Social Performance Rating System

METHODOLOGY REPORT

Inclusion [Social Ratings]

Inclusion [Africa]
MFI Social Performance Rating System

Introduction

Inclusion [Social Ratings] has designed its Social Performance Rating System (“SPRS”) to measure the social performance and impact of a microfinance institution (“MFI”) based on an analysis of the MFI’s capacity and ability to oversee, manage and monitor its performance in its drive to achieve its social mission. It is, as well, designed to analyze to what level the MFI has had a positive impact on the targeted beneficiaries of its programs. Basically, the SPRS reviews how effective the organization is at translating its mission into practice and to what extent it has been successful in that effort. It encompasses the organization’s objectives, systems, services, human resources and results, as well as its use of performance indicators and other information as it seeks to achieve its objectives. The results of the SPRS is expressed through a rating called the Social Performance & Impact Rating (“SPIR”). The SPIR is also meant to give the MFI a value-added tool for identifying and assessing the specific areas in its social performance that need improving, and where it is achieving or surpassing its social objectives.

The SPRS is based upon a combination of a proprietary scorecard, where data captured from documents and information provided directly by the MFI to Inclusion analysts, is input directly. The scorecard utilizes proprietary algorithms weighted by an analytical hierarchy process that takes into account objective and subjective multi-criteria to arrive at an implied Social Performance & Impact Rating. In addition, the SPRS takes into account the views of relevant social sector participants, whose input was used to determine the social performance factors and indicators, or measures, that are incorporated into the scorecard and that the SPRS utilizes to arrive at a rating. These include common sector social performance and client-protection principles and indicators found in other assessment tools such as the SPI4, the Smart Campaign and the Social Performance Task Force’s Universal Standards for Social Performance Standards Management.

The Inclusion [Social Ratings] SPRS assesses an organization’s social performance and impact not only by looking at its past results, but also by reviewing the quality of its operational and financial structure and the processes it employs to assess the likelihood of that performance and social impact being sustained into the future. It also incorporates client interviews conducted onsite in the field and interviews with branch staff to assess levels of social impact resulting from the organization’s activities. It is our belief that an organization that performs better and receives a higher SPIR will have a higher likelihood of positively affecting the lives of its clients in the future and be less likely to cause harm.
Development of the Social Performance & Impact Rating

The initial step in developing the SPRS was to select an appropriate framework for measuring social performance and impact. I[SR] considered a number of measures of social performance while investigating the most efficient and credible means for evaluating the social impact that diverse social interventions can generate. This meant identifying and defining what we mean by the terms “social performance”, “social impact” and “social output”. We define them as follows:

- **Social Performance**: this refers to the degree of robustness that the organization demonstrates in identifying and implementing its social strategy and internal processes, such that it has the likelihood of actually leading to the accomplishment of its social mission.

- **Social impact**: This refers to the effect of the social intervention in terms of improving the lives of target populations. In order to demonstrate its social impact, an organization must show that, without their intervention, the same results could not have been achieved. This means showing not only that the lives of the target population have improved, but that they could not have improved to the same extent if the organization had not intervened. In general social impact is broadly measured using various types of academic research, such as randomized control trials (RCTs).

- **Social output**: This refers to the effect of the organization’s intervention on the lives of their beneficiaries, without the use of a control group. By exploring social output an organization can determine whether its beneficiaries are now better or worse off, although causality may not always be conclusively proven.

While it is important to directly measure the specific social impact and output achieved by any specific MFI, these measurements are backward-looking, complex and resource intensive. Such analysis relies primarily on RCTs, which are expensive for organizations to implement and are limited in terms of how and where they can be used. As such, these types of social impact studies are beyond the means of most MFIs. There are other less intensive measures of social impact, of course, but it is uncertain whether these can conclusively measure true impact (i.e., that the state of the beneficiary would not have improved without the intervention of the organization).

While I[SR]’s methodology takes into account social performance, social impact and social output, it focuses on a derived assessment of impact based upon whether the organization exhibits and practices systems, strategies and processes that have been shown by our research to have resulted in higher levels of social impact, as well as client interviews to assess anecdotal evidence of specific social impact. To arrive at a rating it utilizes over 400 indicators as proxies to determine the likelihood of an organization having a positive effect on the lives of its customers and of this being maintained into the future.

