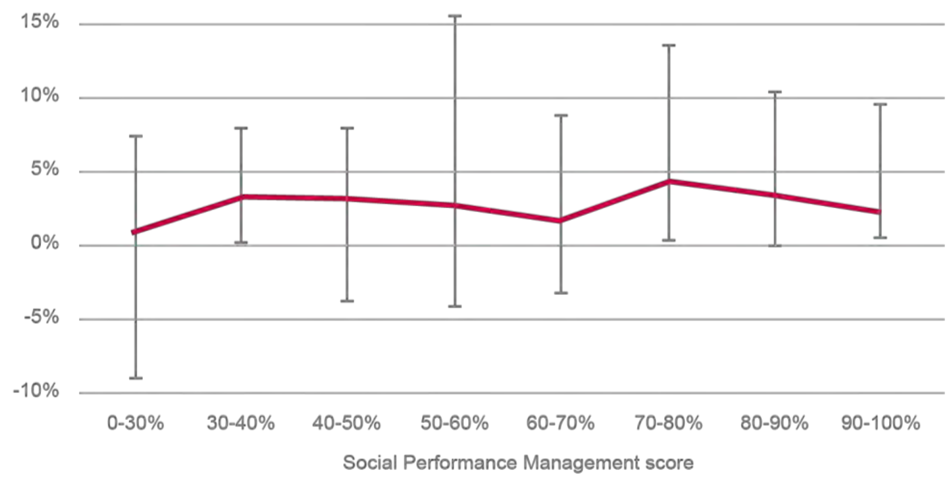
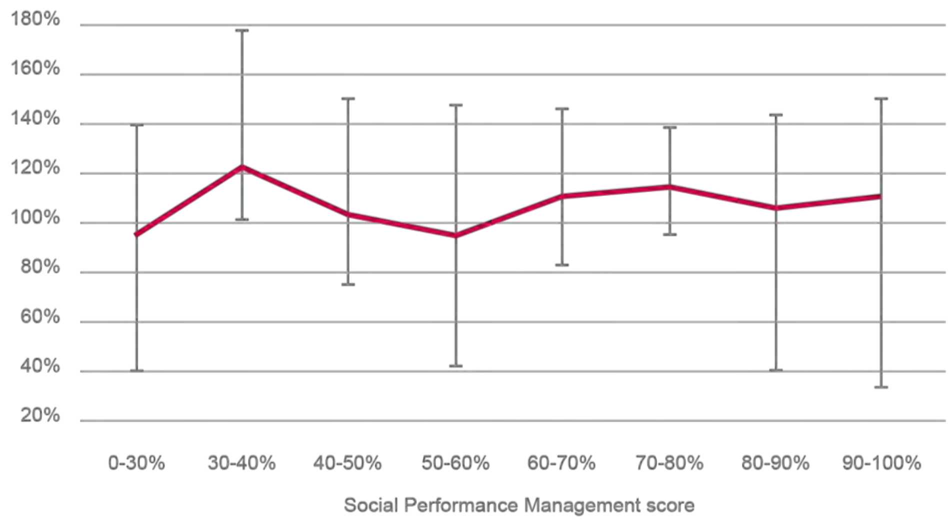


Figure 44. OSS according to the SPM score (average and variation)



The efficiency (OER), sustainability (OSS) and profitability (ROA) indicators change in a variable way with the social performance management scores, regardless of whether we observe the average of these indicators or the first and the ninth deciles[19], which give an indication of the variability of these indicators in our sample. We can therefore see that there may be institutions which have high levels of ROA or OSS at several levels of good social performance management practices, and that the institutions with the highest level of operating expenses are not those which have the highest SPM scores. There does not seem, therefore, to be any linear relationship in one direction or another between good social performance management practices and these indicators, which are affected by other factors.

