



Micro-Credit Ratings International Limited offers Comprehensive social rating to complement financial rating

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*. A social rating complements the financial analysis of a credit rating with analysis of the social performance of MFIs, providing an assessment of the double (or triple) bottom line.

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

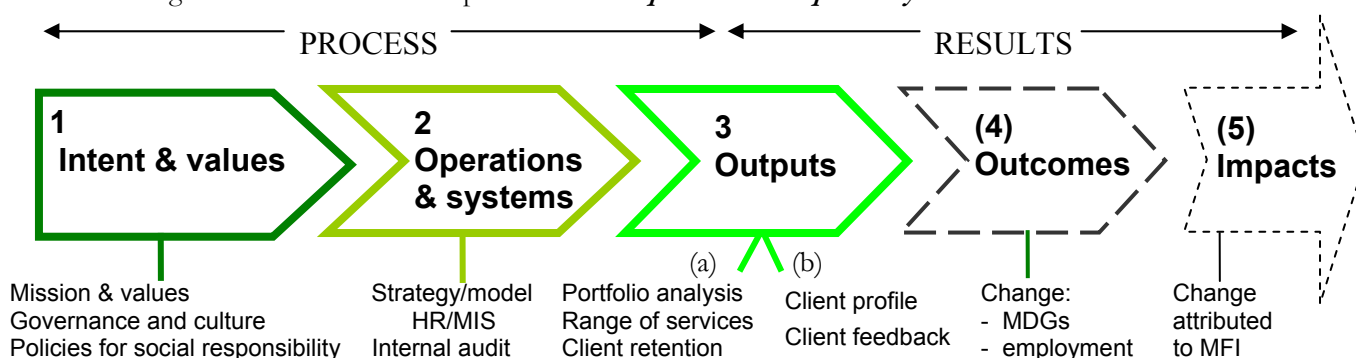
The social rating tool has evolved with current thinking around social performance in terms of strategically analyzing the steps that are necessary to create impact (in comparison with a focus on impact assessment per se). Social performance is defined as:

the effective translation of an institution's mission into practice in line with accepted social values; social values include serving poor and excluded people, improving quality of services, supporting enterprises and employment, improving the economic and social conditions of clients, and being socially responsible.

[Social Performance Task Force]

This new definition emphasises governance and management processes, outputs and outcomes (not just impact), and generic values around outreach and social responsibility. This approach has the inbuilt flexibility to be relevant to all MFIs, with varying models of microfinance and different articulations of mission.

Social rating covers the first three steps of the *social performance pathway*:



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. M-CRIL is a member of the Social Performance Task Force, chairing the sub-committee for social performance rating and reporting.

The conceptual framework and methodology has been refined through a series of pilots starting in 2005. **17** preliminary social ratings were undertaken in India and Bangladesh. Since 2007, M-CRIL has completed **8** comprehensive social ratings in India, Vietnam, Cambodia, Kenya, S Africa, Haiti and Bolivia.