This written methodology does not provide an exhaustive treatment of all the factors reflected in a particular SPIR, but rather is designed to enable the user to understand the key considerations used by I[SR] in measuring an organization’s social performance and impact.

Assessing the social performance and impact of social enterprises is an emerging area, and I[SR] expects that the weightings, as well as some of the factors and sub-factors, will change over time. I[SR] plans to review the SPIR methodologies periodically and to make changes and updates as needed. This could result in some ratings being modified up or down based on new criteria, even though the practices of the organizations themselves may not have changed.
Global Comparability

The SPIR is designed to provide global comparability among a wide range or social enterprises. Most of the factors evaluated under the SPIR are important in every region of the world as well as across different social sectors. Every attempt is made to take into account “best practices” in any particular social sector as benchmarks for global comparison, but [SR] recognizes that in some geographic regions, cultural differences, levels of education, data availability and logistical hurdles may need to be incorporated into our analysis, leading to qualitative adjustments to final ratings.

Rating Grades

The key assessment factors and sub-factors make up the scorecard that is used in the assessment process. Each factor and sub-factor is scored according to an organization’s performance. An overall scorecard outcome is referred to as the “scorecard-implied rating”. The final outcome is referred to as the Social Performance & Impact Rating (SPIR) and represents the overall scorecard outcome or scorecard-implied rating, after adjustments for qualitative or factors not specifically addressed within the methodology but that can have a particular importance on a case by case basis.

The SPIR uses a nominal scale of SPIR1 to SPIR5, with SPIR1 being the highest grade and SPIR5 the lowest. [SR] adds to the nominal scale an additional modifier in the form of “+” or “-”, thus expanding the scale from five levels to fifteen levels for finer granularity of the SPIR rating scale. When assigning an Social Impact Rating to an MFI, a combination of the overall rating derived from the SPIR scorecard and some absolute, required factors is utilized. These required factors represent minimum practices that an MFI must comply with in order to be considered for certain rating levels. Therefore, although an organization’s overall scorecard-implied rating may be consistent with a particular SPIR level, the MFI will not receive that rating if it does not meet one or more of the required factors.

While the scorecard-implied rating should provide a reasonable indication of the final SPIR, the scorecard is only a tool to help [SR] analysts and our rating committees arrive at their final decisions. In addition to the required factors, an analyst may consider factors that are not included on the scorecard, and as a result may recommend a final grade that is higher or lower than the one derived from the scorecard. To ensure global comparability, an analyst’s final recommendation is reviewed by an rating committee, and it is the rating committee that assigns the final rating.

The Social Performance & Impact Rating Level Definitions table below is the framework used by analysts when proposing a SPIR to the rating committee. The scores for each factor and sub-factor on the scorecard are tallied to provide an overall scorecard-implied rating, which is translated, or “mapped” to a rating scale based on the definitions for each category.

SPIR Level Definition

<table>
<thead>
<tr>
<th>Grade</th>
<th>Explanation</th>
<th>SPIR Score Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>SPIR1</td>
<td>Excellent</td>
<td>78-100</td>
</tr>
</tbody>
</table>

A SPIR1 rating indicates that an MFI’s infrastructure and processes are consistent with a very high likelihood of operating in the best interests of its clients, that this is among its highest priorities and that the risk of causing adverse effect to its clients and other stakeholders is very low. An SPIR1 grade is consistent with an MFI that:

» has a highly coordinated and strategic operation in order to accomplish its social mission
» adheres to best practice across all of the key SPIR factors and most of the sub-factors
» demonstrates it has well-established and reliable information systems, internal controls and procedures relating to the information provided for the SPIR
» maintains the highest standards in terms of client or beneficiary protection practices.
<table>
<thead>
<tr>
<th>Grade</th>
<th>Explanation</th>
<th>SPIR Score Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>SPIR2</td>
<td>Good</td>
<td>65-77</td>
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</tbody>
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A SPIR2 grade indicates that an MFI's infrastructure and processes are consistent with a high likelihood of operating in the best interests of its clients, that this is among its highest priorities and that the risk of causing adverse effect to its clients and other stakeholders is low. An SPIR2 rating is consistent with an organization that:

» coordinates strategic operations to accomplish its social mission
» adheres to best practice on almost all of the key SPIR factors
» demonstrates that it has reliable information systems, internal controls and procedures relating to the information provided for the SPIR
» maintains good standards in terms of beneficiary protection practices.