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

However, all of these descriptive statistics combine institutions which are very different. In order to refine the analysis of the links between social and financial performance, it is possible to analyse the potential correlations between social performance and financial performance, taking into account a certain number of factors which are probably other key elements of financial performance, thanks to an analysis by multivariate linear regression[20]. This is also the approach adopted by the authors of the previously mentioned studies.

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

[19] To represent the variability, the first and ninth deciles are preferred to the minimum and maximum values, which are often extreme and specific values which are not especially highly representative.

[20] The linear regression models of the analysis are estimated using the ordinary least squares method. This is also the most common method used in the other, previously mentioned, applied studies. The results presented are those taken from the models which include all of the available audits from the sample, including cases in which the MFI has performed several audits (the model used relaxes the assumption of independence of observations). The results are robust if only the last audit performed by an institution is included in the models.

Cerise. Furthermore, data on the investments made by the institutions to improve their practices, which would be useful for this study, does not exist.

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

Social performance management and sustainability

As a first step, the links between the institution's social performance management and its sustainability are analysed by taking into account the potential effects of other factors which may determine the institution's profitability, namely the age of the institution, the size of its portfolio, the size of its average loan as a percentage of the GNI per capita, the region, the legal form, the target area.[21] These factors are then included as control variables in the estimation of the OSS, in accordance with what the authors of the other studies on this subject do[22].

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

Social performance management and profitability

In the second step, the same analysis is performed with the profitability indicator. The ROA is estimated by linear regression by assessing all of the same factors previously assessed. This time, the results show that, all of these other factors being equal, namely for MFIs with the same portfolio size, the same average loan size, the same age, the same region, the same legal form and the same target area, the social performance management does seem to be correlated with the ROA: the effect of the global social performance management score is statistically significant. However, as shown in Figure 45, which represents the effect of the SPM score on the ROA, net of the effect of the control variables, the observed relationship is not linear. The same result may be observed in the study carried out by Perez-Rocha et al. (2014).

Thus, the estimation of the ROA indicates that, for low SPM scores (below 65%, in other words below the average and the median score), the ROA increases as the SPM decreases. This may be explained, in part, by the fact that MFIs which have a very high ROA probably put their financial goals before their social goals and therefore give little consideration to social performance management. This situation may also be interpreted as follows: investing in social performance management may initially be expensive when starting from scratch.

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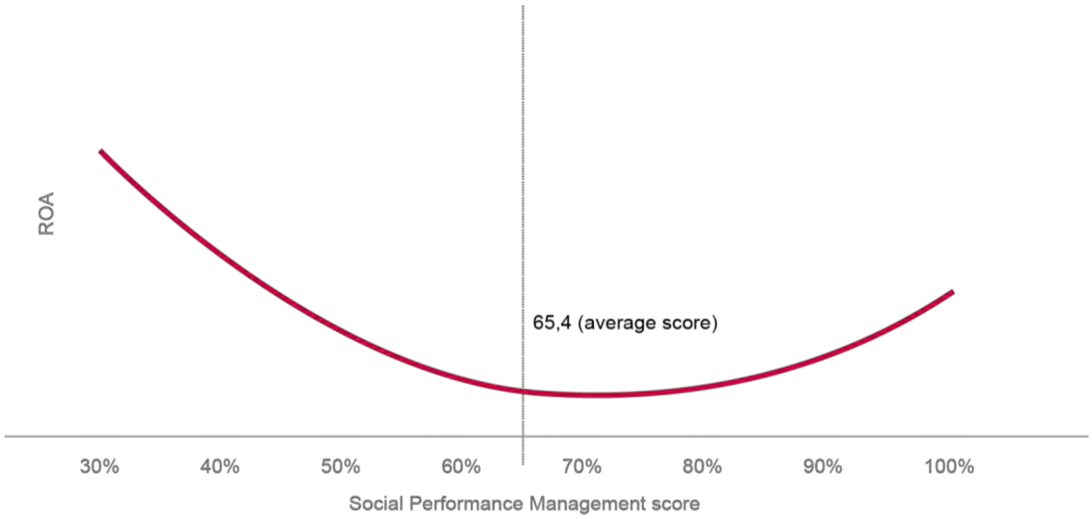
[21] The status has not been included since it is closely correlated to the legal form.