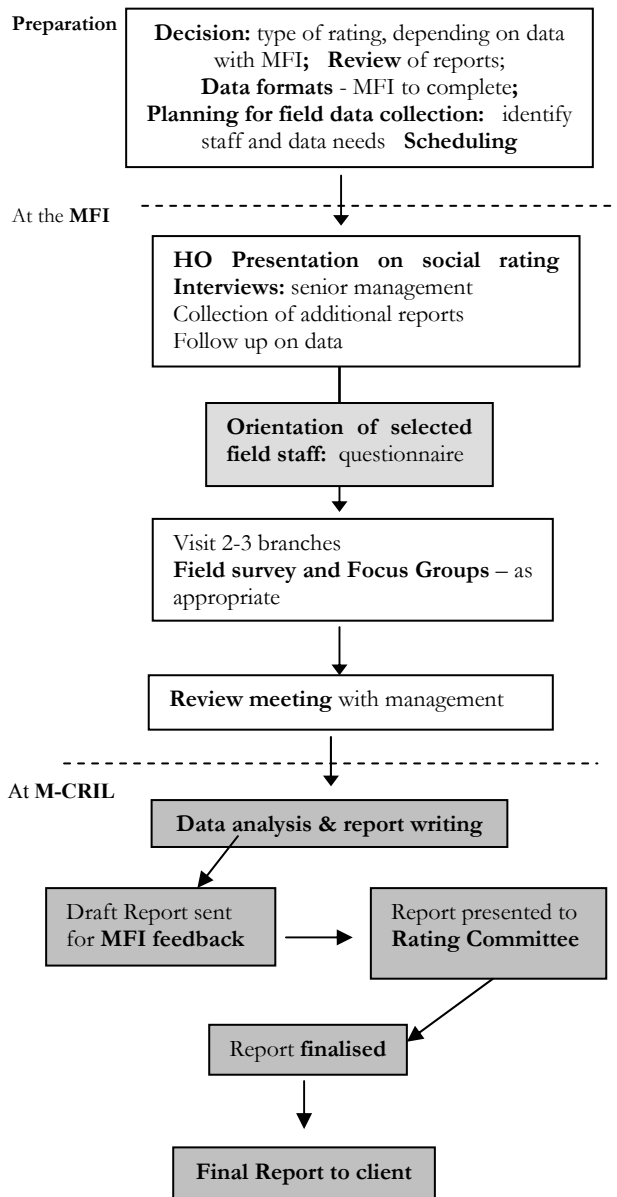
Why have a Social Rating?

Social rating offers a number of important benefits – as an internal management tool and as a reporting tool – to **MFIs, funders** and **discerning social investors**:

1. It encourages MFIs to **improve** their social performance management and reporting.
2. It promotes **transparency** on social performance and social risk
3. It provides a basis for **benchmarking** and comparing social performance
4. It provides information relevant to external **social reporting**
5. It **promotes** investment in MFIs with a strong social performance.

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 Process



Key questions addressed

- ⇒ **Mission clarity and alignment of systems:** Does the institution have a clear and comprehensive social mission that is shared by all stakeholders and integrated in decision-making? Are its services and strategy consistent with mission? Does the institution orient and incentivise staff appropriately? Does it have systems in place for effective monitoring and reporting on social objectives?
- ⇒ **Social responsibility to clients:** Is there a clear code of conduct for client protection, covering key ethical principles, with effective mechanisms to monitor? What are the effective costs of services in comparison with accessible alternatives and microfinance costs? As applicable, are there effective processes for member governance or non-financial services?
- ⇒ **Other social responsibility:** What is the institution's policy on gender equity, staff benefits and opportunities, community and other stakeholder values, and environmental risks relevant to its operations? How effectively are such policies implemented?
- ⇒ **Outreach results:** In addition to the number of clients – is the institution reaching its target clients? Is it reaching the unreached (the poor, those otherwise excluded from formal financial services)? In under-served areas?
- ⇒ **Quality of services:** Apart from the range of services, are they appropriate to target clients? What is the market feedback? Are there any issues for clients? Are clients fully aware of all terms and conditions? What is the rate of drop-out (as an indicator of client dissatisfaction)?

Social Rating – Implementation

The social rating usually involves a team of two persons, spending 2-3 days at the Head Office and upto 3-5 days in the field. Careful preparation for the rating is necessary to establish the information available with the MFI, and deciding the scope of field level data collection for the social rating.

A social rating can be carried out at the same time as a credit rating, to provide a balanced and cost-effective assessment of the double bottom line.

Social Rating – Assessment

A relatively quick, practical assessment, with a focus on the steps to achieving impact and social value, the report presents findings on key questions of social performance. The graded assessment reflects M-CRIL's opinion on the MFI's social performance. In the context of country level development indicators and microfinance industry data, the report highlights:

- MFI adherence to social mission, alignment with accepted values, consistency of systems and results.
- Issues that need attention to improve social performance for mission consistency.

Contributing to social reporting and social performance management in microfinance