



Introduction to Social Rating 2008

We value what we measure: what we measure we can improve

Social Rating – towards a balanced assessment of performance in microfinance

Microfinance rating until now has focused on organizational and financial performance related to risk assessment. Financial sustainability is vital for continuity and expansion, but is only half the story of microfinance. Most microfinance institutions (MFIs) and those who support them (investors, bankers, policy-makers, and donors) have a *social mission*. Social missions can take a variety of forms. Examples include reducing poverty, reducing vulnerability among the poor, extending appropriate financial services to under-served areas or to persons previously excluded from the banking sector, supporting micro and small enterprises, contributing to job creation, contributing to gender equity, helping bring marginal groups into mainstream society.

Such mission statements are seldom backed up by evidence as to whether they are being achieved. Social rating can help to address this gap, while contributing to greater transparency about what MFIs are achieving. When placed alongside a credit rating, the social rating complements the financial analysis with analysis of the social performance of MFIs, providing an assessment of the double (or triple) bottom line. It aims to assist investors and donors in making effective use of microfinance resources to achieve social/ethical as well as financial goals. It will also assist MFIs to report on and improve their social performance, just as the credit rating has had a positive impact on the sustainability performance of MFIs.

Social rating – a new tool for social performance assessment, based on a new definition

The social rating represents a breakthrough in social performance assessment. Traditionally, social performance assessment in microfinance has been limited due to the common conception defining social performance in terms of social impact, the measurement of which requires significant resources and complex analysis. Assessing social performance, therefore, was left to the specialists, while microfinance practitioners concentrated on more practical tasks.

A turning point came once practitioners, and other stakeholders, began to conceptualize social performance not only as social impact but also as the process of achieving that impact; and identifying elements that can be assessed or reported on more easily. In this new conceptualization, social performance includes the entire process by which impact is created. In addition, while each MFI has its own mission and model, there are certain generic values that apply to the “manner of doing business” in general, reflecting concepts of social responsibility and certain development values which are widely associated with microfinance. This principle is reflected in the following definition of social performance adopted by the Social Performance Task Force:

Social Performance is the effective translation of an institution’s mission into practice in line with accepted social values; these include sustainably serving increasing numbers of poor and excluded people, improving the quality and appropriateness of financial services, improving the economic and social conditions of clients, and ensuring social responsibility to clients, employees and the community they serve.

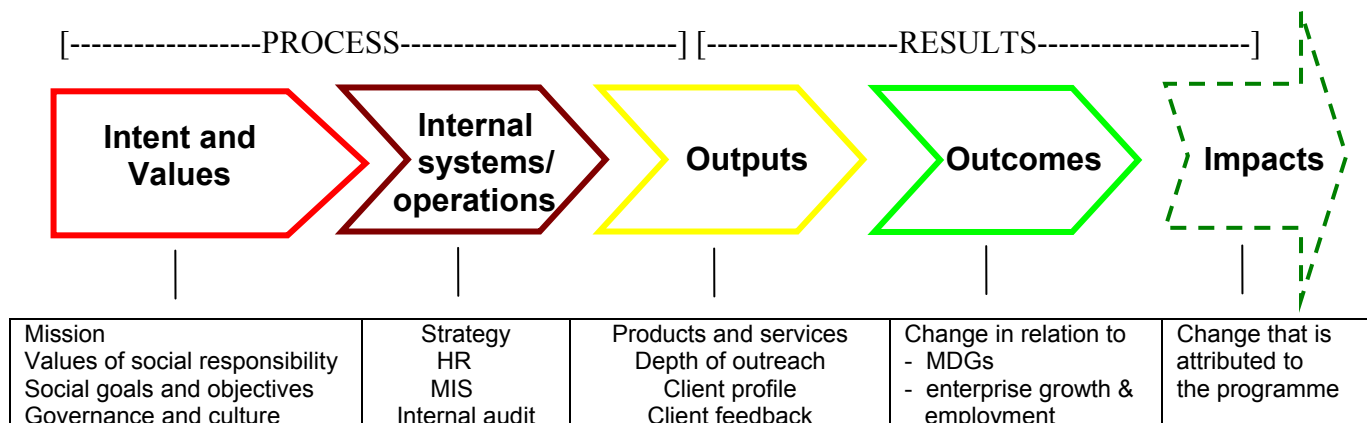
This definition emphasizes that social performance is not only the end result (or impact) but a process to achieve that end; and that there are certain social values associated with microfinance in terms of goals and responsibilities (whether or not these are explicitly stated in the MFI’s own mission).

**Social rating is an assessment of an institution’s Social Performance – its values, systems and results in terms of outreach and quality of services.
The rating scores an institution on its effectiveness in putting mission into practice, in line with accepted social values.**

Social performance pathway

The scope of a social rating is derived from the conceptual framework represented in the ‘social performance pathway’: the series of steps involved in translating mission into practice.

Social Performance pathway



[Adapted from C-GAP focus note, May 2007
Beyond Good Intentions: Measuring the Social Performance of Microfinance Institutions]

What a Social Rating Covers

A social rating directly covers the first three steps of the pathway, along the dimensions shown below.

Dimensions 1-3 focus on the intent, policies and systems of the organisation. Dimensions 4-6 focus on results in terms of outputs – type and range of services, client profile and quality of services.

