



**Social Performance Indicators Initiative – Phase 2
(SPI2)**

**Audit of the Social Performance of Microfinance Institutions:
the Definition of a Tool**

Final Report

Main Findings of Phase 2

June 2005

Submitted to

**Swiss Development Cooperation
(SDC)**

and

**Fondation Charles Léopold Mayer pour le progrès de l'Homme
(FPH)**

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We would deeply like to thank the partner MFIs who participated directly in the process and shared their time and ideas in filling in the questionnaire, receiving the external review and discussing the use of the questionnaire and ways of improving it. Many thanks to the external reviewers, in particular Benjamin Quinones, Emmanuelle Bouquet and CERISE's members who visited the MFIs and discussed various issues with the partners.

Many thanks also to the practitioners who participated with their partners (ADA, AlterFin, PlanetRating, Rabobank Foundation, SEEP, Sos Faim, Trias, etc.) and who made such valuable comments to help us progress in the design of a practical and relevant tool.

The process of defining the tool is still going on; this second phase does not give a final and fixed tool but a proposal for discussion, dissemination, exchange and improvement.

Social Performance Indicators Initiative (SPI-2)

SPI2 – FINAL REPORT

The final report compiles findings of the second phase (SPI2) and comes with the following three complementary reports :

SPI2 – Report N°1 : The New Version of the Questionnaire

SPI2 – Report N°2 : Operational Guide to the Questionnaire

SPI2 – Report N°3 : Results of Field Testing

SPI INITIATIVE: OBJECTIVES AND DIFFERENT STEPS

Objectives of the initiative

Historically, microfinance has been developed to reach populations excluded from the classical financial system. In many countries in the developing world, projects and institutions have been successful, yielding increased outreach, diversified products for the target population, a high repayment rate, etc. In the 90s, efforts were concentrated towards financial and institutional sustainability of microfinance institutions (MFIs). Tools to evaluate financial performance have been developed, but social performance was taken for granted.

Nowadays, however, donors and social investors ask MFIs to justify their funding: Who are the clients reached? How can social and financial objectives be combined? How to avoid mission drift? etc.

Some MFIs also feel that reinforcing social performance can lead, in the medium term, to stronger financial sustainability.

As a result, there is increasing demand from donors, social investors, and from MFIs themselves, for social performances to be measured.

The final result of the current phase is a practical tool aimed at stimulating discussion on social objectives within an MFI and at auditing the institution's social performance.

Field testing, external review and comments from the microfinance community have been of assistance in comprehending the usefulness and limits of each indicator and designing a clear and relevant questionnaire.

Summary of the first phase

The Social Performance Indicators Initiative was launched in June 2002 at a meeting in Amsterdam convened by Dr. Koenraad Verhagen (Argidius Foundation) and Dr. Syed Hashemi (CGAP). The first phase was supported by the Argidius Foundation.

The SPI was guided by a steering committee consisting of Dr. Syed Hashemi, Dr. Renée Chao Beroff (CIDR/CERISE, France), and Dr. Koenraad Verhagen. The research team were Prof.

Dr. Manfred Zeller (Team leader – Institute of Rural Development, Göttingen University, Germany), Dr. Martin Greeley (Institute of Development Studies, Manchester UK) and Dr. Cécile Lapenu (CERISE, Paris, France).

During the first phase of SPI, the objectives were to:

- (1) Develop a conceptual framework for defining social performance in the MFI sector, i.e. what are the dimensions and elements of social performance to be measured?
- (2) Suggest a set of operational indicators designed to measure the different dimensions and elements of social performance of MFIs. The matrix of indicators could be used regularly by MFIs to monitor their activities internally and to report to donors or to peers.

Social performance has been defined along four main dimensions:

1. Outreach to the poor and the excluded
2. Adaptation of services and products to target clients
3. Improving clients' social and political capital
4. Social responsibility of the MFI.

The set of indicators has been defined as follows:

- (1) assessment of the social “process” of the MFI : social performance is measured through the principles, the actions and the corrective measures implemented by the MFI to reach its social objectives;
- (2) simple indicators based on information available at the MFI’s level: most of the information is based on self-reporting by MFI management and/or loan officers, information from official reports, and information compiled from the management information system;
- (3) indicators that can be standardized in different socio-economic contexts and for different types of MFIs. MFIs and the organizations that support them want to learn more about their social performance, but they also aim at comparing their results with their peers;
- (4) indicators easily verifiable by an external auditor: the questionnaire can be implemented internally to simulate discussion, but the answers can also be easily verified by an external reviewer who can conduct a social audit of the MFI;
- (5) indicators accepted by the MFIs: during the first phase, from the answers of 18 of them, the indicators have been ranked according to their relevance and ease of access to the information for the MFI. Discussion of the indicators also involved MFIs and practitioners in a working group on Solidarity Finance, led by the foundation FPH¹. During this second phase, external reviews were aimed at discussing with the MFIs the usefulness, limits and risks of the tool. The virtual meeting (December 2004) and the final workshop (March 2005) at the end of the process were also an opportunity for the MFIs and other stakeholders to share their opinions about the tool.
- (6) indicators for which the MFIs can be held directly accountable: MFIs can be directly involved in the definition of their social objectives and are directly accountable for their actions and for the corrective measures they implement. Social performance is the responsibility of the MFI; but, on the other hand, the

¹ FPH : Foundation Charles Leopold Mayer pour le Progrès de l’Homme, 38 rue St Sabin, 75011 Paris.

impact of their actions may be influenced by many other factors which are out of their control.

Organization of the second phase

In this second phase, supported by the SDC and the FPH, the questionnaire was tested with MFIs in order to finalize the auditing tool (see the version of the questionnaire tested – SPI 1.1 – in Appendix 1). The objectives were to check the accessibility, availability and reliability of the information provided, to define the questions precisely and to test the capacity of the tool to distinguish between different types of MFIs and different approaches to clients, in terms of social performance.

Field testing

The questionnaire was tested with a sample of diversified MFIs: different geographic contexts, different institutional structures, and different types of supporting partners needed to be represented. Thanks to the high level of cooperation of the MFIs and other CERISE partners, 25 MFIs participated.

The questionnaire was introduced to participating MFIs by a resource person who knew the MFI and who was aware of the objectives of the SPI.

The management of the MFI were responsible, in most cases, for filling out the questionnaire. In cases of time constraints or lower-level involvement, external reviewers filled out the questionnaire and asked the management to comment on and check the answers.

What was expected from the MFIs?

- To fill out the questionnaire
- To comment on the methodology, usefulness and limitations of the tool
- For the 25 MFIs from the core sample, to work with the external reviewer on an in-depth discussion of the tool (sources of information, costs implications, constraints, results in terms of social performance, etc.)
- The MFIs were invited to participate at the virtual meeting

What was expected from the facilitators?

The facilitators took the opportunity of a visit to the MFI:

- To introduce the questionnaire to the MFI management
- To provide all information and contacts in order to explain the objectives and the agenda of the project and to clarify any questions
- To receive the commitment of the MFI to participate in the testing of the tool.

External support to validate the tool

In order to analyse the quality of the tool, external reviewers visited the participating MFIs once the questionnaires had been filled out.

The external review gave the opportunity to discuss:

- the design of the questionnaire: time needed to fill out the questionnaire, persons/tools mobilised, difficulties in providing the required information (missing data, complex data, confidential data, etc.), difficulties understanding the questions (questions badly worded, confusing questions, etc.);
- the usefulness of the tool: global relevance of the questionnaire, relevance of the indicators and dimensions, usefulness for the MFI (both internally and for external

stakeholders such as donors or peers), lessons learned from the MFI's own experience in terms of social performance, etc.