[22] Bédécarrats et al. (2012) use the following as controls: age, size, for-profit or not-for-profit status and the target area; Gonzalez (2010) uses age, the volume of savings as a percentage of the portfolio, the size of the average loan as a percentage of the GNI per capita, the ratio of savers to borrowers, the proportion of individual loans, the proportion of clients in urban areas; Husain & Pistelli (2016) use size, Perez-Rocha et al. (2014) use the portfolio yield, age, the operating expense ratio, the reserve ratio to cover the PAR30, the region.

Figure 45. Profitability according to social performance management score (predictions)



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

By breaking down the global SPM score into scores by dimension and/or standard, we can see that this significant non-linear relationship is driven, notably, by the scores for dimensions 1 and 2, in other words by the definition and monitoring of social goals and ensuring the commitment of the stakeholders, particularly the Board and the management, to the social goals. The analysis of the needs and preferences of the clients (standard 3A) is correlated negatively to the ROA. Conversely, there would not appear to be a positive or negative relationship between the ROA and the other dimensions or standards.

Score per dimension/standard	Correlation with the ROA
Dim. 1: Define and monitor social goals	**negative** then **positive**
Dim. 2: Ensure commitment of the Board (2A) and of the management (2B) to the social goals	**negative** then **positive**
Standard 3A: Analyse the needs and preferences of the clients	**negative**

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

Social performance management and the portfolio at risk

In order to determine whether the relationship observed in terms of descriptive statistics between social performance management and portfolio quality withstands the integration of control variables, the risk portfolio is estimated using the same method and the same control variables as those used in the analysis of the ROA[23]. The results confirm the hypothesis that, all things being equal, in other words for the MFIs which have the same characteristics, the higher the SPM score, the lower the portfolio at risk. The relationship is statistically significant[24] and linear.

Figure 46. Portfolio at risk (PAR30) according to social performance management score (predictions)

This time, the relationship remains significant for each of the six dimensions and each of the 19 standards, even though the effect is greater for certain standards.

Score per dimension *(standards having the greatest effect in brackets)*	**Correlation with the portfolio at risk**
Dim. 1: Definition and monitoring of social goals	**negative**
Dim. 2: Commitment to social goals *(2C: commitment of the employees)*	**negative**
Dim. 3: Products and services designed to meet clients' needs *(3B: products designed to meet needs of vulnerable clients)*	**negative**
Dim. 4: Treat clients responsibly *(4C: fair and respectful treatment of clients)*	**negative**
Dim. 5: Treat employees responsibly	**negative**
Dim. 6: Balance financial and social performance *(6A: growth rates that are in keeping with the social goals; 6C: responsible pricing)*	**negative**

[23] Only the target area has not been included in the control variables, since the model estimated without this variable is more informative than it is with the variable.
[24] The coefficient of the SPM score is significant to 1%.

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

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

However, in order to compensate for the current lack of data and to complete the analysis, five institutions which are particularly invested in social performance management and have performed several audits, have been approached and asked questions about this subject[25]. These institutions, which are located in India, Pakistan, Ecuador, Peru and Bolivia, are all of a different size and have all obtained above average scores in their audits.

In response to the question regarding the potential links between their good social performance management practices and their financial performances, they all agree that their performances are affected by multiple factors and that it is difficult to identify the exact direct effect of a single factor on a specific aspect of their performances, which corroborates the non-significant results of the analysis of the OSS and the mixed results of the analysis of the ROA.

