

Part II: Institutionalising Social Performance

5. Simple Standards or Burgeoning Benchmarks? Institutionalising Social Performance Monitoring, Assessment and Auditing of Microfinance

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1. Introduction¹

Assessment of financial performance of microfinance organisations (MFOs) is far from perfect, but it is fair to say that it is institutionalised.² Rules and norms govern these activities sufficiently strongly that: (a) almost nobody questions why it should be done, and (b) agreed standards and routines govern how. The key question to be explored here is whether it would be desirable to achieve a similar degree of institutionalisation for goal setting, monitoring, assessment and auditing of the social performance of MFOs, and if so how to go about it. Social performance refers mainly to the direct impact (physical, social, economic, political, cultural, psychological) that MFOs have on the activities and well-being of users of their services. But wider impact, on other family members, employees, business associates, competitors, neighbours, those excluded from using services, and institutions governing society more generally, are also important. Thus social performance also includes the impact of microfinance on poverty.

The terminology of financial and social performance of an organisation is linked in turn to the concept of the “double bottom line”, and the view that MFOs should aim at becoming both viable commercial organisations and catalysts of social development (Tulchin 2003). This is a bold but fragile dream, easily subverted by populists and cynics alike. The view taken here is that generalisation about overall impact of microfinance, or lack of it, matters less than small steps in the right direction. This includes steps towards institutionalising a hard-headed culture of learning how to improve social performance, both within MFOs and across the microfinance industry/community.

The term “social performance” echoes the recurrent preoccupation within public policy with defining goals, assessing performance against those goals, and ensuring that there are strong feedback or performance management systems to help organisations monitor, reflect upon and improve practice. But, given the diversity and complexity of MFOs, it is important that striving for consistency, both within and between MFOs, is reconciled with the need for flexibility. For example, greater consistency in measuring the poverty of clients

Table 1: Financial and social performance management compared

	Internal components	External components
Financial performance management	Accounting and financial control systems	Regulatory framework and independent auditing
Social performance management	Monitoring and evaluation activities, human resource management	Formal external impact assessment and social performance auditing

would be welcome, but not if one indicator becomes too dominant a criterion by which social performance of all MFOs is judged. The general problem is to avoid unthinking replication of what is naively regarded as universal best practice. For example, the Grameen Bank has recently been through a quite radical process of “re-engineering” (Yunus 2002), but other MFOs may be right to opt for more gradual change.

Benchmarks set standards of good practice to which members of a peer reference group are encouraged to aspire. They vary widely in scope and ambition. At one extreme a benchmark may consist of little more than a checklist of questions against which an organisation can be assessed. But benchmarks may also help to bring about greater clarity and consistency in definition of terms, measurement of indicators, methods for evaluating performance against agreed yardsticks, and systems of quality assurance. The concept is already established in microfinance with respect to financial performance (see especially MiX 2002), where the scope for agreement on quantitative standards are greater. But the idea of agreeing on a more general social performance benchmark is also advancing rapidly (see Zeller *et al.* 2003).

A benchmark has the potential to increase efficiency, quality and transparency of a peer group or network of organisations (Copestake 2002a). However, the tool also carries with it real dangers. For example, benefits can be outweighed by the costs of setting up, monitoring and complying with it (Power 1997). Benchmarks can also foster an undesirable degree of uniformity, and be used as a weapon by those with power to impose their vision on others. Thus, while suggesting a rational, technical approach to development, the process of benchmarking is unavoidably political and risky. Much depends upon the level of detail to which a

benchmark aspires. This article argues in favour of keeping standards simple, thereby developing a benchmark to which the vast majority of MFOs can subscribe. This is compatible with an evolutionary process of continuous improvement in social performance based more on peer pressure, that is likely to be more effective than one dictated by donors, international consultants and regulators.

Care is also needed in thinking through the political processes by which compliance with a benchmark is monitored and enforced. There is little doubt that sponsors of microfinance will use any agreed social performance benchmark to make decisions about resource allocation. If compliance with a benchmark can be reliably audited then it can help to reduce the lack of clarity, cost and inconsistency of current performance assessment and resource allocation processes. If not, then the benchmark can set up a conflict between better performance and the appearance of better performance.

