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PROPOSAL FOR A SOCIAL PERFORMANCE MEASUREMENT FRAMEWORK IN MICROFINANCE: THE SIX ASPECTS OF OUTREACH

microREPORT #26

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The authors' views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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EXECUTIVE SUMMARY

This document presents a conceptual framework for assessing the social performance of microfinance institutions (MFIs). The primary objectives of this research are two-fold:

1. Develop a conceptual framework and a corresponding set of tools by which microfinance institution (MFI) management can measure and manage progress toward a double bottom-line consisting of financial and social return.
2. Develop a conceptual framework and a corresponding set of tools by which donors and private investors can assess the blended (financial and social) return of MFIs. Information about social return is presumed in turn to lead to both a larger and more efficiently allocated flow of private investment into microfinance.

The purpose of this document is to describe at length the context and rationale for social performance measurement (SPM), describe alternative SPM frameworks and distill their key lessons and articulate criteria for selecting an SPM framework. It further demonstrates how the Six Aspects of Outreach framework satisfies these criteria and why it is preferable to other SPM frameworks. In addition, the paper briefly addresses operationalization issues as a segue to the next phase of the research.

Progress in microfinance over the past two decades has been such that few

dispute anymore whether the poor need, use or benefit from financial services. Instead, support for microfinance is increasingly turning to the question of return on investment: Does microfinance offer social returns commensurate with other investment opportunities? Implied herein is the importance of developing a system by which MFIs can (1) measure progress toward a double bottom-line (financial and social performance) and (2) credibly account to investors and other external

Social performance refers to the extent to which an MFI fulfills its social mission and achieves its social objectives, as well as those of its primary stakeholders.

Social performance measurement refers to the process by which the MFI assesses its social performance relative to its social mission and objectives and to those of key stakeholders.

stakeholders for their social performance.

Extrapolating the lessons learned from SPM implementers in the for-profit and non-profit sectors (including the sample SPM frameworks reviewed in this document, see below), SPM is important to microfinance for several reasons:

1. Relying solely on financial performance measures absent a framework to understand how they relate to social performance gives a distorted view of social

performance. This in turn makes it difficult for MFIs to achieve their social objectives, and it creates pressures and incentives for MFIs to drift away from their social mission.

2. Information about social performance is necessary to align social performance to strategy and to manage toward a double bottom-line. Without information on social performance, MFIs have no basis on which to plan or make strategic decisions that affect social outcomes.
3. Information about social performance is necessary to increase industry transparency and, consequently, credibility.
4. Information about social performance is necessary to create industry social performance standards and benchmarks.
5. Social performance standards and benchmarks in turn are necessary to guide management decision making and to facilitate investment decisions by private and other investors. The supply of private social investment to microfinance and its allocative efficiency are further expected to increase as a result.

The Six Aspects framework offers distinct advantages over alternative SPM frameworks. These advantages can be understood within the context of criteria determining the likelihood that an SPM framework will win acceptance

by MFI managers, investors and other key stakeholders.

1. *The SPM framework should be simple to understand and implement.* The Six Aspects framework is a pragmatic simplification of Return on Investment/ Cost-Benefit Analysis (ROI/CBA).
2. *The SPM framework should be based on sound theoretical principles* that have strong intuitive appeal and be readily accepted as legitimate. ROI is the standard framework used by private investors to assess financial performance, while CBA is the standard framework used by economists and program analysts to assess the social performance of public and development programs.
3. *The SPM framework should be useful for investors and other external stakeholders.* ROI/CBA is a time-tested, widely-accepted, and intuitively powerful framework and the primary criteria for assessing private investment alternatives and the impact of social programs and organizations.
4. *The SPM framework should be a useful management tool.* The Six Aspects framework makes explicit the key issues that an MFI needs to consider in creating customer and social value and in managing its progress toward a double bottom-line. In doing so, it helps ensure that each issue is given due weight in strategic planning and action. The Six Aspects framework, moreover, highlights tradeoffs and complementarities inherent in decision making. By observing how decisions move the MFI

forward or backward on different dimensions of outreach, the Six Aspects framework makes such tradeoffs and complementarities explicit and their implications understood.