<table>
<thead>
<tr>
<th>Grade</th>
<th>Explanation</th>
<th>SPIR Score Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>SPIR3</td>
<td>Adequate</td>
<td>50-64</td>
</tr>
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</table>

A SPIR3 grade indicates that an organization's infrastructure and processes are consistent with a good likelihood of operating in the best interests of its clients and beneficiaries, that this is among its high priorities and that it attempts to manage the risk of causing adverse effect to its beneficiaries and other stakeholders. An SPIR3 rating is consistent with an MFI that:

» adheres to good practice on most of the key SPIR factors
» demonstrates that it has adequate information systems, internal controls and procedures relating to the information provided for the SPIR
» maintains reasonable standards in terms of client protection practices.

<table>
<thead>
<tr>
<th>Grade</th>
<th>Explanation</th>
<th>SPA Score Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>SPIR4</td>
<td>Weak</td>
<td>30-49</td>
</tr>
</tbody>
</table>

A SPIR4 rating indicates that an MFI's infrastructure and processes show some adherence to operating in the best interests of its clients, and that this is among its priorities. An SPIR4 rating is consistent with an MFI that:

» adheres to good practice on some of the key SPIR factors
» has weak information systems, internal controls and procedures relating to the information provided for the SPIR
» maintains some standards in terms of client protection practices.

<table>
<thead>
<tr>
<th>Grade</th>
<th>Explanation</th>
<th>SPA Score Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>SPIR5</td>
<td>Poor</td>
<td>0-29</td>
</tr>
</tbody>
</table>

A SPIR5 rating indicates that an MFI's infrastructure and processes do not show evidence of being in the best interests of its clients or beneficiaries, and that this may not be among its priorities. An SPIR5 rating is consistent with an MFI that:

» has no or inadequate information systems, internal controls and procedures relating to the information provided for the SPIR
» maintains no standards in terms of client protection.
Framework for Assigning SPIRs and the Role of the Scorecard

An Inclusion [Social Ratings] SPIR is a social rating that reflects how an MFI is performing now and how it is expected to perform into the immediate future. The analyst looks not only at an organization’s current practices, but also at the systems it has in place for reporting and monitoring its future results. An SPIR is updated annually. If an organization’s application for an SPIR is not renewed annually, and this typically involves the same degree of engagement and visits as an initial rating, the SPIR is withdrawn and is no longer valid.

I[SR] believes certain qualitative factors play an important role in determining the stability and predictability of an organization’s social performance over time. Its analytical approach therefore includes both qualitative and quantitative analysis.

The seven main factors considered in the SPIR are grouped as follows:

- Social Mission
- Governance
- Client Protection
- Measurement of Social Outcome or Impact
- Organization
- Environmental Protection
- Financial Sustainability

Based on market surveys and analysis, as noted, I[SR] has determined the weights to assign to these main factors on the SPIR Scorecard as follows:

<table>
<thead>
<tr>
<th>Scorecard Factors</th>
<th>Weight (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Mission</td>
<td>15</td>
</tr>
<tr>
<td>Governance</td>
<td>19</td>
</tr>
<tr>
<td>Client Protection</td>
<td>18</td>
</tr>
<tr>
<td>Measurement of Social Outcome or Impact</td>
<td>12</td>
</tr>
<tr>
<td>Organization</td>
<td>11</td>
</tr>
<tr>
<td>Environmental Protection</td>
<td>7</td>
</tr>
<tr>
<td>Financial Sustainability</td>
<td>18</td>
</tr>
</tbody>
</table>

SOCIAL MISSION
This factor includes a review of how well the MFI defines and communicates its social mission, but not necessarily how well it carries it out. The review of the organization’s social mission includes examining its history of defined social goals, objectives and measurable indicators. It also includes how well the mission, goals and objectives are communicated within the organization and to other stakeholders.