A first step in developing a simple standard for social performance of microfinance is to distinguish between internal and external requirements. The internal agenda is how to institutionalise a culture of concern with social as well as financial performance. The external agenda is to develop systems for sharing credible evidence about social performance with other stakeholders, including investors, donors, and regulators. This distinction can be clarified by comparing social and financial performance measurement (see Table 1).

This article starts with the internal agenda. Section 2 proposes a unified framework for selection of goals and indicators. Section 3 proposes a minimalist system for monitoring changes in client status, and Section 4 explores options for impact

assessment. Section 5 starts by exploring factors affecting the quality and effectiveness of social performance assessment. It argues that external stakeholders should rely less on independent impact assessment studies, and more on periodic audits designed to reinforce internal social performance. The main arguments of the article are summarised in Section 6.

2. Social performance goals

While considerable progress is being made in standardising on indicators of the financial performance of MFOs, this cannot be said for social performance. One positive aspect of this is that organisations have more room for manoeuvre to specify the goals and indicators that are appropriate to them. On the other hand, much avoidable ambiguity and confusion reigns over the precise meaning of social performance goals, particularly outreach and poverty reduction impact. This section suggests a typology of social performance goals that combines the six dimensions of outreach originally put forward by Mark Schreiner, with a distinction between three forms of poverty impact suggested by Martin Greeley.

2.1 The Schreiner framework

A useful starting point here is a distinction between six dimensions of outreach proposed by Schreiner (2002). These are breadth, scope, depth, worth to users, cost to users and length:

- Breadth refers to the number of people with access to financial services at any moment in time. Increasing breadth of outreach is almost always an organisational goal, and one that is relatively easily defined and measured.
- Scope refers to the nature of the service being provided – loans, savings facilities, insurance products, payment services, training and so on. It should be relatively straightforward for organisations to monitor who is using particular services, using the same systems that measure breadth.³
- Depth refers to the social status of users, and is based on the view that greater social value may be given to services provided to poorer people.

- Worth to clients refers to benefits arising from services. Costs to clients refers to the transaction costs (including investment of their own time) incurred obtaining these services. Combining these two dimensions gives *net worth*, or a measure of value added to client, which is the central concern of impact assessment.
- Length refers to the capacity of the organisation to sustain provision of services over time. Hence within the double bottom line framework it falls mainly under financial rather than social performance.

To simplify, this article suggests that a social performance standard should include a statement of goals and targets with respect to breadth/scope, depth and net worth to users. The next step is then to consider mechanisms for assessing performance in relation to each.

2.2 The Greeley framework

Before doing so, however, it is worth considering how this framework relates to the goal of poverty reduction. Martin Greeley (article 1, this *Bulletin*) has proposed that it may be useful to distinguish between:

- direct impact on income poverty;
- direct impact on other dimensions of poverty;
- wider impact on poverty.

Direct impact refers to effects on people who are themselves clients of MFOs, plus other members of their household. Income poverty can be defined in various ways, but the currently dominant approach is to use local equivalents of the absolute ‘\$1 a day’ poverty line enshrined in the Millennium Development Goal (MDG) to halve the proportion of people who are poor in 2015 as compared to 1990.⁴ An advantage of this goal is that it is precise, universal, and links microfinance explicitly to a broader development movement (Littlefield *et al.* 2003).

However, enshrining direct impact on the number of people falling below a single income poverty line as a prime social performance yardstick would be hugely contentious. The long list of problems include reliability of per capita income estimates, their stability over time, their accuracy as a general

Table 2: An overarching framework for specifying social performance goals?

Dimension(s) of outreach	Performance goal(s)	How to measure?
[Length]	Organisational sustainability (i.e. financial performance goals)	Financial accounting system
S1. Breadth and scope	S1.1 Number of savers in a given period S1.2 Number of active borrowers in a given period S1.3 Users of other services etc	Routine monitoring reports
S2. Depth	S2.1 Proportion of users within an agreed definition of income poverty S2.2 Proportion of users within other socio-demographic categories linked to poverty and social exclusion	See Section 3
S3. Net worth	S3.1 Net direct contribution to income poverty reduction S3.2 Net contribution to non-income measures of poverty and exclusion S3.3 Other direct impacts S3.4 Wider impact on poverty S3.5 Other wider impacts	See Section 4

measure of human well-being, and the tendency to discount income changes that do not happen to push individuals across a single poverty line.