- the weighting of the indicators and dimensions: a useful rating system is one that is broadly accepted by practitioners as well as by external evaluators. Thus, the descriptive and comparative function of the tool being designed must be emphasized in this second phase of the SPI project. Discussions were based on the proposed weighting of the questionnaire. Setting standards or benchmarks (which imply evaluation) is a possibility for the distant future (a third phase?) once measurement of social performance is widely known, applied and recognized in the MFI industry.
- discrepancies between the MFIs' self-rating and the rating that the external review would have given: did they come from a different understanding of the questions and/or from a different interpretation of the actions implemented by the MFIs?

What was expected from the external reviewers?

- To visit the core sample of the 25 MFIs
- To interview the management of the MFIs
- To verify with them the accuracy of the information provided
- To discuss the results and to finalise the reports
- To participate at the virtual meeting

Exchanges with microfinance stakeholders

The issue of social performance indicators stimulates interest and questions in the microfinance community. During the testing phase, CERISE collected as many opinions and comments as possible from different type of participants: MFIs, donors, researchers, ratings agencies, etc.

The final objective of this type of initiative is to reach a consensus on the use of the tool, so it is important to have different stakeholders involved in the discussion.

Most of the discussions are provided in the appendix.

After the completion of the testing phase (November 2004), a virtual meeting was organised, moderated by CERISE and FPH and open to the partners of the initiatives (CERISE, SDC, FPH, MFIs, external reviewers, advisory committee) and all other persons or institutions interested. The virtual meeting gave the opportunity for everyone to be informed of the state of progress of the initiative and to express their interest in, comments on and criticism of the methodology, results and future use of the tool.

In March 2005, four days of meetings were organised to discuss the outcome of the second phase of the SPI Initiative and plan for follow-up action. Representatives of European donor agencies, development organisations, and research institutes (from France, Holland, Belgium, Luxembourg, Germany and Switzerland) and representatives of Southern MFIs (4 from Africa, 2 from Latin America, 4 from Asia, and 2 from Europe) attended the first 2 days, focusing on the SPI tool. In total, about 36 persons were more or less directly involved in the SPI initiative.

Time frame

Time frame proposed for SPI 2

Month 1: Tool sent to MFI through key persons (May)

Months 2-3: Tool filled out by MFIs (June- July)

Months 4-5: External review (August – September)

End of month 5: Intermediary report

Month 6: virtual meeting (October)

Months 7-8: synthesis (November - December)

Planned schedule

Months	1	2	3	4	5	6	7	8
	May	June	July	August	Sept.	Oct.	Nov.	Dec.
Facilitator	Intro							
MFI		Fill out question.		Receive ext. rev.		VM		
Ext. reviewer				Visit MFI		VM		
Adv. committee						VM		
CERISE	Link w/ MFI & stakeh.			Visit MFI/ interm. rep.		VM	Final report	

Time frame realised in 2004

Months	May	June	July	August	Sept.	Oct.	Nov.	Dec.
Facilitator	Intro							
MFI		Fill out question.			Receive ext. rev.			VM
Ext. reviewer				Visit MFI				VM
Adv. committee								VM
CERISE	Link w/ MFI & stakeh.			Visit MFI/ interm. rep.			VM/Final report	

Owing to the increased number of MFIs (25 instead of 15) with a view to a more diverse sample, and owing to the slight delay in answer by the MFIs, the external reviews lasted until the end of November.

The virtual meeting was held from November 29 to December 20, 2004.

The final workshop was held in Paris in March 15-18, 2005.

MFIs participating in the second phase

One of the foremost indicators of the interest of MFIs in the process is a good rate of return for the second phase : almost 80% of the MFIs asked to participate have complied. Of course, MFIs contacted were part of networks and partnerships sensitive to social performance assessment. The participating MFIs are “biased” towards openness to the issue of SPI.

List of participating MFIs

	Country	MFIs	
1	Bolivia	Pro Mujer	
2	Bolivia	Diaconia-FRIF	
3;4	Ecuador	CREAR: Cacpeco / San Jose	
5	Ecuador	Maquita, partner of Trias	
6	Mexico	AMUCSS: 2 microbanks	
7	Mexico	Despeno (with a rating of Planet Rating)	
8	Nicaragua	FDL, partner of AlterFin	
9	Peru	Proempresa, partner of SOS Faim	
TOTAL LATIN AMERICA			9
1	Benin	Finadev (with a rating of Planet Rating)	
2	Ethiopia	Buusaa Gonofaa	
3	Guinea	Crédit Rural de Guinée	
4	Madagascar	Vola Mahasoa	
5	Mali	CVECA - Dogon	
6	Mali	ICS- Nyeta Musow	
7	Chad	UCEC	
TOTAL AFRICA			7
1	Cambodia	Cambodia Community Savings Federation (CCSF)	
2	Cambodia	EMT/AMRET	
3	Indonesia	Bina Swadaya	
4	Philippines	Bayanihan Entrepreneurs Network	
5	Philippines	(ASHI) – with TRIAS in 2005	
6	Sri Lanka	Sanasaa, partner of Rabobank Foundation	
7	Thailand	Step Ahead MED	
TOTAL ASIA			6
1	France	ADIE	
2	France	FIR	
3	Albania	ASC Union	
TOTAL EUROPE			3
GRAND TOTAL			25

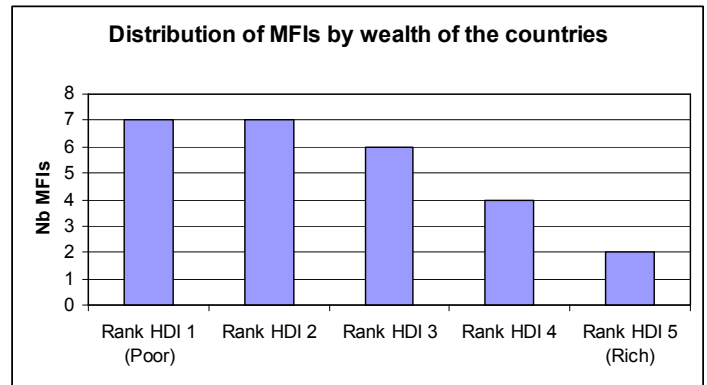
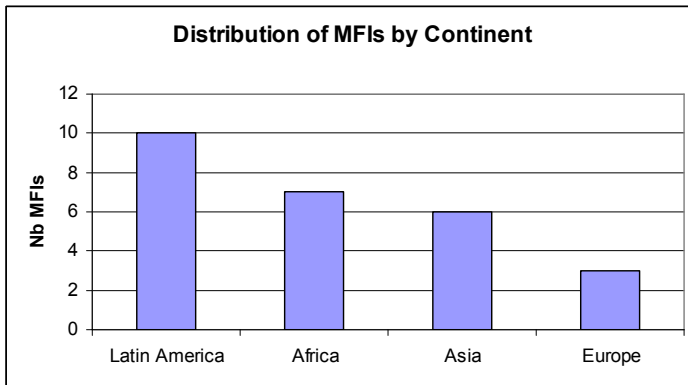
Some MFIs participated in the process from the beginning through their involvement in the working group on “Microfinance and Social Links” and the workshop on “Solidarity Finance” supported by the Foundation FPH: they were aware of the process and led the demand for indicators of social performance.

For the other MFIs, the role of the facilitators was important: they explained the process and the objective (at this stage, this was not an evaluation but still a test for a questionnaire).