Despite this, these MFIs emphasise the benefits of good social performance management for their institutions: one states that "*having diversified products which meet with the clients' needs, treating them fairly, being able to count on employees who are committed to a certain quality of service, these are all key to increasing the organisation's income, profitability and sustainability.*" Another mentions that the increase in client retention between two audits *"may be explained by the fact that the size of the average loan increased between the two dates because [they] knew that [their] clients were not happy with the loan amounts granted."* Similarly, someone else commented that carrying out client surveys enabled them to "*create their market identity and to improve client satisfaction levels."* For this institution, performing the audit and the actions implemented subsequently "*have increased the transparency of the relationship between the organisation and the clients"* and *"have had a positive impact on the organisation's performance."* In fact, "*treating the employees and clients better increases productivity, satisfaction and motivation, as well as improving relationships."*

With regards to the question about the costs which may be entailed by the implementation of measures to improve the SPM, all of the institutions which were asked to supply a response agreed that rather than considering this approach to be a cost, they believe it to be an integral part of their strategy: it is rather *"a long-term investment which is intended to be of benefit to the clients and therefore to the organisation, since its growth will be sustained by motivated employees and satisfied clients."*

[25] Eleven of the institutions which have performed several audits were pre-selected on the basis of their geographical representativeness and good SPM scores and five were prepared to answer our questions.

CONCLUSION

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

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

- **The need for support** on questions related to social performance management remains significant, both in terms of the assessment of SPM on the one hand, or the improvement of practices on the other. Indeed, whilst the analysis shows that an increasing number of actors are using the SPI4 audit, which is positive in itself, the number of accompanied audits is tending to decline, even though independence continues to be a guarantee of quality. There would therefore appear to be both a need to support the financial service providers so as to improve their ability to take ownership of the audit and the related resources, so that they are able to perform regular audits internally, and also to train resource persons so that audits can be performed externally; although the external audits may take place less frequently, they will, nevertheless, guarantee a greater degree of transparency, especially in certain regions where very few audits are performed by qualified auditors. Furthermore, the scores show that certain SPM practices are more difficult to put into place than others: here, once again, there is a need to accompany the institutions in their efforts to improve their practices, notably in Africa, as well as the small institutions and the cooperatives, which obtain the lowest scores. The different facilities established by the SPTF, namely the RMF for Africa and the MENA region, the FFRI-CAC in Central America and RIFF-SEA in South-East Asia[26], provide at least a partial response to this need by delivering training and providing co-financing to carry out audits and/or to improve post-audit practices. Further initiatives which have similar intentions could be introduced to complement this approach in a coherent manner by carefully identifying the unmet needs. On the other hand, as is already the case in certain countries, good practices in social performance management could also be strengthened by incentive regulation: by integrating at least some aspects of GPS into their requirements, regulatory and supervisory bodies could encourage the evaluation and improvement of practices.
- **The adaptation of the tools and the standards** according to the evolution of the sector will ensure the participation of the highest possible number of actors in the long term. Thus far, the SPI4 has shown its flexibility by making it possible to assess only a selection of indicators, with the Alinus option which allows for adaptations to be made to the needs of the investors, or with the transparency index which makes it possible to assess a specific aspect of SPM, such as integrity; the SPI4 also includes optional modules, such as the Green Index, for the actors interested in a specific subject which is not included in the Universal Standards, but is linked to social performance. However, the standards themselves could be revised, perhaps together with the criteria which allow for their assessment, particularly if it appears that there is a need to make certain new good practices an integral part of the standards (the environmental dimension is currently raising questions along these lines) or if it appears that it is complex to assess certain practices as they are defined today (such as those related to dimension 6 in particular).

[26] Further information about these facilities is available here : https://sptf.info under the Resources tab

The principle of the revision of the standards and of their assessment tool already seems to have been accepted, since a second version of the standards was published in August 2016 (SPTF, 2016), although it is important to reiterate that this principle should continue to apply in the long-term.