- History of the social mission, goals and objectives
- Focus of the social mission
- Plans and communications for achieving the social mission, goals and objectives

GOVERNANCE
This factor includes a review of the MFI’s leadership’s ability to steward the organization toward achieving its social mission, goals and objectives, and its strategy for doing so. The factors in this section are further broken down into Management, Strategic Leadership, Outreach and access, and Administrative setup, each of which is described in detail below.

- Management quality
- Strategic Leadership
- Outreach and access
- Administrative setup
CLIENT PROTECTION
This factor encompasses the organization’s approach toward the quality of service to the identified beneficiaries, both of which are described in detail below.

- Customer Protection
- Quality of service to Customers

MEASUREMENT OF SOCIAL OUTCOME OR IMPACT
This factor includes a review of the procedures, systems and tools the MFI uses to evaluate whether it is on track to achieve its social objectives, and of the evidence that it has achieved these objectives. Analysts examine the tools used by organization and also consider the frequency of data collection and measurement. In addition, the analysts assess the transparency and availability of the organization’s research results.

- Participation in social outcome or impact studies
- Explicit tool to measure social outcome or impact
- Frequency of data collected on social outcome or impact
- Transparency

ORGANIZATION
This factor addresses how the MFI uses its hiring, compensation, incentive structure and other employment and development practices to improve its social performance. It encapsulates its organizational structure, facilities, processes and staffing policies as these relate to meeting its social objectives.

- HR organization and facilities
- Code of ethics
- Hiring policies (gender and anti-discrimination policies)
- Culture of delegation
- Fair compensation
- Staff skills and training
- Promotion and retention
- Staff incentives and audit

ENVIRONMENTAL PROTECTION
This factor addresses the MFI’s responsibility toward the environment as defined in its policies and as evidenced in its products or services and operations.

- Client standards
- Internal standards

FINANCIAL SUSTAINABILITY
This factor addresses the organization’s financial strength measured in terms of basic financial metrics that assess the organization’s liquidity and capital base, as well as the sustainability of its funding sources. It also takes into account the relationship between its operating cost structure and its net interest income.

- Liquidity
- Capital structure
- Funding source sustainability
- Cost efficiency
Assessment Factors

SOCIAL MISSION
In evaluating an MFI’s social mission, analysts review the organization’s objectives and goals and how well these are communicated to stakeholders. This section is broken down into three sub-factors, as follows.

History of the social mission, goals and objectives
Analysts assess the length of time an MFI’s social mission has been in place and the extent to which it has been translated into specific objectives and measurable goals.

Focus of the social mission
Analysts examine the focus of an organization’s social mission and the social benefits the organization intends to generate.

Plans and communications for achieving the social mission, goals and objectives
Analysts review an MFI’s plans to achieve its social mission and the way it communicates these to stakeholders.

GOVERNANCE
Analysts review the ability of an MFI’s top-level leadership to steward the organization toward achieving its social goals and the strategy it has put in place to do so. This includes a review of the quality of the MFI’s strategic leadership, governance, administrative setup, and customer outreach and access practices.

Management quality
The quality of an MFI’s management is one of the keys to success in providing a high level of social performance. This section assesses the ability of an MFI’s leadership to steward the organization toward achieving its social mission. The analysis includes the strategy the leadership has put in place to bring the its goals and objectives to fruition.

» Experience: Analysts review key managers’ number of years of relevant experience, as well as the quality of that experience and how it relates to the organization’s ability to realize its social goals and objectives.
» Professionalism of staff: Analysts assess the effectiveness of an organization’s management in terms of conducting and promoting behavior consistent with social principles.
» Management turnover: Analysts look at the number, level and gender of management personnel leaving an organization, as well as the frequency with which they leave.
» Key worker risk: Analysts assess how dependent an organization is on a few individuals to achieve its social mission and carry out its operations, and how the departure of one or more of these individuals might affect its ability to achieve its social mission.
» MFI history/Product history: Analysts review an organization’s history in terms of products and services with social objectives. In addition, it looks at the maturity of its product and service offerings and how often the organization improves on them.
» Availability and quality of training: Analysts look at whether an organization provides relevant training regarding its social mission, goals and objectives to managers and other staff. Analysts also measures the frequency and quality of training.
» Management transparency: Analysts look to see whether an organization has an effective strategy for communicating policy decisions to its clients or beneficiaries and other stakeholders, including whether the means of doing so are adapted to each audience. For clients this may include workshops, “town hall” meetings, presentations, or leaflets or other written materials. For other stakeholders, analysts look at the quality and frequency of management reports on social issues.
Strategic Leadership