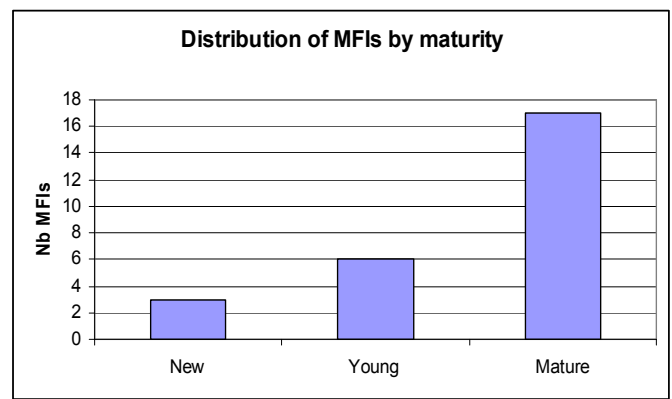
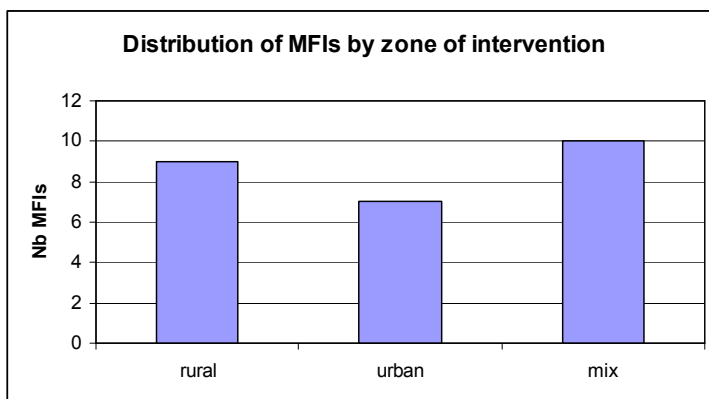
This high level of participation indicates that the MFIs feel concerned about social performance issues and that they find the questionnaire relevant.

Diversity of cases

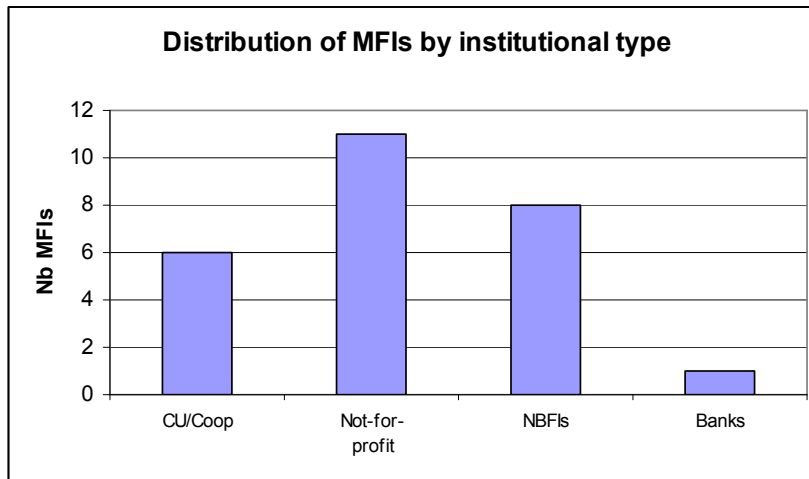
The 25 MFIs have about 625,000 members with more than 150 million USD of outstanding loans and more than 32 million USD of savings in Latin America, Africa, Asia and Europe.



The MFIs' zones of intervention can be classified as mostly rural (9), mostly urban (7) or mixed (10) with a larger sample of 17 mature MFIs (more than 7 years of intervention).



The MFIs range from not-for-profit organizations, i.e. NGOs, associations, foundations (11 MFIs), to banks (one development bank), with instances of cooperatives/credit unions (6 MFIs) and non-banking financial institutions, i.e. limited companies and for-profit organizations (8 MFIs). The 11 not-for-profit organizations only account for 25% of the members of the sample.



RESULTS OF FIELD TESTING

Reactions of MFIs and practitioners on the use of the questionnaire

The usefulness of the questionnaire

The questionnaire has generally been found to be relevant.

Lots of the MFIs are happy to see a tool that can judge them on social performance instead of merely on financial performance.

Some information may not be available right now because with the focus on financial performance, these indicators are not taken into account. However, if the information proves relevant, it is easy to incorporate it into the MIS or to track it over the year (eg. loans by size, training of employees, etc.). Some MFIs have expressed an interest in integrating social performance indicators in their own monitoring system.

MFIs are also interested in following the evolution of their clients' status (income, level of education, housing, assets, etc.): see the links with the CGAP/Ford initiative.

Major comments on the different parts and dimensions

First part on context: should be clarified and linked to the second part.

Second part on social performance indicators:

What are the hypotheses behind each indicator?

More explanations are needed for each category of answer.

Difficult to rank mission, intention and principles.

1. Dimension 1: Outreach to the poor and the excluded

General agreement, accepted by all types of MFIs and in all continents; limits on the definition of « poverty », « exclusion », « rural/urban »

2. Dimension 2: Adaptation of services and products to target clients

General agreement, widely accepted in its principles (except for non-financial, due to the general message re “best practices” that insist on MFIs focusing on financial services); difficulties in defining « quality » and keeping the indicators simple, verifiable and standardized.

3. Dimension 3: Improving clients' social and political capital

This dimension causes more discussion because 1) the hypothesis behind the notion of social capital and the question of the role of the clients within the MFIs (should they participate?) were perceived as controversial; and 2) some weaknesses in the tested questionnaire (in particular, a bias towards cooperatives)

4. Dimension 4: Social responsibility of the MFI.

These issues of social responsibility are relatively new for the micro finance sector but in general are well accepted by the MFIs. There is a particular interest in the subdimension on human resources policy. However, one question remain outstanding : Where does the role of the MFI stop, vis-à-vis its clients and within the community?

Third part on financial performance:

There is general agreement on the need to link social performance with financial performance. It is important to state that MFIs cannot survive without financial performance. The attainment of social performance cannot be pursued in complete disregard of costs, and MFIs must remain professional.

This part should also fuel discussion and lobbying on the role of social performance: can one prove that in the medium term, financial and social performance progress in the same direction?

Some basic data and ratios can be used (on the model of the MIX Market) but are not always available.

The process of completing the questionnaire

The usefulness of the external reviews

In most cases, the case studies were conducted as follows:

- Introduction of the questionnaire by a facilitator
- Self-evaluation by the MFI
- Discussion with the external reviewer.

In cases where the MFIs were very busy, or not sufficiently involved/aware to fill out the questionnaire by themselves, consultants or practitioners working with the MFIs completed the questionnaire. Discussions with MFIs and external reviews were conducted with the questionnaire externally filled out.

In order to keep a common frame of analysis for discussions with the MFIs, CERISE produced guidelines for the external reviews, and Cécile Lapenu coordinated each review by means of extensive exchanges with the reviewers and own external reviews.

The conclusion resulting from work with external reviews is that it seems necessary to fill it out in two stages (self-reporting or reporting by a person who knows the institution very well

and external review): social performance remains more subjective than financial performance. It is thus necessary to take into account details of the intentions and actions of the MFIs to reflect the reality of the social performance. At this stage, an in-depth knowledge of the institution is necessary to take this into account, and this is better done through self-evaluation.

Self-evaluation is a useful step to stimulate internal discussion and to develop afresh a social performance culture that may have been forgotten through the pressure for financial performance.

On the other hand, in the field-testing process we have encountered differences between the results of self-evaluation and the results of the external reviews.

The differences for the total score between the self-evaluation and the external review vary from -14 to + 14.

This means that the MFIs are not systematically overestimating their score.