- **The collection and analysis of data** on social performance management continues to be a major challenge to our efforts to gain a better understanding of the practices and of what is really at stake. Today, the existing database is incomplete and there is a risk that it may not be truly representative, given the bias inherent in its selection which is due to the fact that the information is shared with Cerise on a voluntary basis. Guaranteeing the confidentiality of the information is, of course, a major challenge that has to be managed, but it is not incompatible with the production of knowledge on the subject, which is something that the sector currently clearly requires. In fact, the lack of data, and particularly of longitudinal data, means that, today, it is not possible to accurately analyse the implications of the implementation of good social performance management practices in terms of operational costs or the evolution of financial performances (and, notably, any causal links, should they exist); regardless of the results, this data would make it possible to improve the preparation and support provided to the institutions on this subject. From a more general point of view, the fact that the database is not exhaustive means that it is not possible to accurately assess the degree of ownership of the standards and the implementation of the good practices, which means that these aspects are probably underestimated and therefore appear to have less of a ripple effect than might actually be the case. The future digitalisation of the SPI4 tool, which should allow for the more systematic collection of information on social performance management, is a first step towards improving the conditions for the production of knowledge: the future on-line platform for social and financial performance data, which has been developed by MFR[27], on which the institutions will be able to report and centralise their information, is a step in this direction. Nevertheless, these initiatives continue to be dependent on the willingness of the financial service providers to share their data and, from this point of view, a great deal work still needs to be done to raise awareness of the importance of transparency and the production of knowledge, both about, and for, the sector.

[27] For further information about this online platform, go to: https://www.mf-rating.com/products/data-platform/

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ANNEX 1. DIFFERENCES IN THE COMPOSITION OF THE DATABASES

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

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

	Entire sample (1)	Higher quality sample (2)	Lower quality sample (3)	Difference between (2) and (3)
Region				
Asia	28.5%	22.6%	46.3%	0.237***
Europe and Central Asia	3.9%	3.4%	5.6%	0.0219
Latin America and Caribbean	32.2%	36.7%	18.5%	-0.182***
Middle East and North Africa	4.1%	5.2%	0.9%	-0.0427
Sub-Saharan Africa	31.3%	32.1%	28.7%	-0.0341
Legal form				
Bank	9.9%	7.3%	17.6%	0.103**
Cooperative	18.4%	21.1%	10.2%	-0.109*
Non-bank financial institution	32.2%	30.3%	38.0%	0.0769
NGO	23.2%	25.1%	17.6%	-0.0748
Other	16.3%	16.2%	16.7%	0.00459
Status				
For-profit	51.0%	44.3%	71.3%	0.270***
Not-for-profit	49.0%	55.7%	28.7%	-0.270***
Size				
Small	21.3%	26.3%	6.1%	-0.203***
Medium	23.8%	26.3%	16.2%	-0.102*
Large	54.8%	47.4%	77.8%	0.304***
Average loan (USD)	1,257	1,373	901	-472.2
Target area				
Mixed	15.0%	14.9%	15.4%	0.00484
Rural	51.7%	47.4%	64.4%	0.171**
Urban	33.3%	37.7%	20.2%	-0.176**
Observations	*435*	*327*	*108*	*435*
** p<0.05, ** p<0.01, *** p<0.001*				