5. *The SPM framework should utilize language and concepts familiar to microfinance practitioners.* Outreach is a concept widely understood and used. Practitioners will be familiar with the terms, meaning, and importance of breadth and depth of outreach. Other dimensions of outreach may or may not be familiar to practitioners, but their underlying concepts will be: financial sustainability (length of outreach), costs of products and services (cost of outreach), customer value (worth of outreach), and product/service diversification (scope of outreach). Practitioners will not only be able to relate these terms and concepts to dimensions of social performance, but will also be able to understand their implications for financial performance.
6. *The SPM framework should take into account the double bottom-line nature of microfinance.* With the exception of depth of outreach, the aspects of outreach measure dimensions of both social and financial performance.
7. *The SPM framework should capture multiple dimensions of social performance.* Measuring social performance along multiple lines decreases the risk of creating perverse behavioral incentives that often arise when a single or small set of performance

indicators are used, and it creates a conceptual basis for expanding the production possibilities of microfinance. Even if progress stalls in one dimension, there exist ample opportunities to expand in others, often at a relatively low cost.

The next task in this project is to operationalize the Six Aspects framework. Operationalization refers to how social performance indicators are defined, measured and collected. This will be done in close collaboration with various industry stakeholder groups. This task will demonstrate how the Six Aspects framework can feasibly be integrated into MFI operations and the investment decision-making process and will demonstrate its usefulness. The final task of the project will be to develop a social audit tool as the second component of a broader social accounting framework that will allow MFIs and external auditors to validate the process and outcomes produced under the Six Aspects framework.

INTRODUCTION

This document presents a conceptual framework for assessing the social performance of microfinance institutions (MFIs). Work on developing the conceptual framework is performed under the AMAP-Financial Services Knowledge Generation project “Measuring Outreach of Microfinance Institutions.” The primary objectives of this research are two-fold:

1. Develop a conceptual framework and a corresponding set of tools by which MFI management can measure and manage progress toward a double bottom-line consisting of financial and social return.
2. Develop a conceptual framework and a corresponding set of tools by which donors and private investors can assess the blended (financial and social) return of MFIs. Information about social return is presumed in turn to lead to both a larger and more efficiently allocated flow of private investment into microfinance.

The purpose of this document is to describe at length the context and rationale for social performance measurement (SPM), describe alternative SPM frameworks and distill their key lessons, articulate criteria for selecting an SPM framework, and demonstrate how the Six Aspects of Outreach framework satisfies these criteria and why it is preferable to other SPM frameworks, and briefly address operationalization issues as a segue to

the next phase of the research.¹ (Operationalization refers to how social performance indicators are defined, measured, and collected.)

In this research, social performance refers to the extent to which an MFI fulfills its social mission and achieves its social objectives, as well as those of its primary stakeholders. Social performance measurement refers to the process by which the MFI assesses its social performance relative to its social mission and objectives and to those of key stakeholders. Social performance measurement is not only helpful to the MFI, but also helps private social investors and donors, such as USAID, measure and compare the social impacts of MFI investment or support.

Completion of the conceptual framework is the first of three tasks to be completed under the Measuring Outreach project. Tasks yet to be completed in fulfillment of the above objectives are operationalizing the conceptual framework described in this

document and developing a social audit tool.²

¹ For more on the Six Aspects of Outreach, see Navajas, S., Mark Schreiner, R.L. Meyer, Claudio Gonzalez-Vega, and Jorge Rodriguez-Meza. (1999). “Microfinance and the Poorest of the Poor: Theory and Evidence from Bolivia.” *World Development*, 28(2), 333-346. Schreiner, Mark. (2002). “Aspects of Outreach: A Framework for Discussion of the Social Benefits of Microfinance.” *Journal of International Development*, 14(5), 91-603.

² Social auditing is the process through which the internal process supporting social performance measurement and social outcomes are internally or externally verified. Social performance measurement is akin to financial accounting, while social auditing is akin to financial auditing. Together they comprise an integrated “social accounting” framework.

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CONTEXT FOR SOCIAL PERFORMANCE MEASUREMENT

Progress in microfinance over the past two decades has been such that few dispute anymore whether the poor need, use or benefit from financial services. Instead, support for microfinance is increasingly turning on the question of return on investment: Does microfinance offer social returns commensurate with other investment opportunities? Implied herein is the importance of developing a system by which MFIs can (1) measure progress toward a double bottom-line (financial and social performance) and (2) credibly account to investors and other external stakeholders for their social performance.