Turning to the second goal, other dimensions of poverty might include food security, adequate housing, water supply, sanitation, education, health and personal freedoms. These are also enshrined in the MDGs, and their inclusion in any standard would certainly make it relevant to a wider range of MFOs. Indicators of housing quality, water access, education and life expectancy are often easier than income poverty to measure, and generally more stable over time. Personal freedom, by contrast, is harder to measure in a standard way. However, given its historical and ongoing importance to microfinance – particularly the goal of women's empowerment – and indeed to the MDG, it certainly needs to be included (Kabeer 2003).

The third goal – wider impact on poverty – includes job creation and the formation of community support networks, and is particularly important for organisations that do not necessarily aim to provide services for the poor, even if they are committed to poverty reduction. Incorporating wider impacts

poses additional challenges for social performance benchmarking. They are not only likely to take more time to appear but also to be harder to attribute to the influence of just one organisation. This suggests that responsibility for measuring wider impacts should be a collaborative effort between different MFOs.

2.3 Synthesis

It is fairly straightforward to combine the Schreiner and Greeley frameworks into a single typology of social performance goals. This is summarised in Table 2. The table also indicates the next step – namely specification of how performance goals are to be assessed. This synthesis provides a single set of concepts capable of reflecting the diverse goals of different organisations. Some MFOs may choose to align closely to the MDG by emphasising S2.1 and S2.1. Others may take a different view, but can still be accommodated: commitment to absolute poverty reduction is something that should be secured through persuasion not donor coercion. The framework also allows that the causal chain linking financial services to poverty is genuinely complex, especially when importance is attached to capacity to reduce future poverty as well as current poverty.

Table 3: Possible framework for classification of the poverty status of clients

	A. Higher	B. Middle	C. Lower
Labour market participation	Stable salaried employment or good employment prospects	Limited employment, but secure claims on other household members with stable employment	Casual and/or unskilled employment. Limited formal education
Physical assets	Diverse – especially own dwelling	Some – including household goods and business capital	Very few – hand-to-mouth existence
Savings and credit	Direct access to regulated savings and credit services	Maybe a savings account. But saving has a high opportunity cost	Unbanked. Reliant on informal services
Social and cultural resources	Diversified social networks, and forms of security against shocks	Intermediate. Scope for diversification away from dependence on a single patron	Dependent on informal sources of patronage as security against shocks, often on exploitative terms
Vulnerability	Low – diversified portfolio of resources through which to manage shocks	High – overwhelming fear of falling back into low group (e.g. through separation or illness)	Medium/high – but at cost of loss of autonomy (“security through servitude”)

3. Monitoring depth of outreach

The issue discussed in this section is how to track the socio-economic and demographic characteristics of users of different services over time. In retrospect, it is surprising how slow many MFOs have been to put in place systems for monitoring such basic variables as age, sex, education, location and loyalty of their clients. But this is changing as increased competition forces organisations to be more client-centred in order to adapt to their needs (Woller 2002). Peer pressure to monitor not only these variables but also poverty/depth of outreach has long been central to the campaign of the Microcredit Foundation. However, the US government has added further impetus by taking steps to require MFOs to track the poverty status of clients as a condition for future funding from USAID.

Debate continues about how this can be done. One approach, exemplified by the Consultative Group to Assist the Poorest (CGAP) Poverty Assessment Tool, separates the task from operations by delegating it

to specialised consultants. An important limitation of this approach is that unless MFOs are prepared to repeat the exercise periodically it generates only an occasional and expensive snapshot of depth of outreach. Continuous poverty status monitoring is more likely to be based on routinely collected data. ACCION (2002), for example, is using income and expenditure data collected as part of the procedure for appraisal of individual loans. A major challenge here is to ensure that data collected is sufficiently accurate and is comparable with benchmark national surveys.