ANNEX 2. SCORES PER ESSENTIAL PRACTICE

Table 2. Scores per essential practice

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

Dimension	**1**	**DEFINE AND MONITOR SOCIAL GOALS**	**62.6%**
Standard	**1 A**	**The provider has a strategy to achieve its social goals.**	**71.3%**
Essential practice	1 A 1	The provider's strategy includes a formal mission statement, which specifies increasing access to financial services for vulnerable or excluded target groups and creating benefits for these clients.	82.5%
Essential practice	1 A 2	The provider's strategy defines the specific characteristics of its target clients.	79.4%
Essential practice	1 A 3	The provider's strategy defines social goals, targets, and indicators to measure progress.	50.7%
Essential practice	1 A 4	The provider's strategy articulates how its products, services and delivery channels will achieve its social goals.	72.7%
Standard	**1 B**	**The provider collects and discloses accurate client data specific to its social goals.**	**53.9%**
Essential practice	1 B 1	The provider has a management information system and protocols for social performance data.	63.3%
Essential practice	1 B 2	If the provider states poverty reduction as one of its social goals, it monitors the poverty levels of its clients using a poverty assessment tool.	34.8%
Essential practice	1 B 3	If the provider states responsibility to the environment as one of its social goals, it defines and implements an environmental strategy.	25.6%
Essential practice	1 B 4	The provider analyses and reports social performance data internally and externally.	67.8%
Dimension	2	**ENSURE BOARD, MANAGEMENT AND EMPLOYEE COMMITMENT TO SOCIAL GOALS**	**52.0%**
Standard	**2 A**	**Members of the board of directors hold the provider accountable to its mission and social goals.**	**45.6%**
Essential practice	2 A 1	The provider orients board members on the social mission and goals, and the board's social performance management responsibilities.	59.0%
Essential practice	2 A 2	The board uses social performance data to provide strategic direction, taking into account both social and financial goals.	46.6%
Essential practice	2 A 3	The board holds the CEO/managing director accountable for making progress toward the provider's social goals.	33.0%
Essential practice	2 A 4	The board is responsible for preserving the provider's social mission during times of institutional change.	43.2%
Standard	**2 B**	**Senior management oversees implementation of the provider's strategy for achieving its social goals.**	**48.7%**
Essential practice	2 B 1	Senior management operationalizes the provider's social strategy.	54.4%
Essential practice	2 B 2	Senior management analyses and addresses social performance-related risks.	53.1%
Essential practice	2 B 3	The CEO/Managing Director holds senior managers accountable for making progress toward the provider's social goals.	38.5%
Standard	**2 C**	**Employee recruitment and evaluation is based on both social and financial performance criteria.**	**61.7%**
Essential practice	2 C 1	Employee job candidates are screened and hired for their commitment to the provider's social goals, and their ability to carry out social performance related job responsibilities.	54.0%
Essential practice	2 C 2	The provider trains and evaluates employees on both social and financial performance responsibilities related to their position.	65.1%
Essential practice	2 C 3	Employee incentives promote progress toward the provider's social goals.	54.4%
Essential practice	2 C 4	The provider incentivizes staff to approve quality loans. (Client protection standard 2.5)	73.1%
Dimension	**3**	**DESIGN PRODUCTS, SERVICES AND DELIVERY CHANNELS THAT MEET CLIENTS' NEEDS AND PREFERENCES**	**62.2%**
Standard	**3 A**	**The provider understands the needs and preferences of different types of clients.**	**53.5%**
Essential practice	3 A 1	The provider seeks information on clients' needs, preferences, and experiences for product design and delivery.	54.8%
Essential practice	3 A 2	The provider monitors the suitability of products, services and delivery channels. (Client Protection standard 1.2)	52.2%