Notwithstanding, the microfinance industry has not made much progress developing systems to measure and account for its social performance. Nor is the need to account for social performance uniformly accepted. Skeptics raise three primary objections to social performance measurement: (1) it is a misallocation of scarce resources that diverts MFIs from their core tasks, (2) it is not necessary to track separate social performance indicators, as financial indicators tell most of what MFIs and external stakeholders need to know about social performance, and (3) social performance measurement is an unreasonable and infeasible burden to impose on MFIs.

In contrast, the microfinance industry has made significant progress developing systems to account for

financial performance. Today there is industry-wide consensus on the need to account for financial performance and an emerging consensus on key financial performance indicators and financial performance standards. The reasons for the different outcomes are not hard to understand. Microfinance has adopted financial performance systems nearly wholesale from the private sector. Both private businesses and MFIs share the financial objective of making money, an objective that is conveniently expressed in monetary terms. In contrast, MFIs also pursue a wide variety of social objectives, most of which are non-monetary in nature, making both measurement and standardization of social performance difficult. This is not to mention the significant resource demands that social performance measurement can impose.

Accounting for the social performance of MFIs has proven to be difficult. So far, nobody has figured out how to do it in a way that is at the same time operationally feasible, credible and widely replicable. The difficulty of doing SPM gives credence to arguments against it: Why invest scarce resources in an activity that has proved so intractable, particularly if financial indicators tell MFIs most of what they need to know anyway?

Several counter-arguments can be offered in response:

1. Financial performance indicators alone give an incomplete and possibly biased perspective of social performance.
2. Reliance on financial indicators alone risks mission drift by displacing social objectives among the MFI's hierarchy of values, particularly to the extent incentive systems reward financial outcomes but not social outcomes.
3. Without information on social performance, social organizations have no basis on which to plan or make strategic decisions affecting social outcomes. Thus, the alignment of social performance to strategy requires that social performance be measured.
4. The absence of social performance information hinders private investment in microfinance by making information acquisition on social risks and returns more difficult and costly.
5. The absence of social performance information makes financial measures the de facto measure of MFI performance. If only financial measures are available, then financial measures will drive investment decisions and the allocation of investment funds into microfinance. What private investment does flow into microfinance is thus likely to be

biased toward a relatively small number of “safe” investments, particularly large and/or high profile MFIs offering relatively high financial returns, even though other MFIs might actually offer higher blended (financial and social) returns.

6. The days of microfinance as a donor-driven industry are waning.

Private investors are expected to account for an increasing share of investment flows into microfinance. Private investors are accustomed to and expect transparency and full disclosure. Faced with multiple investment options, private investors will direct their money to investments that can plausibly offer higher risk-adjusted blended returns.

7. Without a conceptual framework to understand the relationship between financial and social return and a set of tools to manage the relationship, the ability of MFIs to manage toward a double-bottom line is significantly compromised.

ALTERNATIVE SPM FRAMEWORKS

There are a number of ongoing SPM initiatives in the private, NGO, and microfinance sectors. Each initiative is informed by a different conceptual framework providing a wealth of perspectives from which to draw insights relevant to microfinance. Six of these frameworks are reviewed here, including three from the private sector (the Balanced Scorecard, AccountAbility 1000, and the Global Reporting Initiative), one from the NGO sector (Social Return on Investment), and two from the microfinance sector (the Social Performance Indicators Initiative and Six Aspects of Outreach). The six SPM frameworks are intended to be representative of the types of SPM frameworks in existence. They are presented to provide a basis to judge which type of SPM framework is most appropriate for microfinance. Ironically, most progress on social performance measurement has taken place in the private sector.

BALANCED SCORECARDS

The Balanced Scorecard is an internal self-assessment system designed to enable organizations to clarify their vision and strategy and translate them into action. The Balanced Scorecard posits that an organization needs a more holistic set of performance measures that reflect different drivers of organizational performance and that contribute to superior performance and achievement of the organization's strategic objectives. It provides

feedback around both the internal business processes and external outcomes in order to continuously improve strategic performance and results and to align vision and mission with stakeholder requirements and day-to-day work. To do this, it tracks key performance indicators continuously over time to look for trends, best and worst practices, and areas for improvement.