Analysts review the process by which a board of directors (or equivalent governing body) guides an organization toward fulfilling its social mission, and how it reinforces board members’ knowledge and commitment to social performance. Analysts evaluate the composition of the board in terms of members’ areas of expertise. It also reviews how frequently board and board committees meet and whether social performance topics are discussed at meetings. Disclosure of board members’ responsibilities and terms of service are also reviewed, as are board members’ compensation and whether and how board members benefit from financial returns.

- **Board composition:** Analysts assess the quality (i.e., professional background and expertise), neutrality (i.e., ability to act in the best interests of the organization), independence (i.e., no employment relationship) and diversity (i.e., representing different populations) of an organization’s board. Analysts also review the different roles directors take in not-for-profit organizations, for-profit organizations and membership organizations. Analysts review the diversity of the board, that is, its composition in terms of government representatives, community leaders, representatives of not-for-profit organizations and private financial institutions, and customers. In addition, the gender and proportion of independent (i.e., not affiliated with the organization) board members is examined.

- **Board meetings:** In addition to frequency of meetings, Analysts look to see whether social performance topics are discussed at board and board committee meetings and whether meeting minutes are produced, and whether boards and board committees work according to a manual of procedures.

- **Association with other groups:** Analysts review associations and links among an MFI’s board members and other groups, such as development agencies and investor groups, and whether these links affect the nature and quality of the decisions made by the board in fulfilling the organization’s social objectives.

Outreach and access

Outreach and access refer to an MFI’s strategy for reaching its target population.

- **Number of customers:** Analysts review various metrics to assess an MFI’s number of customers, or class of customers, both the percentage and absolute numbers within its target beneficiary population. Analysts also look at the demographics of the target area and target population in which the organization is based.

- **Depth of outreach:** Analysts look at an MFI’s outreach, that is, how it reaches its target market, which may include populations or beneficiaries in undeveloped and rural areas and populations below the indicative poverty line. Analysts also look at the percentage of female customers and the number of customers from socially marginalized and/or vulnerable groups.

- **Range of products and services offered:** Analysts review the design of an MFI’s socially-oriented products and services and assesses whether these are structured to meet targeted customer’s needs. Analysts also review the range of services, programs and other products an organization offers and how these are delivered or implemented.

- **Proximity to customers:** Analysts review ease of access to an MFI’s programs, products and services and whether it has delivery points located in areas where no other MFIs are active. Analysts also look to see whether staff go to customer sites as part of their due diligence or program suitability process and whether they offer programs that help reach customers located further afield from the its main point of operations.

- **Community involvement:** Analysts review whether an MFI is involved with its target community in ways other than those directly related to its core business.

Administrative setup

Administrative setup refers to the framework under which an MFI’s management executes its strategy. This section looks at whether the way it is organized allows it to function effectively in terms of realizing its mission, taking into account its organizational structure, internal communication systems and quality control of operations.
CLIENT PROTECTION

The Client Protection section contains two categories: Customer protection and Customer service. Each of these is broken down into a number of sub-factors.

Customer protection

» **Pricing transparency:** In evaluating pricing transparency analysts review how well customers understand the all-in cost of loans or other product offerings. Analysts review whether an organization has rules on pricing transparency, and if it does, the quality of those rules and how well they are transmitted both to loan officers and customers. Analysts look to see whether the prices, terms and conditions of all financial products are disclosed prior to the customer agreeing to accept a product and whether all initial and subsequent fees and charges, and any penalties, are fully disclosed. Analysts also review whether staff have been trained in how to disclose this information to customers and whether an organization has a system for surveying customers’ understanding of terms.