Standard	**3 B**	**The provider's products, services and delivery channels are designed to benefit clients, in line with the provider's social goals.**	**71.0%**
Essential practice	3 B 1	The provider offers products and services that are suited to clients' needs. (Client Protection standard 1.1)	78.4%
Essential practice	3 B 2	The provider's products and services are designed to reduce barriers to financial inclusion for target clients.	86.9%
Essential practice	3 B 3	The provider's products and services are designed to reduce client risks.	62.3%
Essential practice	3 B 4	The provider creates benefits for clients by enabling them to invest in economic opportunities and address anticipated household needs.	58.6%
Essential practice	3 B 5	A policy and documented process are in place to prevent aggressive sales techniques and forced signing of contracts. (Client Protection Standard 1.3)	66.6%
Dimension	**4**	**TREAT CLIENTS RESPONSIBLY**	**71.0%**
Standard	**4 A**	**Prevention of Over-indebtedness**	**76.3%**
Essential practice	4 A 1	The provider has a sound policy and well-documented process for loan approvals and makes decisions using appropriate information and criteria. (Client protection standard 2.1)	75.6%
Essential practice	4 A 2	The provider uses credit reporting information, when feasible in the local context. (Client protection standard 2.2)	74.0%
Essential practice	4 A 3	The provider's senior management and board monitor the market and respond to heightened over-indebtedness risk. (Client protection standard 2.3)	68.2%
Essential practice	4 A 4	The provider maintains sound portfolio quality. (Client protection standard 2.4)	86.2%
Standard	**4 B**	**Transparency**	**75.1%**
Essential practice	4 B 1	Policy and documented process are in place to require transparency on product terms, conditions and pricing. (Client protection standard 3.1)	74.4%
Essential practice	4 B 2	The provider communicates with clients at an appropriate time and through appropriate channels. (Client protection standard 3.2)	76.6%
Essential practice	4 B 3	The provider takes adequate steps to ensure client understanding and support client decision making. (Client protection standard 3.3)	74.5%
Standard	**4 C**	**Fair and Respectful Treatment of Clients**	**73.4%**
Essential practice	4 C 1	The provider promotes and enforces fair and respectful treatment of clients in line with a code of conduct. (Client protection standard 5.1)	77.5%
Essential practice	4 C 2	The provider has policy and documented processes to avoid discriminating against Protected Categories in selecting clients and setting terms and conditions. (Client protection standard 5.2)	75.8%
Essential practice	4 C 3	Loans are collected by staff and collection agents in an appropriate manner. (Client protection standard 5.3)	75.3%
Essential practice	4 C 4	The provider has effective systems to prevent and detect fraud. (Client protection standard 5.4)	62.4%
Essential practice	4 C 5	The provider management and oversight support fair and respectful treatment of clients. (Client protection standard 5.6)	70.9%
Standard	**4 D**	**Privacy of Client Data**	**68.9%**
Essential practice	4 D 1	Client data is kept secure and confidential. (Client protection standard 6.1)	75.8%
Essential practice	4 D 2	Clients are informed about data privacy and consent to the use of their data. (Client protection standard 6.2)	63.0%
Standard	**4 E**	**Mechanisms for Complaints Resolution**	**61.0%**
Essential practice	4 E 1	The provider has an effective system in place to receive and resolve client complaints. (Client protection standard 7.1)	73.2%
Essential practice	4 E 2	The provider informs clients about their right to complain and how to submit a complaint. (Client protection standard 7.2)	56.5%
Essential practice	4 E 3	The provider uses information from complaints to manage operations and improve product and service quality. (Client protection standard 7.3)	53.4%
Dimension	**5**	**TREAT EMPLOYEES RESPONSIBLY**	**70.0%**
Standard	**5 A**	**The provider follows a written Human Resources policy that protects employees and creates a supportive working environment.**	**68.4%**
Essential practice	5 A 1	A written Human Resources policy compliant with national law is available to all employees and explains their rights.	70.4%
Essential practice	5 A 2	Employee compensation levels reflect competitive market rates, or at least the national or local sector minimum wage.	86.1%