The Balanced Scorecard breaks down organizational performance into four dimensions, with different stakeholders laying claim to each dimension: owners to financial performance, customers to customer performance, managers to internal business processes, and employees to learning and growth. The Balanced Scorecard then seeks to translate and balance the needs, perceptions and expectations of the four stakeholder groups into action through translation of vision into strategy, strategy into operations, and operations into outcomes.

ACCOUNTABILITY 1000

AccountAbility 1000 (AA1000) was founded on the premise that by measuring, communicating, and obtaining feedback on its social performance, an organization can better understand and respond to the needs and aspirations of stakeholders and manage these as part of its strategic objectives. AA1000 is a "process" standard, meaning that it specifies the processes that an organization should

follow to account for its social performance rather than certain performance levels that the organization should achieve. Processes evaluated include planning, accounting, auditing and reporting, and embedding SPM into organizational systems.

Through engagement with stakeholders, AA1000 seeks to link an organization's values to the development of performance targets, thereby linking social and ethical issues to the organization's strategic management. Because AA1000 wants to encourage experimentation and innovation, it has avoided positioning itself as a certifiable compliance-based standard. Instead, it has positioned itself as a set of key principles designed to "stimulate innovation above an agreed quality floor." (See Table A1 in the Appendix for a list of the AA1000 reporting guidelines.)

SOCIAL RETURN ON INVESTMENTS

Social return on investment (SROI) builds upon return on investment (ROI) and cost-benefit analysis (CBA) to estimate the blended return of social organizations. ROI measures the financial return per dollar invested. ROI is the most widely-used criterion for assessing private investment decisions. CBA measures the net social benefit of public investments, which is equal to total social costs minus total social benefits. CBA expresses both social benefits and social costs in

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monetary terms. CBA is the most widely-used criterion for assessing the social impact (return) of public policies, development programs, and social organizations.

In practice, SROI produces separate, monetized estimates of financial and social value and combines the two to arrive at an estimate of blended value. In doing so, SROI encompasses financial and social performance within a unified measurement framework that allows management to assess financial and social performance and also the complementarities between the two. SROI allows social organizations to demonstrate their blended benefits in a return-for-money framework. This is particularly important for social organizations that may or may not produce equivalent financial return as their counterpart organizations but which, nonetheless, generate higher blended returns.

GLOBAL REPORTING INITIATIVE

The Global Reporting Initiative (GRI) is an international movement affiliated with the United Nations whose purpose is to provide a framework and a process in which business, government, and interest groups collaborate to promote sustainable development through transparent and accurate reporting of their social performance. The objective of the GRI is to make reporting of social performance as routine, comparable, and transparent as financial reporting. Specific roles played by the GRI in the process include: (1) developing a cost-effective, credible,

and transparent reporting framework, (2) providing a forum for multi-stakeholder engagement and consensus-building on social performance reporting, and (3) promoting dialogue and collaboration on the issue of sustainable development.

Within the reporting framework developed by GRI are a set of reporting principles and suggested performance indicators for different business sectors. Through an iterative consultation process, the GRI has proposed 30 social performance indicators for financial institutions. Indicators fall under one of eight performance categories: (1) corporate social responsibility, (2) internal social performance, (3) performance to society, (4) performance to suppliers, (5) retail banking, (6) investment banking, (7) asset management, and (8) insurance (see Table A2 in the Appendix).

SOCIAL PERFORMANCE INDICATORS INITIATIVE

The Social Performance Indicators Initiative (SPII) has three strategic objectives: (1) develop a conceptual framework for defining social performance in microfinance, (2) develop a set of indicators to measure different dimensions of MFI social performance, and (3) field-test the indicators and arrive at a set of social performance indicators with broad industry relevance. Following from the first objective, the SPII conceptual framework proposes investigating the structure of MFIs and their conduct in the local and wider communities.

Within this framework, the SPII posits four dimensions of social performance: (1) outreach to the poor and excluded, (2) adaptation of products and services to target clients' needs and wants, (3) improving social and political capital, or the extent to which MFIs give voice to clients within the organization and beyond, and (4) social responsibility, or the extent to which MFIs adapt to their socio-economic and cultural contexts; have adequate human resource policies; and promote balanced relationships between staff and clients.

