



**M-CRIL is offering a Social Rating product:
A new service to help meet the double bottom line in microfinance**

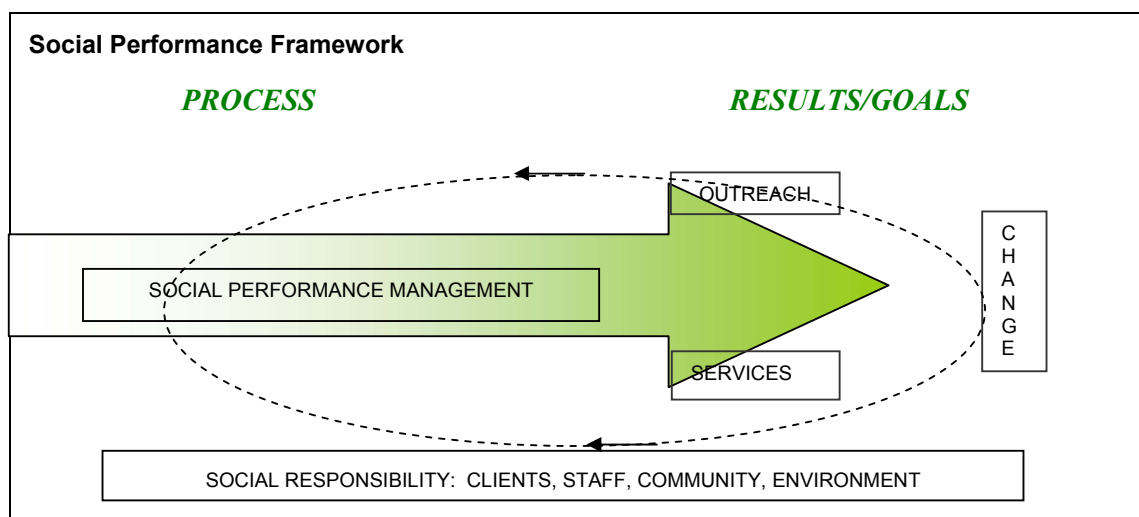
Microfinance rating until now has focused on organisational and financial performance related to risk assessment. Financial sustainability is vital for continuity and expansion, but is only half the story of microfinance. Most microfinance institutions (MFIs) and those who support them (investors, bankers, policy-makers, donors) have a *social mission*: such as to provide appropriate financial services in under-served areas, to families previously excluded from the banking sector, to support their micro and small enterprises, contributing to the empowerment of the poor, especially women, and meeting other financial needs, so as to reduce vulnerability and poverty. Such mission statements are seldom backed up by evidence of whether they are being achieved.

Social Rating can help to address this long-felt gap in the sector, contributing to greater transparency about what MFIs are achieving. When placed alongside a Credit Rating, the Social Rating enables comparison of the social and financial performance of MFIs, providing an assessment of the double (if not 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.

What is Social Rating?

Social Rating is an assessment of the likelihood of an MFI achieving social mission, in line with accepted social values

The Social Rating tool draws on the definition of social performance as the *effective translation of mission into practice, in line with accepted social values*. This definition (adopted by the Social Performance Task Force) emphasises 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).



----- Information flow feeding back into Social Performance Management by the MFI

What does Social Rating cover? Social Rating covers context information about the MFI, the steps involved in translating social mission into practice and compliance with principles of social responsibility. The key dimensions are outlined below. Rating usually depends on data available with the MFI. However, MFI data is geared primarily to portfolio reporting for financial performance. To assess social performance results at the client level, M-CRIL offers the option of a field sample survey as part of the Social Rating, to cover outreach and client feedback [SGO and SGS below]. The advantage of this is that it provides a **valid basis for assessment of some of the results** of microfinance services. An additional advantage is that the rating survey can be used as a baseline for later follow-up of the same sample to assess change over time [SGC below]. If, on the other hand, the MFI does have fresh available data on results (including impact related reports), these will be verified and used as part of the Social Rating.

Dimensions covered by Social Rating

- **Context:** profile of operating environment (secondary data), MFI profile, services and client data
- **Social Performance Management [SPM]** ^S – mission definition and whether management systems (including targeting, incentives and reporting) are strategically aligned to MFI's stated social objectives
- **Social Responsibility [SR]** – to clients ^S (client protection – code of conduct and systems to comply); includes (where applicable) Gender Approach, ^S Member Governance, ^S and Non-Financial Services; other dimensions of SR (to community, staff, environment) may be included
- **Social Goal Outreach [SGO]** ^S – depth and width: distribution of clients in underdeveloped areas, depth ratio (based on portfolio data); direct client level information profiling poverty, household income levels and quality of life indicators (recently joined clients – no impact yet); hired (non-family) employment in credit supported enterprises (for 'indirect' outreach)
- **Social Goal Services [SGS]** ^S – range of services; client feedback on client protection issues (awareness and experience), client satisfaction; drop-out rates and reasons for drop-out.
- ❖ **Social Goal Change [SGC]** – any evidence on outcomes or impact from available reports (including indicators relevant to MFI's social objectives, as well as those contributing to the MDGs)

^S These dimensions are scored as part of M-CRIL's Social Rating; other dimensions may be described without scoring

Why have a Social Rating?

- To promote greater transparency on social performance
- To benchmark social performance across the microfinance industry
- To encourage MFIs to improve their social performance management and reporting
- To promote investment in MFIs with strong social performance.

Social Rating experience so far

A Social Rating is ideally carried out with – and complements - a Credit Rating. Both ratings involve detailed discussions with MFI management and staff and review of MFI data and relevant reports. The Social Rating takes an additional 5-15 days (depending on whether a field survey is included – as recommended, by M-CRIL, to obtain valid information on depth of outreach and client feedback). The report presents the MFI data on each of the dimensions of social performance listed above, together with a scoring for some dimensions, resulting in an overall grade that reflects M-CRIL's opinion on the MFI's social performance.

M-CRIL has undertaken seven Social Ratings during 2005-6 – in India and Bangladesh. The first pilot example for an MFI in South India (BWDA) is available on the M-CRIL web-site, www.m-cril.com; and also on the Rating Fund web-site, www.ratingfund.org. Later examples, which have served to develop the tool further, will be available shortly.

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