The approach to social rating can vary depending on the availability of data with the MFI, and the depth of analysis for outputs.

All social ratings cover dimensions 1-4, and will include (with verification) client level data for dimensions 5-6 if the organisation has fresh, up to date information. Ratings can also refer to and evaluate (verify) outcomes or impact data if this data too is available and robust.

Dimension	
	Context: national indicators, microfinance
PROCESS	
1	Mission and systems alignment
2	Social responsibility to clients
3	Other social responsibility: to staff, community and the environment
RESULTS – OUTPUTS	
4	Outreach and services - portfolio analysis
5	Profile of new clients - client data
6	Appropriate Services – client feedback
[RESULTS – OUTCOMES]	
	Change

A few organisations may have client level data through their own ‘social accounting’, for example, data collected from loan application forms, as part of internal audit, or through market research or other research. Usually, however, MFI accounts are geared to financial reporting.

In the absence of client level information, a comprehensive social rating includes as part of the rating exercise

- (i) a quick sample survey of new clients to profile depth of outreach – to the poor, excluded communities, capturing key socio economic data relevant to the context and mission of the MFI and to the Millennium Development Goals; and
- (ii) Focus Groups of older clients for client feedback

Note: the social rating has to be a relatively quick exercise and therefore does not directly try to cover change (outcomes) or impact. But the social rating survey of new clients can serve as a baseline for later follow to assess change.

Process and results for social performance

The value of client level information

Client level data gives in-depth information about the clients that a microfinance institution is serving and feedback on products and services. The survey of new clients (those who have recently joined the MFI) profiles depth of outreach, whether the organisation is reaching its target clients (in line with its mission), serving the poor and/or those excluded from financial services. The survey also captures client awareness of MFI products and features that they are expected to know. The Focus Groups with older clients serves to highlight positive responses to MFI services, and to identify issues that may need attention to improve the relevance of services.

This is first hand information on what is happening in the field. It gives substantive detail on what the MFIs is achieving, with valuable new feedback to the MFI.

Details of issues covered in a social rating under each dimension

Provided as an Appendix

Social rating – assessment

The social rating report presents the findings related to each of the dimensions of social performance listed above, together with a scoring for each dimension, resulting in an overall grade that reflects M-CRIL's opinion on the effectiveness of an MFI in putting mission into practice, in line with accepted social values.

Within the dimensions, the rating highlights aspects of strength and issues that need attention. The findings and analysis are relevant both for social reporting and for the MFI to consider as part of its own approach to social performance management (as is the case with credit rating for financial performance).

Social rating – social reporting

The indicators applied in social rating include those currently being piloted as relevant for core social reporting in microfinance. A social rating can be a means of verification of social reporting – just as credit rating verifies and provides a basis for financial reporting. Indicators for social reporting will fill a current gap in MFI Annual Reports, and public forums such as the MiX website.

Benefits of Social Rating

Social rating offers a number of important benefits to MFIs and the microfinance industry, including:

1. It promotes greater transparency on social performance and social risk. (Social risk is the risk that the MFI deviates from its social mission and fails to contribute social value).
2. It provides a basis for benchmarking and comparing social performance across MFIs and contexts.
3. It encourages MFIs to improve their social performance management and reporting.
4. It promotes investment in MFIs with a strong social performance.

All stakeholders will find the social rating useful since it provides systematic information and analysis for understanding the social value of an MFI as well as identifying specific areas that can be addressed to improve social performance. MFIs – and donors - will be able to use the social rating as an assessment and diagnostic tool, providing the basis for improving social performance. The discerning *social investor* will be able to use the social rating to make investment decisions and report back to their funders – to substantiate the idea of 'social returns'. Policy makers, networks and others will also find the social rating information relevant to assessing progress towards financial inclusion and associated social values.

Social Rating – implementation

M-CRIL is currently considering different approaches to carrying out a social rating, and the options for different products including a ‘pre-rating’ diagnostic assessment.

The social rating involves one or two analysts, spending 2-3 days at the Head Office and up to 5 days in the field. The rating includes:

- substantial preparation: collection and review of information from the MFI
- a workshop with the MFI on social performance
- field work at 4-5 locations (this may involve MFI field staff)
- sharing of the draft report with the MFI
- finalisation after review by M-CRIL’s Rating Review Committee of independent experts.

A social rating can be carried out at the same time as a credit rating – to provide a balanced assessment of the double bottom line.

M-CRIL Social Rating Experience

M-CRIL was the first microfinance agency to develop a social rating product, drawing on the experience of its parent company – EDA Rural Systems – in undertaking social assessments.

The conceptual framework and methodology has been tested and refined through a series of pilots during 2005-7, with MFIs in different regions and following different models of microfinance, within India, Asia and other continents. These include, in India, social ratings of four MFIs for Friends of Women’s World Banking, and eight ‘poverty audits’ for the Small Industries Development Bank of India. Currently we are completing social ratings of five MFIs in Vietnam, India, Kenya and S Africa for the Ford Foundation; and seven MFIs in Bolivia, Haiti, S Africa, Bosnia & Herzegovina, Cambodia and The Philippines as part of the *Imp-Act* global programme for action research into social performance management.

Contributing to social reporting and social performance management in microfinance

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