A more cost-effective alternative is to rely for poverty monitoring on one or a few proxy poverty indicators that are less demanding to measure than income or expenditure. This approach can then be supplemented with periodic sample-based research into how strongly the indicators correlate with income-based and other measures. Freedom From Hunger (FFH), for example, is piloting an approach based on relatively simple questions about food

Table 4: Illustrative monitoring report based on a single indicator

Per cent of clients present in Period 1		Distribution of clients by category in Period 2				
		A=Higher	B=Middle	C=Lower	Exited	Totals
Distribution of clients by category in Period 1	Higher	15	5	0	0	20
	Middle	15	26	5	4	50
	Lower	0	10	15	5	30
	New	0	6	4	0	10
<i>Totals</i>		30	47	24	9	110

security, while CASHPOR⁵ has pioneered the use of housing and household asset indices.

Collection of such data should generally be integrated into the same management information system that monitors breadth and scope of outreach. In addition to choice of indicators, practical issues include: whether to collect the information routinely for all clients or only a sample; whether to use staff for the job; how frequently to repeat the exercise; and how to ensure data is reported in a way that is useful. Addressing these questions requires that a difficult balance be struck between cost, timeliness, reliability, adequacy and usefulness. Many systems seek to collect and analyse too much information, with the result that they are (a) too expensive to be sustained, and (b) too complex, confusing and cumbersome to influence management decisions effectively. A minimalist norm should therefore be to collect information on at least one indicator, but to do so regularly, sustainably and effectively.

Given the current level of experimentation and innovation with indicators, it is premature to propose that one or even a range of indicators should become standard for monitoring client status. However, there is perhaps scope for strengthening standards for the way such data is used. This does not refer to the controversial issue of poverty targeting, but to the effectiveness of reporting systems through which client status is reported to management for operational and strategic purposes.

To illustrate, the remainder of this section sets out a minimalist model. As an alternative to systems based

on a single objective poverty proxy, the illustration also relies on a simple three-fold poverty classification made by staff. Reliance on staff in this way has the advantage of encouraging them to find out more about the poverty status of clients, and to do so in a transparent yet easily quantifiable way. It need not be costly, because staff should know much of the information anyway. In addition, the quality of data is enhanced to the extent that they understand its relevance to the MFO's social goals, and see it being used to influence policy and practice.

Table 3 draws a distinction between just three categories of client, with the three categories given deliberately neutral labels (A=Upper, B=Middle, C=Lower). The multiple criteria used are only illustrative and could be adapted to specific social contexts. Staff might be asked to classify clients into one of these three groups when they first join, at regular periods thereafter and upon leaving. The distribution of clients in each category can then be monitored through cross-tabulation against other routinely collected data: group, area, name of field officer, branch, gender of client, age of client, age of group, length of membership of group, for example. The most useful cross-tabulations could then be generated routinely and changes monitored over time.

Whether these or other categories are chosen, the differences between them should facilitate thinking about how financial products can be matched to client characteristics. For example, an organisation might emphasise its role in provision of either protectional finance (stopping clients falling from A to B, or from B to C) or promotional finance (helping them rise from C to B, or from B to A).

Table 4 provides a hypothetical example of the kind of routine information that could be generated, in the form of a mobility matrix which compares changes in client categorisation over a one-year period. It reveals the following information:

- Client exit was 12 per cent over the year, but new entry was 10 per cent of the base year number. Hence there was a small net decrease in breadth of outreach;
- Those leaving and entering were in the bottom and middle categories;
- Of those who were clients in both periods, 56 per cent remained in the same category whereas 25 per cent improved and 10 per cent went down one category.

The same reporting format could equally be used for monitoring a classification of clients based on housing, educational attainment, average savings, self-reported household income or clients' own assessment of their well-being. Likewise, it could easily be produced for sub-groups of the total client population, including gender, age, and branch area. Production of reports by branch and field officer can also serve a quality control function.

It is important to emphasise that routine client monitoring of this kind does not itself constitute evidence of impact. For example, the net improvement in client status observed above (25 per cent better off, 10 per cent worse off) could reflect a general improvement in the economy. However, such information does provide a useful basis for generation of hypotheses about impact. It also clearly identifies the extent to which changing client status arises from entry and exit; a factor that often complicates interpretation of changes in social indicators.