Essential practice	5 A 3	The provider accepts and responds to employee grievances through a formal and confidential grievance system.	58.5%
Essential practice	5 A 4	The provider assesses employees' health and safety risks and takes steps to mitigate them before they occur. The provider investigates, documents, and reports all occupational incidents (i.e., accidents, injuries, and diseases) that occur.	58.4%
Standard	**5 B**	**The provider communicates to all employees the terms of their employment and provides training for essential job functions.**	**78.5%**
Essential practice	5 B 1	Employees receive clear documentation related to their job responsibilities and performance evaluation.	81.0%
Essential practice	5 B 2	Employees receive job-specific training and/or skill development.	75.9%
Standard	**5 C**	**The provider monitors employee satisfaction and turnover.**	**63.0%**
Essential practice	5 C 1	The provider analyses employee satisfaction.	48.2%
Essential practice	5 C 2	The provider monitors the rate of employee turnover and understands the reasons for employee exit.	67.8%
Essential practice	5 C 3	The provider takes action to correct institutional problems leading to employee turnover and dissatisfaction.	73.0%
Dimension	**6**	**BALANCE FINANCIAL AND SOCIAL PERFORMANCE**	**74.8%**
Standard	**6 A**	**The provider sets and monitors growth rates that promote both institutional sustainability and social goals.**	**78.2%**
Essential practice	6 A 1	The provider has a policy on sustainable target growth rates that considers the provider's growth capacity, institutional sustainability, and social goals.	69.6%
Essential practice	6 A 2	The provider monitors growth and enhances internal capacity as needed.	86.9%
Standard	**6 B**	**Equity investors, lenders, board and management are aligned on the provider’s social goals and implement an appropriate financial structure in its mix of sources, terms, and desired returns.**	**74.4%**
Essential practice	6 B 1	The provider has clear policies, consistent with its social goals, on its desired level of returns and on how profits will be used.	68.8%
Essential practice	6 B 2	The provider engages with funders whose expectations for financial returns, timeframe and exit strategies are aligned with the provider’s social goals and stage of development.	72.0%
Essential practice	6 B 3	The provider protects the liabilities it has to clients.	66.7%
Essential practice	6 B 4	The provider has a transparent financial structure, as reflected in its annual audited financial statements.	77.5%
Standard	**6 C**	**The provider sets prices responsibly.**	**80.0%**
Essential practice	6 C 1	The provider is managed sustainably to provide services in the long term. (Client Protection standard 4.1)	82.5%
Essential practice	6 C 2	The provider’s pricing policy is aligned with the interest of clients. (Client Protection standard 4.2)	76.4%
Essential practice	6 C 3	The provider's financial ratios do not signal pricing issues. (Client Protection standard 4.3)	80.5%
Standard	**6 D**	**The provider compensates senior managers in a way that is appropriate to a provider with stated social goals.**	**57.6%**
Essential practice	6 D 1	The provider ensures that compensation of the CEO/Managing Director and other senior staff is in line with the provider’s social goals.	41.8%
Essential practice	6 D 2	Upon request, the provider transparently discloses compensation to regulators, auditors, raters, donors, lenders, and investors.	89.9%
Essential practice	6 D 3	The provider calculates the difference between the average compensation of its top level executives and its field employees, and analyses whether this spread is consistent with the provider’s mission.	41.2%

ANNEX 3. CHARACTERISTICS OF THE MFIS WHICH ASSESS THEIR ENVIRONMENTAL PERFORMANCE

The MFIs which assess their environmental performance have particular characteristics compared to the other MFIs in the quality audit sample. The statistically significant differences are marked with asterisks.

Table 3. Differences between the MFIs which assess their environmental performance and the other MFIs in the sample

	MFIs which asses their environmental performance	Other MFIs	Difference
Region			
Asia	19.1%	23.9%	0.0485
Europe and Central Asia	7.9%	1.7%	-0.0618**
Latin America and Caribbean	38.2%	36.1%	-0.0207
Middle East and North Africa	5.6%	5.0%	-0.00576
Sub-Saharan Africa	29.2%	33.2%	0.0398
Legal form			
Bank	13.5%	5.0%	-0.0844**
Cooperative	10.1%	25.2%	0.151**
Non-bank financial institution	28.1%	31.1%	0.03
NGO	29.2%	23.5%	-0.0568
Other	19.1%	15.1%	-0.0398
Size			
Small	23.5%	27.4%	0.0387
Medium	22.4%	27.9%	0.055
Large	54.1%	44.7%	-0.0937
For-profit	55.1%	40.3%	-0.147*
Not-for-profit	44.9%	59.7%	0.147*
Target area			
Mixed	17.9%	13.8%	-0.041
Rural	60.7%	42.2%	-0.185**
Urban	21.4%	44.0%	0.226***
Average loan (USD)	1,417	1,356	-60.37
Observations	*89*	*238*	*327*
** p<0.05, ** p<0.01, *** p<0.001*			

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