Following from the second objective, the SPII developed 49 social performance indicators falling in each of the four performance dimensions through a deliberative process with 18 MFIs. Selection criteria were that indicators: (1) captured each of the four dimensions of social performance, (2) could be self-reported by managers or loan officers, (3) already resided or could be integrated in the MFI's management information system, and (4) were straightforward and could be rapidly verified by an external audit. Field-testing of the indicators is in process. (See Table A3 in the Appendix for a list of the SPII indicators.)

SIX ASPECTS OF OUTREACH

The Six Aspects of Outreach places SPM within a cost-benefit framework. It frames social performance in terms of six dimensions of outreach: (1) worth of outreach, defined as the client's willingness to pay, (2) cost of outreach, defined as the sum of price and non-price transaction costs, (3) depth of

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outreach, defined by how far the MFI reaches down the socio-economic ladder with products and services, (4) breadth of outreach, defined by the number of clients, (5) length of outreach, defined as the time frame of supply of products and services, and (6) scope of outreach, defined as the number of distinct types of products and services supplied.

According to the Six Aspect framework, net social benefit consists of two components: customer value and social value. Customer value is the private value customers derive from the consumption of financial and non-financial services, as determined by worth, cost, and scope of outreach. Social value is the value society derives from consumption of financial and non-financial services over and above the increase in customer value, as determined by breadth, depth, and length of outreach. Net social benefit is

determined by the interaction of each of the six aspects of outreach. No single aspect or combination of aspects can be considered in isolation from the others. How each aspect affects total net social benefit depends on how each is measured and on its interaction with the other dimensions.

LESSONS LEARNED FROM SAMPLE SPM FRAMEWORKS

The SPM frameworks reviewed here reveal several common themes of relevance to microfinance. The themes can be grouped into two categories: rationales for SPM and the SPM process. Lessons learned about the SPM process will prove particularly relevant during the operationalization phase of the project.

RATIONALES FOR SOCIAL PERFORMANCE MEASUREMENT

- Financial measures are not enough. Financial measures consider only one dimension of organizational performance. A clear understanding of organizational performance and how it affects different stakeholders requires consideration of non-financial measures as well.
- SPM is a process through which the organization clarifies its mission. Clear understanding and articulation of the organization's social mission is a prerequisite for SPM.
- SPM aligns policies and behavior to social mission. To the extent SPM is driven by the organization's social mission, it will create forces within the organization that serve to align policies and behavior with social mission.
- SPM is a useful decision making tool. Social performance information that is fed back into

the organization's feedback loops produces a flow of information that can be accessed to inform both routine and non-routine decisions.

- SPM improves organizational performance. Performance improvement occurs through alignment of policies and behavior with mission, establishing social performance benchmarks, assessing performance relative to the benchmarks, creating a supportive institutional culture, and informing strategic planning and decision making.
- SPM is an effective early intervention mechanism. Tracking social performance alerts the organization to problems as they arise or soon thereafter, thus allowing management to intervene before the problems become more serious.
- SPM is an integral part of organizational transparency. The idea that organizations have an ethical duty to account for their social performance is gaining traction. The same ethical principles requiring organizations to report their financial performance to owners are now being invoked to argue that organizations should also report their social performance to stakeholders
- SPM is part of business "best practice." The size and scope of

the SPM movement in the private business sector indicate that SPM is a mainstream business practice. An estimated 3,000 corporations have published social performance reports, including nearly one-half of the largest global companies, and approximately 36% of global companies are working with some form of a Balanced Scorecard. Companies adopting the Balanced Scorecard include such household names as Bank of Tokyo, BMW, Caterpillar, Chemical Bank, Cigna, DaimlerChrysler, Dupont, ExxonMobil, Fannie Mae, Ford Motor, General Electric, Hilton Hotels, IBM, Key Bank, NCR, Pfizer, Sears Roebuck, Siemens A.G., T. Rowe Price, Verizon Communications, Walt Disney, and Wells Fargo Bank.