4. Assessing net worth to users (impact assessment)

Impact assessment (IA) is here defined broadly as activities intended to provide evidence of net worth, or quality of outreach, to clients as well as wider impacts. Information on breadth, scope and depth of outreach is of little value without at least

some information on the extent to which use of services has also been of lasting benefit. A minimalist approach to IA might comprise only of routine assessment of client exit, on the assumption that those who remain reveal at least some positive preference for the MFO (Copestake 2003a). However, for most MFOs, there are also good grounds for eliciting some feedback from loyal clients, and for conducting research into wider impacts.

There has been considerable donor investment in generic IA tools for microfinance, notably those developed by AIMS⁶ and *MicroSave-Africa* (Simanowitz 2001). The *Imp-Act* programme seeks to build on these, as well as to strengthen the repertoire of methods for researching wider impact. But given the heterogeneity of MFOs, and their varied capacities, it is likely that a diverse range of approaches will continue to be useful. This section stops short of proposing a preferred list of methods; rather, it offers a broader argument about how IA is likely to be most cost-effective. It begins by emphasising the link between IA and client status monitoring. This leads to a strong argument in favour of smaller and more flexible approaches.

A client status monitoring system provides an essential foundation for IA for three reasons. First, it provides a comprehensive profile of clients for sample selection purposes. Second, systematic reports of changes in selected indicators, such as those illustrated by Table 4, generate hypotheses for IA. Third, it facilitates judgements as to how representative IA findings are likely to be. While knowing who your clients are, and how this is changing, is therefore a precondition for IA, it is not in itself sufficient. This is because status monitoring on its own does not explain why changes have taken place, and how far they can be attributed specifically to the MFO.

The monitoring system may be viewed as a detection and alarm system. This corresponds to the monitoring system already described, since this can be used to reveal unexpected deviations from expected patterns of change. For example, a sudden increase in the share of clients falling into Category C within groups managed by a particular field officer might attract attention.

The IA component of the system may be viewed as an emergency response system. IA is commissioned to explain unexpected events and deviations from trends. In this case the fall in Category C clients might be explained by poor classification by the field officer. Alternatively, clients in her area may have experienced an unexpected shock such as an increase in local theft or a disease epidemic.

If the goal is to institutionalise ways to understand impacts on different categories of client, then there is a case for localised, quick and flexible methods, rather than comprehensive but methodologically indivisible survey-based methods.⁷ Nevertheless, so long as care is taken in documenting sampling methods and maintaining methodological consistency it should also be possible to build up a reasonable picture of impact across the whole client population (see MkNelly *et al.* 2001 for methods on qualitative sampling). Selecting a random sample of all clients at the outset is unlikely to be as efficient as selecting particular groups of client for investigation sequentially. Each round of detailed investigation is likely to be useful in informing choice of the next group that should be selected (Copestake 2002b).

While arguing for a relatively flexible system, there is a strong case for including IA of both leavers and stayers. Exit is itself often a powerful statement about impact, and practical considerations also affect how it can be organised. Copestake (2003a) discusses different approaches.

Turning to consider IA of retained clients, a variety of quantitative and qualitative methods are available, and all that a benchmark should require is that MFOs justify their particular preferences. For most MFOs, the core tools are likely to be focus groups, key informant interviews and mini-surveys, for which AIMS and *MicroSave-Africa* already provide generic protocols. Copestake, Johnson and Wright (2003) suggest there is also a need for a generic qualitative impact protocol (QUIP) based on in-depth interviews.

There is again a tension here between flexibility and consistency of approach. Technique is important, but so are goals and scope. For example, the best method, or mix of methods, will depend upon whether the main source of demand

for impact data arises from a review of specific product characteristics or wider strategic issues and policies. It will also depend upon the prior knowledge and understanding of the main target audience, which will determine how rigorous and comprehensive additional IA needs to be. Therefore flexibility is very important. On the other hand, consistency in use of methods and sampling makes it easier to clarify the “big picture” when combining information – ideally between MFOs as well as within them (Copestake 2003b). It also allows suppliers of IA data to develop expertise in its production, and users to become more skilled in its interpretation.

The size of the team dedicated to impact work can be varied according to perceived need, with a work programme comprising a mixture of ad hoc and routine studies. Recruitment of additional investigators to support core staff can take place as required and as funding permits. A strong internal supervisory group is also essential to monitor outputs of the team and to direct its work priorities. This leads on to the issue of performance management, or how impact monitoring and assessment data is used.

