



# DAM Knowledge Management Forum



**Welcome To  
Presentation on  
Social Rating of MFIs**

**Dhaka Ahsania Mission  
Conference Room, August 28, 2010**



# What is a Social Rating?

- ❑ **Social Rating is an independent assessment of an organization's social performance using a standardized rating scale.**
  
- ❑ **The Social Rating is an external, credible and accountable assessment which provides objective judgment on the social performance of the institution.**
  - **The social rating consists of a social performance evaluation of a MFI, intended as its institutional capacity of putting its mission into practice and achieving social and development goals.**





# Social Rating: Different Terminologies

- Social Performance
- Social Accounts
- Social Accounting
- Social Responsibilities





# Social Performance

The effective translation of an institution's social goals into practice in line with accepted social values that relates to.

- Reaching target people, serving increasing numbers of poor and excluded people
- Delivering high-quality and appropriate financial services
- Responding to the needs of clients, their families, and communities
- Ensuring responsibility toward its employees, its clients, the community it serves, and the environment





## **Social Accounts**

**Social accounts refer to the information on social performance gathered by the MFI through the variety of assessment tools it uses.**

## **Social Accounting**

**The process of gathering social accounts (information) is referred to as “Social Accounting”.**





# Social Responsibility

The evaluation of the social responsibility includes a review of the systems in place to guarantee that **clients** will be treated with respect and dignity and a review of the fairness of the **human resources policy**. The efforts made by the institution to contribute to the **community development** through means **other than financial services** and to optimize the **environmental impact** of its activities are also taken into account.

*Cont...*





# Social Responsibility

*Cont...*

## Social Responsibility to Clients

- Fair and transparent pricing;
- Effective communication
- Sensitivity to over-indebting clients (effective credit appraisal and monitoring)
- ethical behavior of staff, including appropriate debt repayment practices;
- provision for loan insurance; and
- pro-active mechanisms for client complaint and redress
- **Application of Gender Approach**
- **Extension of Non-financial services**





# Social Responsibility

*Cont...*

## Social Responsibility to Community

- A policy for the type of activities for which credit is provided,
- Other support to the community (investment and donations, as a percent of revenues);
- Funding in event of collective disasters (as a percent of revenues)
- positive action to improve local culture, e.g., governance, anti-corruption, and other social values.





# Social Responsibility

*Cont...*

## Social Responsibility to Staff

- Staff training
- Salary structure (and benefits) in line with comparable sectors;
- Security of working conditions;
- fairness and transparency of incentive schemes as perceived by staff; and
- feedback mechanisms for staff and their involvement in decision making.

## Social Responsibility to Environment

- application of Environmental policies
- process for improving staff competency to address environmental risks etc..

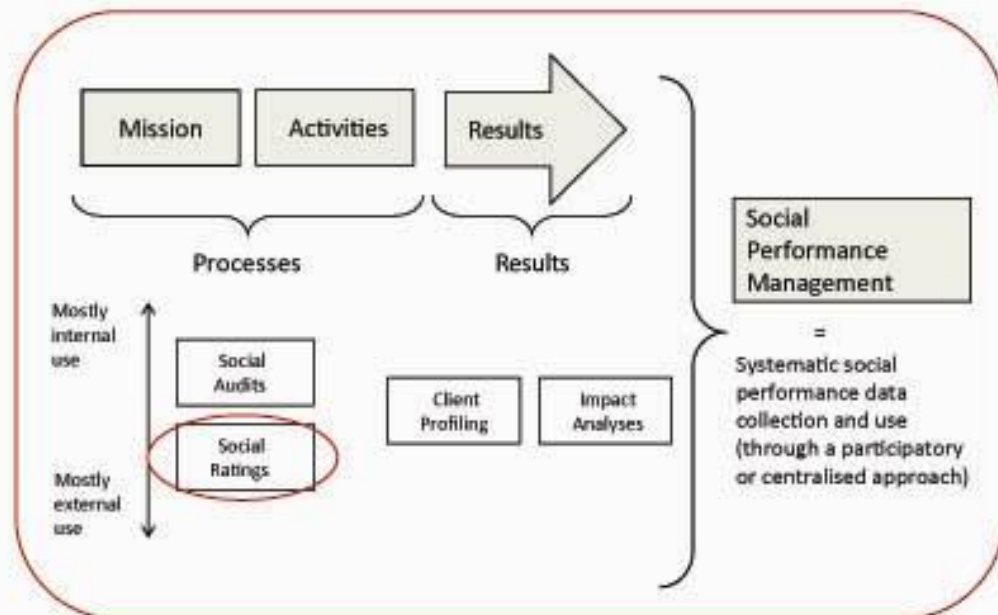
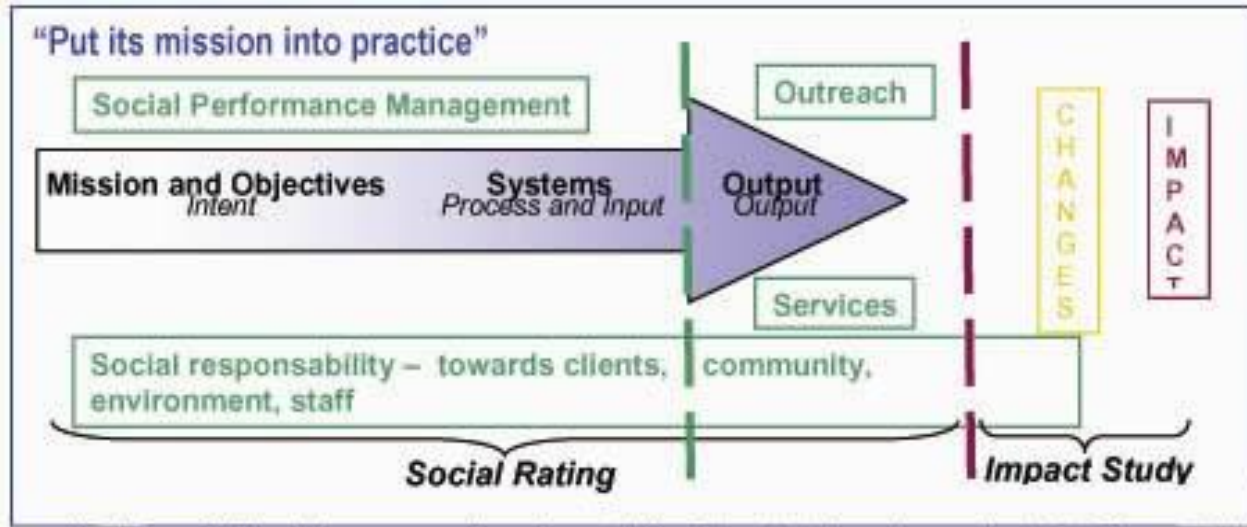