SOCIAL PERFORMANCE MEASUREMENT PROCESS

- SPM should reflect key stakeholders' needs, concerns and perspectives. An integral component of SPM is identification of key stakeholders and determination of their needs, concerns, and perspectives.
- SPM should be integrated into strategic planning. The principles and processes underlying SPM provide a useful framework for carrying out organizational strategic planning, while information generated through SPM is an

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important input into the strategic planning process.

- SPM works best with multiple performance indicators. As with financial indicators, several social performance indicators are necessary to gain a more complete

understanding of social performance.

- Importance of social performance standards. Social performance cannot be assessed in a vacuum. To be relevant, it must be compared to some standard or

benchmark, whether internal or external.

ALTERNATIVE SPM FRAMEWORKS TO FINANCE

The six sample frameworks present a representative range of approaches to SPM. The question for this project is which of the frameworks is most appropriate for microfinance? A first cut to answer this question is to judge the frameworks relative to this research project's two primary objectives stated in the introduction. Fulfillment of these two objectives requires the creation of a set of social performance indicators to allow for standardization across MFIs and to establish performance benchmarks. Internal self-assessment frameworks, such as the Balanced Scorecard, do not lend themselves to standardization across organizations, so they cannot satisfy project objectives. While SROI produces monetary estimates that are directly comparable across organizations, the specific costs and benefits monetized are unique to each organization, as is often the methodology used to produce the monetary estimates. That and the technical capacity required to implement SROI limit its feasibility in terms of establishing performance standards and benchmarks. Process-oriented frameworks, such as the AA1000, can play an important role in establishing process standards, but they do not have much to offer by way of establishing performance standards. (They are also an important component of social auditing and will become relevant during social audit phase of the project.)

In contrast, an explicit objective of the GRI, SPII, and Six Aspects framework

is to develop standardized quantitative performance indicators that can be used internally and externally to assess social performance. The GRI and SPII both used a collaborative process to identify a large number of social performance indicators assessing internal organizational processes and social outcomes. A conceptual weakness of the GRI and SPII, however, is that neither offers an integrated conceptual framework specifying how the large number indicators relate to each other. By way of analogy, the indicators are akin to pieces of a puzzle (the social performance puzzle), but there is no mechanism by which the pieces actually fit together to form an overall picture of social performance. Plus, the sheer number of puzzle pieces make it all the more difficult to understand how the pieces relate to each other and what they contribute individually and collectively to social performance.

One framework that offers an integrated conceptual framework for understanding how factors in social performance are related to each other is return on investment/cost-benefit analysis (ROI/CBA). ROI/CBA is based on the intuitive concept that the most relevant criterion for assessing the performance of an investment (whether private or social) is the value of the returns to the investment relative to the value of its costs. This is a simple, yet powerful concept that investors understand and respond to. It is the same intuition that underlies most management decision-making regarding

the allocation of scarce resources. It is, moreover, the intuition that underlies the principle of administrative efficiency: maximizing outputs (returns) for a given level of inputs (investment). For these reasons, ROI/CBA has become the standard framework for assessing financial and social performance.

ROI/CBA works well in the context of private business, because financial returns are already expressed in monetary terms. The difficulty applying it to social performance is that most social returns are non-monetary and difficult to monetize. Economists and program analysts have applied ROI/CBA to assess a wide variety of social outcomes, but it is a methodology that is difficult, costly, and requires advanced technical skills. More than anything, the technical complexity of ROI/CBA has stymied attempts to apply it widely within practitioner organizations. If it were possible to rescue ROI/CBA from these "deficiencies," however, it would most likely become the preferred approach to assess social performance among practitioner organizations and social investors. It would also represent a significant leap forward in legitimizing SPM and embedding it as a core organizational practice.

The Six Aspects framework was designed specifically as a pragmatic simplification of ROI/CBA to make it a useful management and investment tool. Like SROI, it integrates social and financial measures to arrive at an

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estimate of blended return, but unlike SROI it does not attempt to monetize costs or benefits. This is arguably a weakness of the Six Aspects framework, but it is also its strength in that it does not require the technical skills nor make the resource demands that have made SROI (and more generally ROI/CBA) an impractical management or investment tool.