The differences arise from 1) unavailability of information during the self-evaluation, 2) differing interpretation of items in the questionnaire, 3) the tendency for MFIs to overestimate their social score when they have great confidence in their actions, 4) the tendency, also, to underestimate their actions when it comes to dimensions usually not much taken into account (such as their relations with the local community).

With the new version of the questionnaire and a companion manual documenting the hypothesis behind each indicator, and the explanations for the different options in the answers and potential sources of information, discrepancies should be much reduced.

However, the two-stage process (self-evaluation, external review) will remain important in ensuring real involvement of the MFIs and reliable results.

Time needed to fill out the questionnaire

When answered too rapidly (2 or 3 hours), there is a high risk of missing some dimensions of the questionnaire.

Careful use of the questionnaire requires extending the exercise over 2 or 3 days, in order to get all the information from different departments.

This is particularly the case for MFIs with weak SIG, and when the questionnaire is answered for the first time.

It may be more rapid in subsequent rounds when information can be directly available in the MIS, or tracked over the year with a view to filling out the questionnaire, already known by management and departments concerned (training / human resources, etc.).

Availability and reliability of information

In all the self-evaluations, the number of indicators that have no answer due to “Not Available” information is very low: there is one MFI in the sample with a maximum of 9 indicators with unavailable information. On average for the 25 MFIs, there are only 2,3 indicators with missing information.

Some indicators may also be “Not applicable” for some MFIs (questions on rural areas for urban MFIs, questions on savings for “credit-only” MFIs, questions on clients' elected representatives where there is no elected body). The highest number of indicators not applicable is 6 in one MFI only.

However, for a urban MFI with no instances of election and no savings mobilization, a total of 21 points could be affected. This has been changed in the new version of the questionnaire: no discrimination against MFIs working only in rural or only in urban areas in terms of services provided; instances of client representation do not have to be based on election (which favoured the cooperative model). There are still some points for savings mobilization: although savings are not necessarily taken into account by the MFI this can be done via other financial institutions.

In general, and in particular after the external reviews, there is very little information missing, which reflects the availability of the information.

Regarding the reliability of information, more questions can be raised.

Subjectivity: some questions, based on the principles of or attempting to measure the impact of the MFI are very subjective and difficult to assess. Questions on the influence of the MFI on local or national government are an example. The answers to these questions show a high level of discrepancy between self-evaluation and external review. They have been removed or refined in the new version of the questionnaire.

Checking the reliability of the information

The reliability of the information may sometimes depend on the management's interpretation. In the new version of the questionnaire and the companion guide, detailed questions and ways of assessing facts have been provided to help evaluate the reality of the MFI's principles and actions.

Main results by dimension and sub-dimension for the sample of MFIs

Results for the 4 dimensions

	MIN	MAX	AVER	ST.DEV.
TOTAL DIMENSION 1	9	23	17,19	3,46
TOTAL DIMENSION 2	7	22	15,27	3,60
TOTAL DIMENSION 3	2	23	14,69	5,62
TOTAL DIMENSION 4	9	23	15,08	3,59
TOTAL	38	83	62,23	11,66

The results by dimension show that the first dimension on poverty outreach has the highest scores with a minimum of 9, a maximum of 23 and an average of 17. This dimension is the most “classical”, clear and accepted aspect of social performance.

Dimensions 2 and 4 show the same trends with a minimum of 7 and 9, a maximum of 22 and 23 and an average of 15.

Dimension 3 on social capital, with a minimum of 2 and an average of 14, is the most difficult dimension for some of the MFIs. However, the average of 14 shows also that the results are not necessarily very low.

For the total of the 4 dimensions, the average is 62 out of 100. It is possible that the sample of MFIs is biased towards those that have strong preoccupations towards social performance.

Results by indicator

D1	Dimension 1: Outreach to the poor and excluded	MIN	MAX	AVER	ST.DEV	Comments on statistics (N=25*)
	Mission	3	7	5,50	1,30	
1.1a	Financial sustainability	0	1	0,92	0,27	Not discriminatory
1.1b	Outreach to the poor	0	1	0,88	0,33	Not discriminatory
1.1c	Outreach to the excluded	0	1	0,58	0,50	
1.1d	Impact of income	0	1	0,96	0,20	Not discriminatory
1.1e	Impact of education/social status	0	1	0,69	0,47	
1.2	Social mission	0	2	1,46	0,65	
	Targeting	3	10	6,92	1,67	
1.3a	Urban areas	0	2	1,56	0,58	
1.3b	Rural areas	0	2	1,46	0,78	
1.3c	Workers w/ unsecured status	0	2	0,82	0,80	
1.3d	Women	1	2	1,88	0,33	Not discriminatory
1.3e	Illiterate	0	2	1,19	0,75	
1.4	Targeting tool	0	1	0,33	0,48	
	Size of transactions	0	5	3,00	1,96	
1.5	Distribution of loans	0	2	1,71	0,56	
1.6	Distribution of savings	1	2	1,93	0,26	Not discriminatory
1.7	Minimum amount to save	0	1	0,68	0,48	
	Collateral	0	2	1,77	0,59	
1.8	Social collateral	0	2	1,84	0,47	

D2	Dimension 2: Adaptation of the services and products to the target population	MIN	MAX	AVER	ST.DEV	Comments on statistics
	Range of services	2	11	7,35	2,28	
2.1	Nb type of loans	0	2	1,54	0,58	
2.2	Emergency loans	0	1	0,69	0,47	
2.3	Loans 0-6 months	0	1	0,96	0,20	Not discriminatory
2.4	Loans 6-12 months	0	1	0,81	0,40	
2.5	Loans more than 12 months	0	1	0,72	0,46	
2.6	Nb type savings accounts	0	2	1,17	0,76	
2.7	Insurance	0	1	0,23	0,43	
2.8	Flexibility repayment	0	2	1,35	0,69	
	Quality of services	3	10	6,19	2,38	
2.9	Maximum distance	0	1	0,45	0,51	
2.10	Visit to clients	0	1	0,92	0,28	Not discriminatory
2.11	Rapidity of disbursement	0	1	0,80	0,41	
2.12	Market surveys	0	3	1,20	0,71	
2.13	Participation of clients	0	2	1,50	0,74	
2.14	Percentage of drop-outs	0	2	1,25	0,72	
2.15	Surveys on drop-outs	0	1	0,58	0,50	
	Non financial services	0	4	1,73	1,15	
2.16	Services on business development	0	2	1,00	0,75	
2.17	Social services	0	2	0,73	0,78	

D3	Dimension 3: Improving social and political capital of clients	MIN	MAX	AVER	ST.DEV	Comments on statistics
	Transparency	1	4	3,27	0,78	
3.1	Principal & interest	1	1	1,00	0,00	Not discriminatory
3.2	Document on loan transactions	0	1	0,96	0,20	Not discriminatory
3.3	Document on savings transactions	0	1	0,86	0,36	
3.4	MFI financial accounts	0	1	0,62	0,50	
	Clients representatives	0	11	7,00	3,32	
3.5a	Consultation	0	1	0,73	0,45	

3.5b	Decision making	0	1	0,73	0,45	
3.5c	Supervision	0	1	0,58	0,50	
3.6	Influence on decisions	0	1	0,72	0,46	
3.7	Frequency of meetings	0	2	1,33	0,82	
3.8	System of rotation	0	1	0,71	0,46	
3.9	System of training	0	2	1,21	0,83	
3.10	Percentage of women	0	2	1,43	0,73	
	<i>Empowerment</i>	0	9	4,42	2,73	
3.11	Strengthening of social cohesion	0	2	1,23	0,65	
3.12	Expression of clients to government	0	2	0,88	0,82	
3.13	Training for leadership	0	2	1,04	0,87	
3.14	Influence on local government decisions	0	2	0,65	0,69	
3.15	Influence on national government decisions	0	2	0,62	0,57	