» **Debt collection practices:** Analysts review how an organization handles customers who have problems repaying loans and how extensively it monitors its debt collection practices to ensure that they are implemented fairly across its operations. Analysts also look at oversight and awareness of debt collection practices at the senior management and board levels.

» **Policies:** Analysts examine an organization's written policies as they relate to customer protection issues. Policies are reviewed for product suitability, that is, whether they state that product designs must take customer characteristics into account and will help prevent over-indebtedness. Policies are also reviewed to see whether they mandate the use of internal systems to monitor and help prevent over-indebtedness.

» **Customer complaints/Litigation history:** Analysts look to see how effectively an organization's management monitors customer complaints and complaint resolutions. Analysts assess whether customers are appropriately informed and encouraged to give feedback and make complaints.

» **Product suitability process:** Analysts look to see how suitable an organization's products are for its customers. Analysts review the range of products an organization offers and their terms, and how they are geared toward customers' well-being.

» **Household debt burden:** This sub-factor covers what an organization does to come to a comprehensive understanding of its customers’ debt burdens and the impact its loans and products may have on borrowers' and borrower households’ ability to pay. Policies on customer debt thresholds are reviewed, as are trends in portfolio at risk (PAR) levels, rescheduled loans and default rates.

Customer service

Customer service looks at service before, during and after transactions, and measures the satisfaction of an organization's customers with the products and services offered.

» **Products and services:** This sub-factor includes an assessment of an organization’s product range and the quality of its products and services. Analysts assess the appropriateness of an organization’s product and service offerings to its customers' needs. In addition, analysts look at whether an organization offers non-financial products and services and whether any products are mandatory (e.g., savings or insurance linked to credit). Other issues, such as an organization’s market research on products and product design, are also considered.

» **Speed of transaction:** One element of customer service is how quickly an organization responds to applications for loans, disbursements or other product offerings. In addition to reviewing absolute turnaround times, analysts will compare responsiveness times with what is possible in specific markets.

» **Customer retention/Dropout history:** This sub-factor includes how an organization handles customers that are leaving or opting out of certain products, including its use of exit interviews, surveys or other methods that can help identify customer dissatisfaction.

» **Staff qualifications and credentials:** This sub-factor includes the educational background and qualifications of an Organization's staff, including local language ability.

» **Timeliness and quality of reports:** This sub-factor includes management's ability to generate timely and accurate reports on customer satisfaction.
MEASUREMENT OF SOCIAL OUTCOME OR IMPACT

This section looks at an organization's ability to show that it is accomplishing its social goals. An organization could show that it is accomplishing its social goals by using a standardized tool, a custom tool and/or by participating in different types of research studies.

- **Explicit tool to measure social outcome or impact**: Analysts look to see whether an organization uses a recognized tool to measure the social outcome or impact of its products or whether it has an internally developed tool. Analysts will consider the effectiveness of an organization's social outcome or impact measurement tool, as well as how extensively the tool is integrated throughout the organization's operations.

- **Frequency of data collected on social outcome or impact**: Analysts review how often an organization collects data on the social outcome or impact of its activities on its customers and how frequently it participates in social outcome or impact studies.

- **Transparency**: Analysts evaluate the quantity and quality of an organization's social and related financial information that is made public, such as annual reports or reports for organizations.

ORGANIZATION

Analysts review an organization's human resource management processes, including its hiring process, compensation, incentive structure and other employment practices, and how these enhance or detract from its social performance.

- **HR organization and facilities**: Analysts review how an organization's human resources department is organized, whether it is a discrete department or function, how the department is staffed and the type of facilities provided for staff.

- **Code of ethics**: Analysts review whether an organization has a comprehensive code of ethics or conduct that is widely disseminated and understood by stakeholders, and whether it has mechanisms in place to ensure that the code of ethics or conduct is consistently followed by staff and board members.

- **Hiring policies (gender and anti-discrimination policies)**: Analysts review how well women and ethnic minorities are represented within an organization compared with the general population, and the extent to which equal opportunities are available to them.