The Six Aspects framework operates as a heuristic (rule of thumb) tool that operates in a similar sense to financial performance indicators. To assess financial performance, managers and investors track multiple indicators (e.g., administrative efficiency, portfolio-at-risk, return on assets, debt-to-equity, and portfolio growth). These financial indicators cannot be aggregated to arrive at a single estimate of financial performance. Instead, they are treated as pieces to the performance puzzle and are considered collectively and relative to the environment to get an overall sense of financial performance. In like manner, the Six Aspects framework tracks multiple social performance indicators falling under the six dimensions of outreach. The indicators are considered collectively and relative to the environment to get an overall sense of social performance. The Six Aspects framework, moreover, specifies how each piece of the social performance puzzle relates to the other, and it provides an underlying conceptual framework to understand how the pieces jointly contribute to create social value.

CRITERIA FOR STAKEHOLDER ACCEPTANCE

To achieve the project objectives also requires that the framework win acceptance among MFI managers, investors, and other key stakeholders. Key criteria for winning stakeholder acceptance are that the framework should (1) be simple to understand and implement, (2) be based on sound theoretical principles that have strong intuitive appeal and be readily accepted as legitimate, (3) be useful for investors and other external stakeholders, (4) be a useful management tool, (5) utilize language and concepts familiar to microfinance practitioners, (6) take into account the double bottom-line nature of microfinance, and (7) capture multiple dimensions of social performance.

The previous section demonstrated how the Six Aspects framework satisfies criteria 1-3. This section demonstrates how the Six Aspects framework satisfies criteria 4-7.

The framework should be a useful management tool. A primary practical benefit of the Six Aspects framework is that it makes explicit the key issues that an MFI needs to consider in creating social value and managing its progress toward a double bottom-line. By making these issues explicit, the Six Aspects framework helps ensure that each issue is given due weight in strategic planning and action

Another practical benefit of the Six Aspects framework is that it highlights tradeoffs and complementarities inherent in decision making. While it would be ideal to push forward along all six dimensions of outreach simultaneously, decisions often entail tradeoffs; they push along one dimension but pull back on another. Or, moving along one dimension complements movement along other dimensions. The Six Aspects framework makes such tradeoffs and complementarities explicit and their implications understood. Three simple examples illustrate this point.

An MFI adopts a poverty-targeting tool that increases administrative costs.

Depth of outreach increases, but breadth of outreach decreases, because the non-poor are now excluded from access to loans. If the costs to administer the tools are passed on to customers, cost of outreach increases, but if they are not, operating margins fall, and length of outreach may fall. If the MFI goes down market with appropriate products and services and with appropriate terms, worth and scope of outreach increase, as does length. If not, then length, worth, and scope of outreach all decrease.

An MFI charges a high rate of interest that covers operational, funding, and imputed funding costs. Breadth and

depth of outreach fall (assuming reasonable price elasticities) and cost and length of outreach increase. Scope and worth of outreach are unchanged.

An MFI offers savings with flexible terms.

Scope and worth of outreach increase. Breadth and depth of outreach also increase, because people who do not operate businesses or are otherwise too poor to borrow can still save. Length of outreach increases, because savings are a more stable source of long-term funds than donations. Cost of outreach increases relative to donated funds but decreases relative to commercially borrowed funds.

The framework uses language and concepts familiar to microfinance practitioners.

Outreach is a concept widely understood and used. In particular, practitioners will be familiar with the terms, meaning, and importance of breadth and depth of outreach. Other dimensions of outreach may or may not be familiar to practitioners, but their underlying concepts will be: financial sustainability (length of outreach), costs of products and services (cost of outreach), customer value (worth of outreach), and product/service diversification (scope of outreach). Practitioners will not only be able to relate these terms and concepts to dimensions of social performance,

but will also be able to understand their implications for financial performance.

The framework takes into account the double bottom-line nature of microfinance.

Monitoring organizational performance along different dimensions of outreach helps the MFI understand and track both social performance and financial performance as well as the intersection between the two. With the exception of depth of outreach, the aspects of outreach measure dimensions of both social and financial performance. Financial sustainability, ROI, return on assets, and portfolio-at-risk are all positively correlated with length of outreach. Breadth of outreach is measured using common performance indicators such as program size and program growth.

Scope, worth, length, and cost of outreach is each also an integral component of customer value creation, and customer value creation is an integral component of long-term financial performance. Customer value, and thus long-term financial performance, is greater: (1) the greater the number and variety of market offerings, (2) the longer the organization provides the

market offerings, (3) the more worthwhile the market offerings, and (4) the lower the cost of the market offerings.