D4	Dimension 4: Social responsibility of the institution	MIN	MAX	AVER	ST.DEV	Comments on statistics
	Human resources policy	2	8	5,15	1,67	
4.1	Annual income	0	2	1,46	0,65	
4.2	Training budget	0	2	1,00	0,53	
4.3	Participation of the employees in decision making	1	2	1,19	0,40	
4.4	Health insurance	0	1	0,77	0,43	
4.5	Employees departure	0	2	0,96	0,62	
	Social responsibility towards clients	2	7	4,50	1,27	
4.6	Socio-economic studies	0	3	1,88	0,91	
4.7	Change of products	0	2	1,58	0,70	
4.8	Death insurance	0	1	0,54	0,51	
4.9	Measures for collective disaster	0	1	0,50	0,51	
	Social responsibility towards the community	2	9	5,42	2,12	
4.10	Harmony with local culture and values	0	2	1,12	0,77	
4.11	Loan officer knows local language & culture	2	2	2,00	0,00	Not discriminatory
4.12	Community investment	0	3	1,42	1,24	
4.13	Change of products	0	2	1,10	0,83	

(*) Three of them are still an auto-evaluation. The figures for the 22 other ones come from the external review.

The most interesting result by indicator during the testing phase was to see which indicators were not discriminatory (low standard deviation) and would not help differentiate between different social strategies by MFIs. These indicators are suppressed or redefined in the new version of the questionnaire.

THE WAY TO IMPROVE THE QUESTIONNAIRE

Sources of information to improve the questionnaire

All the comments from the MFIs (self-evaluation and external reviews), from the different stakeholders who participated in the discussion, and from the virtual meeting have been taken into account (see all the comments in Appendix).

Process of field-testing:

Most of the comments received from the MFIs and the external reviewers during the testing phase have been summarized in a table by indicator (see appendix 2).

Comments on the tool received from the practitioners:

Workshop on “Solidarity Finance” (9-10 Jan 2003): How to assess social performance and in particular the impact of the MFIs on the social capital of clients (see appendix 3 in English)

Workshop on “Solidarity Finance” (Oct 2003) : Comments on the SPI1 tool (Oct 2003). Based on these comments, a modified version of SPI1 has been produced and used for the testing phase of SPI2. (see appendix 4 in French).

Rating Agencies:

Recently a credit rating organisation was established under the name of New Africa Rating Flying Rhinos is a new company active in microfinance innovations (www.flyingrhinos.nl) and was asked to provide some support in working out the new rating concept. They applied the SPI-questionnaire that came out of the Cerise, CGAP, and Argidius SPI exercise (Oct 2003). (see their comments in appendix 5).

PlanetRating was involved in the field testing of the questionnaire with 2 MFIs from the final sample (Despeno Mexico and Finadev Benin). The evaluating team which was involved in applying the GIRAFE institutional and financial rating tool proposed to the MFIs to fill out the SPI questionnaire. This was an opportunity to diversify the sample of participating MFIs (cooperative in rural Mexico, and private company in urban Benin) and to see how this type of tool could in the future be combined with more classical financial evaluation.

Trias – Belgian network: The NGO Trias and the Belgium microfinance network commented on the SPI1 tool (Oct 2003) (see their comments in appendix 6 and the paper by De Bruyne, 2005). A working group was implemented in Belgium to work on the issue of social performance

SEEP – Poverty Assessment Working Group: the MIX market is looking for simple indicators of social performance and asked some partners in the SEEP Poverty Assessment Working Group to comment on the SPI1 tool (Oct 2003). 28 members of the working group ranked the indicators: easy to measure / relevant. They commented on the indicators (see their comments in appendix 7)

Savings and Credit Forum – Bern, November 19, 2004: The Savings & Credit Forum organised by the SDC and Intercooperation that took place on November 19, 2004 was on "Social Performance for Microfinance Institutions". Cécile Lapenu and Koenraad Verhagen made presentations on the SPI tool, its state of advancement and other initiatives on this issue. (see the minutes in appendix 8)

Virtual meeting (Nov 29 – Dec 20): A "virtual feed-back" of the work still in progress on the second phase of the Social Performance Indicators (SPI) initiative framework was organized as part of the workshop on “Solidarity Finance – FINSOL”. The objective of this three-week process was to share with all the stakeholders involved in the second phase the current results of the SPI2 initiative and to collect their points of view (see all the exchanges in Appendix 9).

Final workshop (March 15-16, 2005): the objective was, in particular, to discuss the new version of the questionnaire, drafted after the field testing, to see if the participants agree on it, and what changes should be made to finalise this second stage. At the conclusion of the workshop a general agreement was reached on the four dimensions of social performance evaluation. Participants in the detailed review of the questionnaire pointed out that there were still weaknesses in the way indicators were defined and in the marking system, and that these

should be dealt with in future stages. However, in order to finalise this second phase and the improvements already made, it was agreed that the questionnaire would only include marginal changes around the indicators; the guidance notes for the questionnaire (guide) would include all debates and discussions from the meeting and those raised in discussion with participants in the initiative in order to clarify the limits and margins of flexibility in the questionnaire (see the minutes of the meeting in Appendix 10).

Moreover, statistical analysis of the results has shown in particular which indicators were not sufficiently discriminatory. In this case, either the indicator has been suppressed (same answer for most of the MFIs) or the modalities for the answer have been refined in order to be more discriminatory.

Improvements made in the new version of the questionnaire

First part:

The contextual questions have been linked with the 4 dimensions of the questionnaire on social indicators.

What would be the strategy of the MFI regarding 1) Outreach to the poor and excluded, 2) Quality of services, 3) Improvement of its clients' social capital, and 4) Social responsibility in the specific context and history of the MFI?

What is the impact of the socio-economic context and of the history of the MFI on the choices regarding social objectives? How are these strategies justified by the MFI?

This can help understand the different focus on the four dimensions of the questionnaire.

The first part should help:

- Understanding of the social, economic and political context;
- Understanding of the strategic choices and priorities of the MFI;
- Putting the indicators into perspective.

Second part:

Dimension 1: Clarify the different strategies to reach the poor:

- 1 – Geographic targeting
- 2 – Individual targeting (with targeting tool)
- 3 – Pro-poor methodology

The part relating to the mission has been dropped: this would have been too prescriptive, and is better explained and justified by the MFI in the first part. The indicators of the first dimension deal with the targeting strategy of the MFI and the results of this strategy.

Points taken into consideration:

Clarifying the concept of “poverty”, “exclusion”, “rural/urban” (in particular in the operational guide).

Adapt the scores to avoid penalising MFIs working only in rural or only in urban areas

Suppress question 1.6. on size of savings account (disincentive to promoting savings, and does not necessarily mean that it is accessible to the poor).

Dimension 2: the framework of the tested questionnaire is retained

- 1 – Diversity of services
- 2 – Quality of services

3 – Access to non-financial services

Points taken into consideration:

Clarifying and improving indicators of quality of services (decentralisation and rapidity of delivery of loans)

Dimension 3: extend the notion of social capital at the clients' level and distinguish actions by MFIs from the actions at the clients' level.

1 – Trust and transparency between clients and the MFI

2 – Participation of clients in the decision-making process for the MFI (not only elected members)

3 – Empowerment

3.1 – The MFI as a voice for clients

3.2 – Improvement of clients' social and political capital (self-management, decision-making by clients, clients' new capacities to resolve non-financial problems, political capital: clients' influence with local authorities, national governments, banks, etc.)