# Social Performance Management



- ❑ **Social performance management refers to clarity of mission and the alignment of an organization's strategies and systems to its social mission. This dimension includes:**
  - **clarity and communication of mission;**
  - **establishment of specific social objectives**
  - **alignment of organizational systems (human resources, incentives and MIS) with objectives**
  - **monitoring and reporting of the achievement of these objectives (through, for example, poverty scoring of clients, conducting market research, taking drop-outs, setting up impact studies); and**
  - **use of such information for strategic decision making**

# Social Performance Management Framework



# Why it is important to assess social performance?

- MFIs have an ethical responsibility to account for their social performance in a reasonably transparent manner.
- Helps MFIs create a more client-centered organization with products and services that are more demand driven.
- Facilitates better financial performance
- Allows MFI managers to measure and manage the tradeoffs between financial and social performance.
- Permits social performance benchmarking
- Allow socially-oriented MFIs to demonstrate their **“blended returns”** to the donors and investors





# Why it is important to assess social performance?

- MFIs can be held **accountable** to their Social Mandates
- Because **transparency** is essential for the sector's credibility – Demand from donors and investors
- Improved MFI social performance = **greater social impact**
- Improved social performance is correlated with improved **financial performance**





# Social & financial performance: a mutually beneficial relationship

- ❑ **Good social performance can positively impact operational and financial performance**
  - ❑ **Wider outreach = less competition, diversified risks**
  - ❑ **Satisfaction and trust = clients loyalty**
  - ❑ **Appropriate services = better returns for clients = better repayment**
  - ❑ **Client involvement in MFI = lower operational costs and greater opportunities for innovation**
  - ❑ **Decent work conditions = loyal and committed staff**



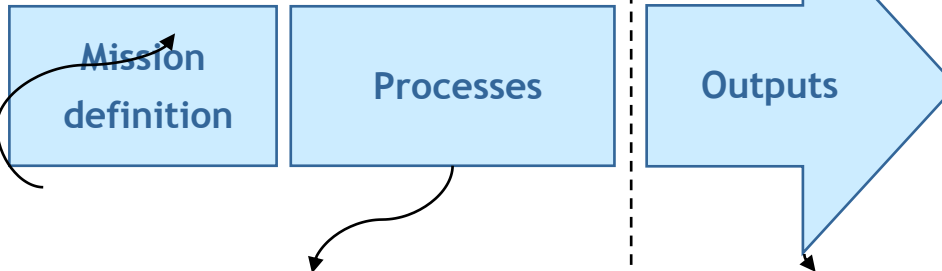


# What Do “Social Rating” Rate?

Does the MFI have a clear social mission (“alleviate poverty” or “participate in the economic development” or contribute to “women empowerment”)

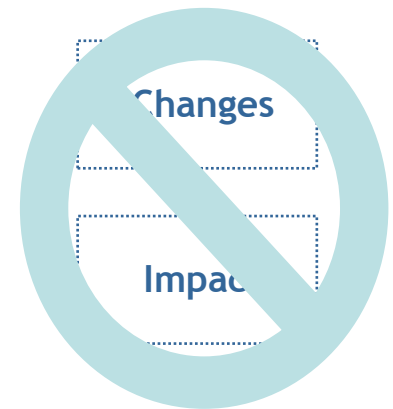
Is the MFI serving its target clientele?  
What is the profile of MFI clients?

Not rated / not ratable so far



Is the MFI organized to implement its social mission in an efficient and effective way?

Does the MFI provide efficient financial services adapted to those that are usually excluded from these services?



Rating can provide an opinion on “the likelihood that the MFI produces significant social impact both now and in the future”





# Social Rating Process

- **Interviews**
  - management team,
  - loan officers, branch managers, clients
  - Board of directors' members
- **Conduct survey for collecting client level information**
- **Document review/Information verification**
- Loan documentation etc.

# Level of Social Performance Indicators

- **Outreach**
- **Quality of Services**
- **Social Responsibility towards client protection**
- **Social Responsibility towards client satisfaction**
- **Social Responsibility towards Employees**
- **Social Responsibility towards Environment**
- **Job Creation and Consolidation**
- **School Enrolement etc.**





# Rating Scale

**5 – Advanced:** Long lasting commitment of social goals; efficient management of social performance and social responsibility risks; institute very likely to achieve a positive social impact.

**4 – Convincing:** Clear commitment to social goals; reasonable management of social performance and social responsibility risks; institution likely to achieve a positive social impact

**3 – In progress:** Clear intent to reach social goals; social performance management systems being implemented

**2 – Incipient:** Clear intent to reach social goals; low capacity to manage social performance

**1 – Intangible:** Intent to reach social goals is non tangible; low level of management of social performance





Thank You