



Social Performance of Rural Microfinance Institutions: Theory and Empirical Measurement

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Rural microfinance is acclaimed and promoted as an important tool for poverty alleviation. Initially, the main focus of rural microfinance institutions (MFIs) was on outreach to the poor and excluded, but eventually financial sustainability became as important (Zeller & Myer 2002) and more so when private capital sources precipitated. The sector evolved into an industry devoted to commercial principles of operation. Now, there is increasing interest in developing a social performance measurement tool with a common set of key indicators to complement the financial performance indicators. The industry is moving from a predominant emphasis on financial sustainability to a renewed concern with social performance and the 'double bottom line'.



Village banking in rural Cambodia

Importance of Social Performance Measurement

Among others, social performance measurement will 1) encourage MFIs to be more mindful in maintaining their social mission (especially now that more MFIs are gearing towards privatization); 2) allow MFIs to demonstrate social performance, transparency and credibility to donors/investors leading to reallocation of funds towards socially-oriented MFIs; and 3) enable MFIs to demonstrate to stakeholders that their social mission is not lost in the pursuit of financial targets.

Table 1. Using PCA Analysis to Assess Depth of Outreach

Variables	Weights in PCA
KMO Measure of Sampling Adequacy	.835
Food secure	.625
Clothing and footwear expense per household member	.500
Number of adults who can read and write	.560
Owns a television	.552
Owns a motorcycle	.446
Type of roof material	.539
Ability to save	.466
Casual labor as source of income	-.382
Household yearly food expense	.633
Area of land owned	.411
Change in quality of diet	.510
Difficulty with large expense	.605

Source: AMK data using own calculation

Social Performance, Stakeholders and Accountability

Angkor Mikroheranhvatho Kampuchea (AMK) is a licensed MFI in Cambodia. In adhering to the double bottom line concept, AMK aims to be economically viable while continually expanding its outreach to the poor. Depth of outreach is one important dimension in social performance measurement (Schreiner 2002). Using PCA analysis on various poverty indicators (see Table 1), we are able to establish poverty of AMK clients relative to a random sample of non-clients in the area. The tool allows for proper targeting of clients and shows poverty outreach when compared with national data. It can be used to assess poverty changes over time when panel data is available. Furthermore, the social performance measurement model of AMK (see Table 2) covers other social dimensions. The AMK board of directors and management enforced the model to be accountable to its stakeholders.

How can social performance dimensions be effectively measured and reported? One way of improving the transparency and credibility of social performance measurement efforts is benchmarking. However, it is difficult not to be subjective in creating and assessing benchmark scores especially when working with qualitative data. We can minimize this problem by using quantitative data or indicators (such as the results of the PCA analysis above). Social dimensions have multiple qualitative aspects that need special attention in benchmarking.

Table 2. AMK Social Performance Measurement Model

Tool	Nature of information	Main Objectives	AMK Department	Stakeholder	Users of output
Annual staff satisfaction survey	Social performance in human resource.	Establishing and maintaining a satisfactory relationship with its prime movers.	Human Resource	Staff	Management
Staff feedback through meetings & retreat				Management	
Financial procedures & operations audit	Specific information considered important by shareholders & management.	Monitoring institution's financial and social (client protection) objectives.	Internal Audit	Shareholders	Management
Client protection audit (security, transparency, pricing)	Assessment on whether operations are in line with its policies.			Management	Stakeholders
Client profile	Overall profile of social performance to clients (outreach and impact).	Emphasizing linkage between communication and information as part of training, operations, marketing, product development and external reporting.	Social and Market Research	Client	Clients
Wellbeing/Poverty level				Shareholder	Shareholders
Client Satisfaction	Strategic market information.			Management	Management
Exit survey					External agents

Conclusion MFIs are accountable for fulfilling their financial responsibility to its shareholders as well as its social responsibility to other stakeholders. Stakeholders' need will determine the indicators for effective measurement of social performance. The major difficulty of developing a social measurement system would be the derivation of appropriate and unbiased indicators applicable to all sectors which considers all significant stakeholders. Practicality is important in standardizing social performance measurement tools if it hopes to gain industry-wide acceptance. Rigorous tools will be rejected by MFIs if they see it as a financial burden and too time consuming.

References

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