Points taken into consideration:

Selection of objective indicators, avoiding subjective questions more related to impact (3.14, 3.15)

Dimension 4: the framework of the tested questionnaire is retained

1 – Human resources policy

2 – Social responsibility towards clients

3 – Social responsibility towards the community

Points taken into consideration:

Change reference to teacher for the indicator on employees' income (income related to per capita GDP for example), finding a more general approach to policy on income and social advantages for employees (comments from the external review, from the final workshop and specific proposals by ADA and SIDI).

For the second part, general points taken into consideration:

Time: Each category of answer presents what is currently done by the MFI and not what has been done in the past or what is planned for the future.

Size: Lack of quantification can facilitate the attainment of a high score by larger MFIs. Categories of answer take into account size of the actions, proportion of activity related to total income, total assets, total portfolio of the MFI.

The new version of the questionnaire: SPI2.1

The questionnaire proposed in the SPI2-report N°1 is the fourth draft of the SPI questionnaire.

- The questionnaire SPI1.0 is the questionnaire provided at the end of the first phase, and available in the report of the first phase (SPI1 – Report N°4 on <http://www.cerise-microfinance.org>).

- This questionnaire has been discussed and slightly improved through the review of the group “Finance of Solidarity” resulting in the version tested during the second phase (SPI1.1 – in appendix 1)
- At the end of the testing phase, a new version has been drafted (SPI2.0) that has been extensively discussed during the SPI workshop in March 2005.
- The final version for the second phase (SPI2.1) is available in the SPI2-report N°1 coming with this final report.

The new version of the questionnaire discusses the principles and intentions of the MFI in the first part, as a presentation of context.

It focuses on actions and corrective measures through the indicators in the second part.

It makes links with the financial performance in the third part.

The format and principles of the questionnaire have not drastically changed since the last version as the questionnaire was generally well accepted by the MFIs and practitioners.

Questionnaire SPI2 clarifies the concept used and the method of answering. It still relies on a large number of indicators (about 60) to give an extensive overview of the social strategy of the MFI.

Field-testing, use of the questionnaire and discussions are still necessary to:

- verify the accuracy of this new version (and continue improving the questionnaire),
- test the ranking and scores,
- adapt a reporting format, and
- find which of the indicators could be selected to give a synthetic picture of the social performance of a MFI.

Operational Guide to the Questionnaire

See the SPI2-report N°2

Measuring social performance of microfinance institutions requires a careful understanding of the concepts and indicators used. This operational guide is designed as a companion manual to help MFIs and external reviewers wanting to complete the SPI questionnaire.

The guide uses all three parts of the questionnaire, and all the individual indicators, to present in a systematic way the hypothesis behind the questions, the concepts and the sources of information.

It constitutes a clear improvement from the first phase of SPI as it clarifies the logical framework behind the questionnaire and assists in the use and interpretation of the questionnaire. It also gives the opportunity to present the debates which lie behind the indicators, and offers to users of the questionnaire the latitude to express their own position in the debate and to discuss their own strategy and objectives.

It can be used as a companion guide while filling out the questionnaire, or as a basis for *ex-ante* training with the objective of a participatory process with staff or even clients for a self-evaluation by the MFI.

PRELIMINARY ANALYSIS: USE AND INTERPRETATION OF RESULTS

See the SPI2-report N°3 for more details on results.

We take into account in the analysis the results from the external reviews, which reflect better the reality of the institution.

Individual analysis

The four dimensions represent four clusters of 25 points, or a total of 100 points for each MFI.

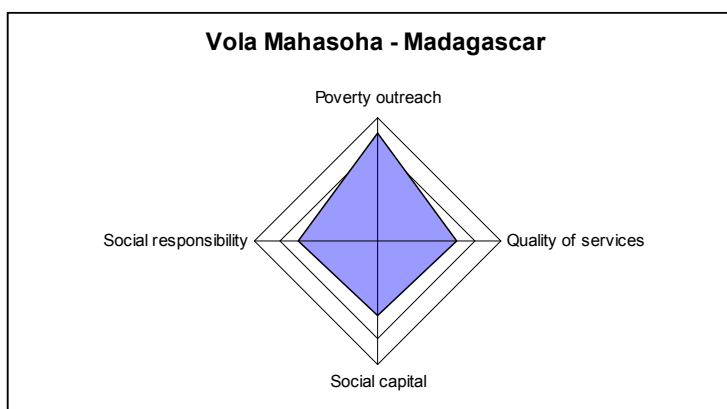
The total score can be taken into consideration, but as each MFI can choose on which dimension it wants to focus, it is more appropriate to analyse the results by dimension.

Analysis by dimensions

Analysis by dimension can show the main orientation of an MFI.

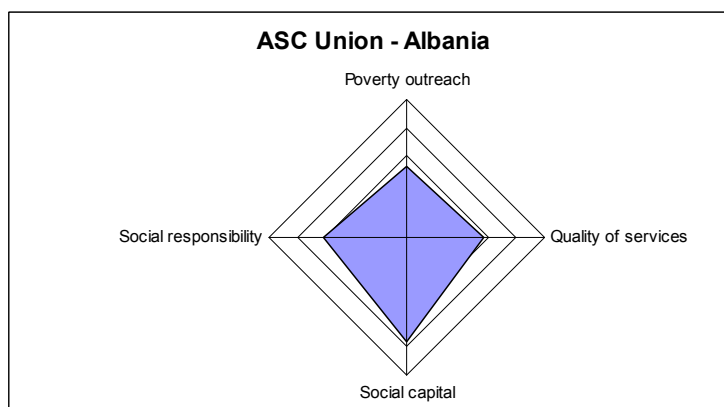
MFI with main focus on poverty outreach

	Score	%
Poverty outreach	22	0,88
Quality of services	16	0,64
Social capital	15	0,60
Social responsibility	16	0,64
Total	69	



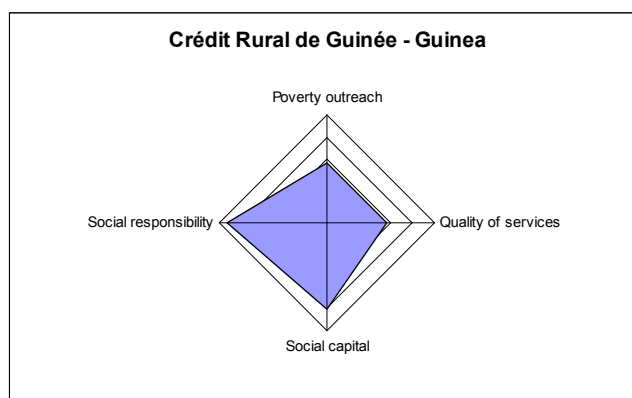
MFI with main focus on social capital

	Score	%
Poverty outreach	13	0,52
Quality of services	14	0,56
Social capital	19	0,76
Social responsibility	15	0,60
Total	61	



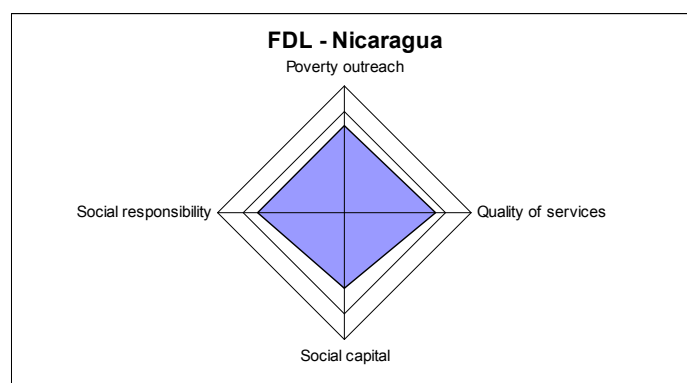
MFI with focus on social responsibility and social capital