5. Performance management

This section starts by exploring why making effective use of impact data is not always easy. It then suggests that external stakeholders have an important role to play in overcoming some of the difficulties and suggests that a step in the right direction would be routine social performance auditing.

Assessing net worth to clients is not an end in itself, but a means for informing decisions about whether services can be improved. Perhaps the greatest weakness of IA in the past has been a failure to institutionalise the feedback loop whereby findings inform the organisational goals, policies and practices. This section first discusses internal performance management, then broadens the discussion to include the role of external stakeholders.

Breakdown in the feedback loop often arises from the failure to analyse data in a way that generates information that is sufficiently succinct and timely

to influence decisions (McCord 2002; *Imp-Act* 2003). This has often been borne of lack of experience, leading to over-ambitious studies that underestimate the cost and methodological complexity of the task. Another common problem is failure to budget sufficient resources for discussion of findings and piloting of possible responses. However, these bottlenecks are themselves often a symptom of deeper issues. Most importantly, a necessary precondition for effective social performance management is a commitment to it on the part of MFO leadership (article 9, this *Bulletin*).

If an MFO is struggling to survive at all then social performance management is almost inevitably relegated to financial performance management. Reliable feedback may also limit its room for manoeuvre. It may be safer to hide behind weaker but bolder claims to positive impact that conform to what donors also want to hear in order to disburse funds. Improving the quality of IA is risky, because it may reveal social performance that falls short of MFO and donor rhetoric, and it is safer to rely on informal information that can, if necessary, be “buried” (Martens *et al.* 2002). This is not to accuse MFO leaders of acting cynically. Rather, I think they often hesitate to invest more heavily in such work because they doubt that the additional insights they expect to gain will justify the cost. The result can then be a vicious circle: low management expectations of IA result in poor studies, and these reinforce the low expectations.

Public sponsorship of such work offers a potential way out of this funding trap, but also introduces a new problem. This is that conditions attached to IA divert it from models that serve MFOs’ own management interests. The solution to this problem is then for subsidies to be subordinated to implementation of MFO leaders’ own social performance management agenda. This requires a risky power reversal which may be closed off by donors’ own bureaucratic structures of accountability (Grammig 2002). On the other hand, if successful, such reversals can also have positive feedback effects: good IA-improving social performance, making good social performance even easier to measure. This can also encourage greater transparency, enhance the MFO’s reputation and make it easier to mobilise resources.

It follows from the above that organisations committed to finding such positive social performance spirals should be interested in developing internal quality assurance mechanisms. An important issue here is the division of labour for such “higher loop” organisational learning between operational and specialist staff. The latter are needed to ensure that the task is not buried, but the need for realism and ownership of the process require that such specialists also have to work closely with other staff (Edwards 1997; Copestake 2000).

The work of specialist units can also be the core contact point for independent auditors. This is also likely to be a more cost-effective approach to auditing than the traditional independent IA study. The idea of a periodic social performance audit is currently underdeveloped, yet corresponds more closely to that adopted for validating financial performance (Cheston and Reed 1999).⁸

Ideas for elaborating on the idea can also be drawn in part from the experience of social ethical accounting (Zadek and Raynard 1995).⁹ Experience with institutional auditing, or external reviewing of management structures and systems are also relevant (see USAID 2000). However, the proposal for social performance auditing is narrower in its focus on clients rather than other stakeholders, and on outcomes rather than internal processes. As such there may be an even closer link to be forged between the idea and growing interest in developing MFO codes for consumer protection, since the process of assessing impact on clients is closely linked to the extent of their prior understanding of the services they use. This is particularly important for an industry that enters into quite complex and open-ended contracts with often poor and weakly informed clients, who may have a quite limited understanding of such fundamental concepts as interest rates.

There are at least four elements to implementing the idea of social performance auditing. First, there is a need to agree on a social performance benchmark. This article argues for a very simple standard that boils down to reviewing internal processes of goal setting, client status monitoring, IA and quality assurance.

A second element is development of a protocol for the process of conducting a social performance audit to check how far an MFO complies with its own guidelines. The protocol might include steps for:

- reviewing documentation about the organisation and its internal social performance monitoring system;
- interviewing staff at all levels of the MFO about how this system is utilised in practice;
- sampling and testing the validity of data generated by the system;
- assessing how information is actually used, using a framework similar to the feedback loop, but applied to the whole performance management system rather than to one study.