- **Culture of delegation**: Analysts look at the levels of decision making among staff and the ability of loan officers and other staff to respond to customers' needs and make decisions.

- **Fair compensation**: Analysts look to see whether an organization's staff members receive a living wage (i.e., the minimum hourly income necessary to meet basic needs) and whether compensation is equal, regardless of gender or ethnicity. Analysts analyze factors such as incentive-based compensation formulas, local market rate adjustments and differences in staff salaries. Analysts also review staff turnover rates, the percentage of staff with long-term contracts and an organization's overall employee benefits package.

- **Staff skills and training**: Analysts review staff training on social performance management, including the frequency and quality of training and the extent of formal and on-the-job training for all staff, both upon hiring and thereafter. Analysts look to see whether the training covers topics aside from credit, such as social performance, ethical and conduct guidelines, gender awareness, the organization's social mission, poverty measurement and prevention of over-indebtedness. Analysts also look at how accessible training is and the frequency of training programs.

- **Promotion and retention**: Analysts review an organization's past and current practices for staff promotion and retention, turnover rates for different genders and other categories of staff, and policies and practices in terms of recruitment. Analysts assess whether social performance criteria are considered in the organization's promotion and recruitment decisions.

- **Staff incentives and audit**: Analysts review an organization's staff incentive schemes and evaluates them for consistency and alignment with the organization's social mission and objectives. Analysts examine how an organization monitors and evaluates its incentive practices and conducts performance appraisals in relation to its social mission. The effectiveness of external and internal audits in validating the information provided is also assessed.
ENVIRONMENTAL PERFORMANCE

Analysts review an organization's policies, products and operations as they relate to the environment.

- **Client standards**: Analysts assess an organization's standards and policies in terms of its customers’ environmental policies and practices.
- **Internal standards**: Analysts assess an organization's own internal environmental

FINANCIAL SUSTAINABILITY

Analysts review the organization's financial sustainability on the basis that the financial failure or its level of exposure to potential financial stress could cause or lead to disruption or harm to its customers.

- ** Liquidity**
- ** Capital structure**
- ** Funding source sustainability**
- ** Cost structure**

POSSIBLE ADJUSTMENTS TO THE INPUTS AND OUTPUTS OF THE SCORECARD

Rationale for possible adjustments

The SPIR scorecard provides an indicative SPIR, but is intended as only one input in the process of arriving at an organization's final SPIR. Neither committees nor analysts are bound by a scorecard-implied rating if they believe there are factors other than those covered by the scorecard that need to be taken into account. Committees will consider the reasons why certain factors and sub-factors may not capture the totality of an MFI’s social performance. Such reasons could include aspects of an organization's accounting and reporting practices, business model, or regulatory or market environment that limit the comparability of certain key factors and metrics.

Where analysts make adjustments to a scorecard-implied rating, they will present to rating committees both an unadjusted rating and an adjusted rating following the guidelines described below. Analysts will present their remarks on the adjustments, and will be required to explain and substantiate them.

General guidelines on allowable adjustments

While it is practically impossible to enumerate all adjustments that might be made to an MFI's rating, here we provide examples of circumstances in which analysts may adjust SPIR scorecard-implied ratings, or overlay other considerations, in their assessment of an MFI, and where committees may allow these adjustments and/or other considerations to be reflected in the organization's final SPIR. The overall aim is to avoid the risk of discretionary treatment of important factors by analysts, while also providing a common framework of opinions on adjustments to SPIR grades.

Adjusting for trends and regulatory environment

An organization's performance, including its social performance, may be influenced by uncertainties in the legal, regulatory and/or security environment or by the level of business and government transparency in the region in which it operates.

Adjusting for local infrastructure and behavior issues

Behavior, literacy rates and other factors vary among local populations, as do the infrastructure and remoteness of the locations in which they live. An MFI’s products and services may be more or less suitable given such characteristics, and analysts may make adjustments to reflect this. Importantly, this does not mean that adjustments are made for services that are needed in an area but are not available. For example, if a credit bureau is required to check levels of indebtedness and there is no credit bureau, this would not be a reason for adjusting the SPIR rating.

For more information contact info@inclusionafrica.org

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