	Score	%
Poverty outreach	14	0,56
Quality of services	14	0,56
Social capital	20	0,80
Social responsibility	23	0,92
Total	71	



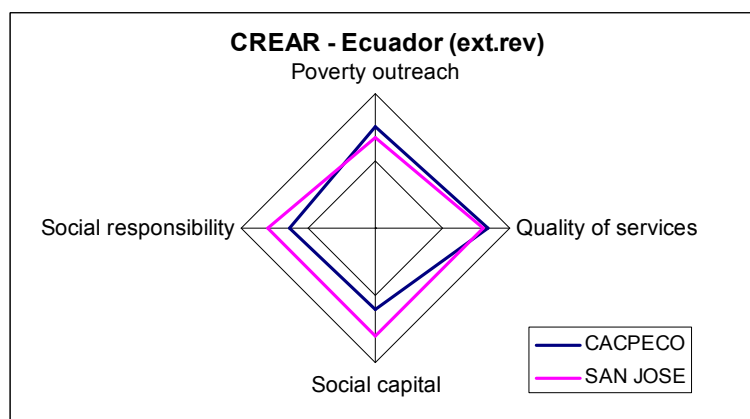
MFI with balanced approach

	Score ²	%
Poverty outreach	17	0,68
Quality of services	18	0,72
Social capital	15	0,60
Social responsibility	17	0,68
Total	67	



Comparison between two MFIs

MFI	Cacpeco		San José	
	Score	%	Score	%
Poverty outreach	19	0,76	17	0,68
Quality of services	21	0,84	20	0,80
Social capital	15	0,60	20	0,80
Social responsibility	16	0,64	20	0,80
Total	71		77	



² Results from self-evaluation

In the testing phase, the results can be discussed by dimension to see if they reflect the reality of the social performance of the MFIs and if they show clearly the difference between different MFIs. This has led to improvements in the questionnaire during the external reviews.

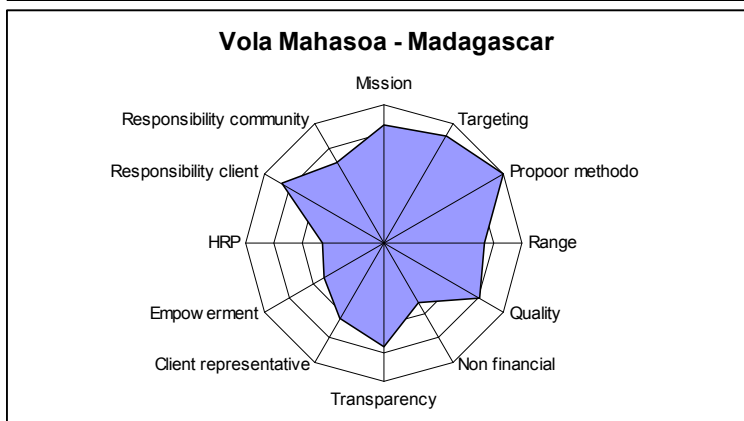
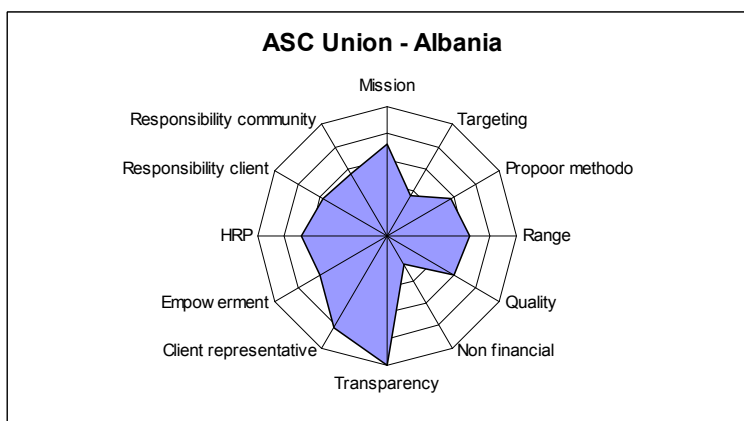
Analysis by sub-dimensions

The sub-dimensions have been reformulated in the new version of the questionnaire. Each sub-dimension has more or less the same weight in the new version.

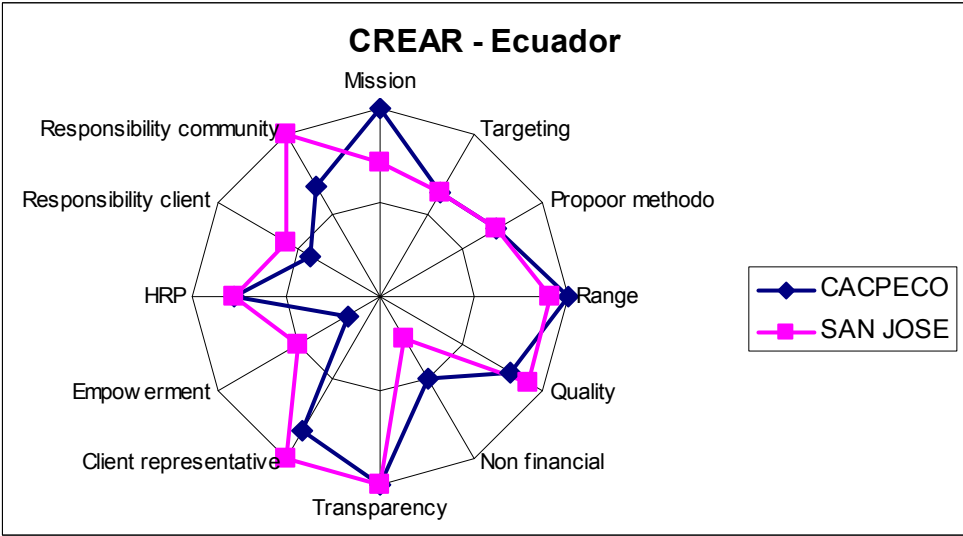
Analysis by sub-dimensions (from SPI1) can visualize the strength and main focus of the MFIs for the different dimensions.

Two MFIs with major focus on different dimensions

		ASC Union - Albania			Vola Mahasoa - Madagascar	
		Maximum	Score obtained	%	Score obtained	%
Outreach of the poor and excluded	Mission	7	5	0,71	6	0,86
	Targeting	11	4	0,36	9	0,90
	Pro-poor methodology	7	4	0,57	7	1,00
Suitability of services	Range	11	7	0,64	6	0,73
	Quality	10	6	0,60	8	0,80
	Non financial	4	1	0,25	2	0,50
Improvement of social capital	Transparency	4	4	1,00	3	0,75
	Client representative	11	9	0,82	7	0,64
	Empowerment	10	6	0,60	5	0,50
Social responsibility of the MFI	HRP	9	6	0,67	4	0,44
	Responsibility client	7	4	0,57	6	0,86
	Responsibility community	9	5	0,56	6	0,67



Comparisons between MFIs of the same type



Peer-group analysis

Further analysis can be conducted with the whole sample of the 25 MFIs, based on the results of the external reviews.