The third element is the establishment of national and international pools of social performance auditors willing and able to carry out such audits. The reputation of such auditors would serve in no small measure to validate the process.

Finally, MFOs and their sponsors need to be convinced of the potential value of such audits. Further work is needed to develop the idea of social performance audits, building on these ideas and drawing further on lessons learnt from closely related activities, including experience with gender and poverty audits, institutional assessment, financial audits and inspections by regulators. Such work needs to be participatory, reflecting the interest and character of different kinds of MFO and stakeholders. Hence MFO networks are likely to play an important role, and in some cases particular networks may be able to raise the stakes by agreeing on standards that are more detailed and specific than the one proposed here.

6. Conclusions

By way of conclusion, the main arguments of this article can be quickly summarised.

1. There is a case for developing a standard for MFO social performance assessment, so long as it is simple. More specifically, this article suggests that all MFOs should have formal responses to the following questions:

- (a) What are your social performance goals and what indicators do you use to monitor progress towards these?
- (b) How do you monitor the status of clients?
- (c) How do you assess the impact of the services you provide on loyal and exiting clients?
- (d) How do you review and seek to improve on the way social performance assessment affects MFO policies and practice?

2. It would be useful for MFOs to agree on a common typology of social goals. This should distinguish (a) between breadth/scale, depth and quality of outreach; and (b) between income poverty, non-income poverty, other client level goals, and wider goals.

3. The key to institutionalising client status monitoring is routine production of simple reporting tables that reveal mobility of clients between a relatively small number of categories, while at the same time taking into account new entry and exit.

4. Impact assessment should be (a) integrated closely with client status monitoring, and (b) based on a continuous, flexible and divisible programme of data collection, analysis and reporting.

5. Internal quality assurance systems should be underpinned by independent social performance auditing.

Notes

1. I am grateful to several participants at the *Imp-Act* programme for comments on earlier drafts, particularly Anup Dash, Chris Dunford, Susan Johnson, Graham Wright and Alyson Brody.
2. *Organisations*, including MFOs are defined here as legal entities or agencies. *Institutions* are defined as durable rules and norms governing how people behave. To become an institution, a rule or norm of behaviour (such as charging interest on loans) must be accepted across a community – such as the microfinance industry. The distinction between organisations and institutions is useful and well established within the social sciences, if not in the world of microfinance.
3. In practice, scope of outreach refers to relatively superficial indicators of service use, such as accounts held, and loans received. More detailed and ambiguous aspects of scope, such as internal accounts obtained within a village bank are considered under net worth.
4. Strictly it is the \$1.08 dollar a day per person yardstick at 1993 purchasing power parity exchange rates.
5. CASHPOR (Credit and Savings for the Hard-Core Poor of Asia-Pacific) is an association of Grameen bank replications in Asia.
6. AIMS (Assessing the Impact of Microenterprise Services) is a USAID-sponsored research project in microfinance impact assessment. A manual of five tools for use by practitioners was produced by the project in collaboration with the US Microenterprise Network, SEEP.
7. Methodological indivisibility refers to the problem that attribution of impact based solely on statistical analysis of client and control groups requires a minimum sample size and research effort. In contrast, focus groups and in-depth interviews address the attribution issue mainly through interpretation of the consistency of multiple sources of data (see Copestake *et al.* 2001).
8. Indeed the two may be inseparable to the extent that some form of social audit is necessary in order to assess client loyalty. For example, DAI/FINNET (2002: 1) note that current financial audits are often very weak in their assessment of loan portfolio quality.
9. Zadek and Raynard reviewed three emerging approaches: *Social Auditing* as developed by *Traidcraft* and the *New Economics Foundation* in the UK; *Ethical Accounting* as developed by *SBN Bank* and *Copenhagen Business School*, and *Social Assessment*, developed in the USA with the company *Ben & Jerry's*. All three elicited the views of 'multiple stakeholders', favoured a regular (annual) audit cycle and publication of findings. Other elements discussed include ensuring auditing is comprehensive, use of external benchmarks, target setting, systematic book-keeping, and external verification.

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