Global score and scores by dimension and sub-dimension can be analysed:

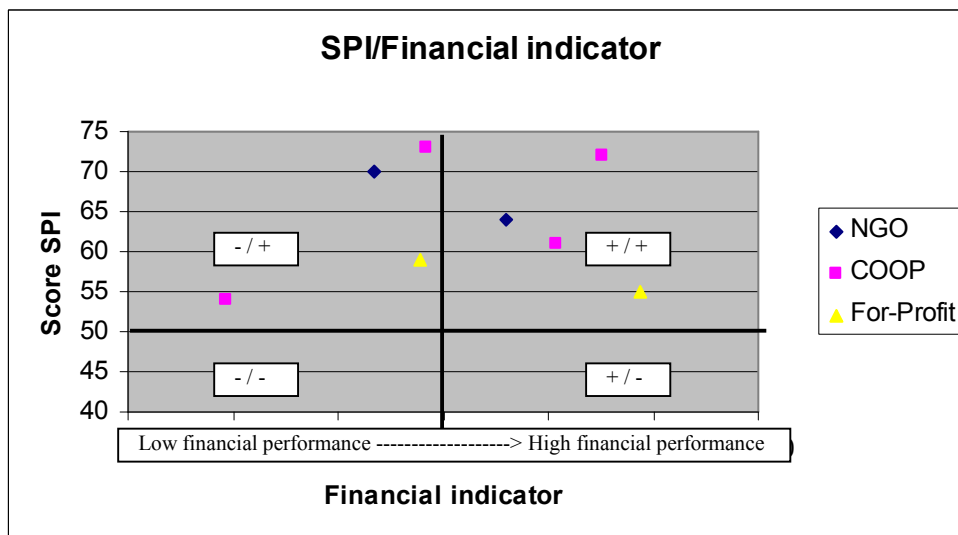
- by type of MFI: is there a link between institutional type and social performances?
- by geographical context (wealth of countries, continents, rural/urban): is there any particular focus on a dimension or sub-dimension according to geographical context?
- by size of MFI: can the size of the institution influence its social performance?
- by age of MFI: is there any evidence of mission drift?

(See the SPI2-report N°3)

Links between social performance and financial performance

Social performance must remain connected with financial performance. High social performance must not tempt MFIs to neglect or under-estimate financial sustainability.

Few financial indicators such as repayment rate, ROA, ROE, productivity of employees, self-sufficiency, etc. could be analysed with the results on social performance.



- / - MFI with both low financial performance and low social performance
- / + MFI with low financial performance and high social performance
- + / + MFI with both high financial performance and high social performance
- + / - MFI with high financial performance and low social performance

THE NEXT STEPS

The SPI initiative

The very positive point of the SPI initiative lies in the active participation of MFIs. They have used the SPI questionnaire as a learning process within their institutions and they have actively participated in the design process. This now gives them a sense of ownership of the tool. Active exchanges among stakeholders should remain the basis for future work on the tool.

At the end of the second phase, a general agreement has been reached among the partners on different points:

- Progress has been made towards measuring social performance; at this stage, “social performance assessment” appears more concrete, more realistic, less “swampy”!
- Both MFIs and other stakeholders have recognised the usefulness of the tool at this stage for internal discussions and definition of strategies, selection of indicators to be followed. Its external usefulness requires an external review to discuss sources of information, the strategy of the MFI and the process involved behind each indicator (not simply the “score” of the indicator);
- There is general agreement on the four dimensions. They offer a complete vision of what social performance can be for an MFI, but of course, there are underlying models or social strategies behind each dimension or indicator, and some MFIs may choose not to follow a model (such as member-based models and participation in dimension 3) or a strategy (such as outreach to the poor or remote rural areas in dimension 1). The questionnaire gives a very broad picture. The MFIs and the other stakeholders have to discuss how they are situated within this broad picture.
- Social performance remains complementary with financial performance. In any case, financial performance remains the basis for sustainable institutions.
- The different stakeholders involved in the SPI initiative, and other initiatives on social performance management, share common perspectives on the dissemination and improvement of the approach, focusing on strengthening and developing social performance for the MFIs.

Links with social performance initiatives

On March 17, 2005, the Argidius Foundation, the Ford Foundation and CGAP brought together leaders from various social performance initiatives in the microfinance industry to make an agreement on a common social performance framework and to develop an action plan to move social performance forward. Two working groups were formed as a result of this meeting – a Social Performance Task Force (“SP Task Force”) and a CGAP Donor Working Group on Social Performance. The SP Task Force is working to improve communication with the industry on what is meant by social performance, and to describe the different levels of social performance and the diverse range of questions that people seek to address through social performance measurement and management. The CGAP Donor Working Group is working on developing good donor practice in social performance and

supporting the development of industry standards and benchmarks for social performance.

The SP Task Force developed a common action plan that takes advantage of the synergies between the different groups who are carrying out social performance initiatives – primarily the CERISE group, the Imp-Act Programme, CGAP-Ford Social Performance Indicators Project, The SEEP Network, and the Council of Microfinance Equity Funds. The members of the SP Task Force are collaborating to come to agreement on terminology, increase learning, disseminate findings, build industry-wide support, and create a common calendar for social performance activities.

The following summarizes the agenda of the SP Task Force for 2005:

Refine definition of social performance

The purpose of this subcommittee is to come up with a single definition of social performance for the industry to use.

Develop a common website

The website will help to disseminate information on all initiatives and findings. The subcommittee will determine where it is hosted, who the content manager is, and who finances it. The website will post all of the logos of the institutions that are active in the task force.

Develop a common reporting site

This subcommittee will develop recommendations for what is reported and when. There is general agreement on the MIX as the common reporting site.

Draft a mission statement, a declaration of principles

This subcommittee will write a sign-on letter promoting a collective vision of task force members. It is aiming to reflect the concerns of investors, raters, donors, and practitioners.

Develop a strategy for advocacy amongst practitioners and networks

The purpose of this subcommittee will be to expand the community of practitioners, investors and donors who understand and put into practice social performance. The subcommittee can use the task force mission statement/declaration of principles as an instrument to communicate with other practitioners, networks, donors, and investors concerning the importance of social performance.

Initiate a discussion amongst ratings agencies to focus on social performance rating

Some ratings agencies have begun to develop or are considering developing social performance ratings. This subcommittee will meet in an effort to take those developments into account and to coordinate efforts in this arena.

Funding

In addition the SP Task Force will look for resources to encourage institutions to engage in social performance measurement, management and reporting.

CGAP Donor Working Group on Social Performance

As mentioned in the background statement, this working group is not part of the SP Task Force but will coordinate with it. The purpose of the group is to focus on what 'good donor practice' is in social performance. This group is in the process of being formed.

Next Meeting

October 24, 2005 will be the next meeting of the SP Task Force. The meeting, sponsored by CGAP, the Argidius Foundation and the Ford Foundation, will be an all day session and will take place at the SEEP Network during their Annual General Meeting in Washington, DC so as to increase the number of practitioners and networks participating in the dialogue. Each of the subcommittees will report back to the group on progress made. In addition, the task force will come to an agreement on terminology and sign on to the common mission statement.

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Appendix (see document on CERISE's website: <http://www.cerise-micro-finance.org>)

Appendix 1 – The old version of the questionnaire (SPI1.1), tested during the second phase of SPI

Appendix 2 – Comments by MFIs and external review

Appendix 3 – Finsol – 9-10 Jan 2003

Appendix 4 – Finsol – Oct 2003

Appendix 5 – Comments Flying Rhinos

Appendix 6 – Comments Trias – Belgium Network

Appendix 7 – Comments SEEP – Poverty Assessment Working Group

Appendix 8 – Savings and Credit Forum – Bern, November 19, 2004.

Appendix 9 – Comments virtual meeting – Nov 29 – Dec 20, 2004.