The framework captures multiple dimensions of social

performance. Measuring social performance along multiple dimensions is important for a couple of reasons. First, it decreases the risk of creating perverse behavioral incentives that often arise when a single or small set of performance indicators are used. Second, it creates a conceptual basis for expanding the production possibility frontiers of microfinance. Best practice convention offers important insight for expanding these frontiers, but its limited conceptualization of social performance and its relationship to financial performance, and its tendency to neglect or downplay social issues limits its usefulness for microfinance in understanding social performance. As a result, the industry has achieved significant progress in expanding the production possibility frontiers of financial performance but relatively little progress expanding the joint production possibility frontiers of financial and social return.

In contrast, the Six Aspects framework creates a conceptual framework for expanding the frontier of both social and financial performance along multiple dimensions. Even if progress stalls in one dimension, there exist ample opportunities to expand in others, often at a relatively low cost. The point is that progress along different dimensions corresponds to increased social and financial performance, and by tracking how they are moving along the different dimensions, MFIs can understand better their progress toward meeting their social and financial objectives.

OPERATIONALIZING THE SIX ASPECTS FRAMEWORK

Arguably the criterion that the conceptual framework should be simple to implement is the most important of the criteria determining stakeholder acceptance. At the end of the day, if the conceptual framework is too difficult to implement (whether because it requires too much time, money, or technical expertise) or if the costs of implementation exceed its perceived benefits, then practitioners will not implement it, regardless of its other virtues.

Whether the Six Aspects framework is simple to implement depends on how it is operationalized. For simplicity's sake, the best indicators are those that (1) are easy to collect, requiring few resources and staff time (2) the MFI is already collecting or would have collected anyway, (3) serve dual or multiple purposes (e.g., measure dimensions

of social and financial performance), and (4) already reside in or can easily be integrated into the MFI's management information system. Recognizing the importance of how the Six Aspects framework is operationalized, the next phase of the project takes on this task. Specifically, the next task will be to define a set of indicators falling under each of the six dimensions of outreach, describe how each indicator measures the underlying dimension, discuss data collection issues relevant to each indicator, and demonstrate how each indicator can be used to estimate social and financial performance.

Fortunately, it will not be necessary to operationalize the Six Aspects framework starting from scratch. The first task completed under this project was a two-day Conceptual Workshop held in Washington, DC

on January 22-23, 2004. Workshop participants spent the second day of the workshop discussing the theoretical and practical issues involved in operationalizing the Six Aspects framework and possible indicators that might be used within each of the six dimensions of outreach. They generated a preliminary list of indicators, which will be refined during the next phase of the project in collaboration with key stakeholder groups. The preliminary indicators are listed in the Appendix in Table A4. The refining process during the next phase is expected to produce a significant reduction in the number of indicators from those shown in Table A4.

CONCLUSION

The concluding remarks revisit the two critical questions that this document attempts to answer:

1. Why do social performance measurement?
2. Why the Six Aspects of Outreach as opposed to other SPM frameworks?

These two questions must be answered satisfactorily if MFI management, investors, and other key stakeholders are to buy-in to the project. Reviewing the many rationales for social performance measurement provided in this document in response to the first question, a few stand out in importance:

- Relying solely on financial performance measures absent a framework to understand how they relate to social performance gives a distorted view of social performance. This in turn makes it difficult for MFIs to achieve their social objectives, and it creates pressures and incentives for MFIs to drift away from their social mission.
- Information about social performance is necessary to align social performance to strategy and to manage toward a double bottom-line. Without information on social performance, MFIs have no basis on which to plan or make

strategic decisions that affect social outcomes.

- Information about social performance is necessary to increase industry transparency and, consequently, credibility.
- Information about social performance is necessary to create industry social performance standards and benchmarks.
- Social performance standards and benchmarks in turn are necessary to guide management decision making and to facilitate investment decisions by private and other investors. The supply of private investment to microfinance and its allocative efficiency are further expected to increase as a result.

In response to the second question, the Six Aspects of Outreach offers four distinct advantages over alternative frameworks.

- It is a practical application of an ROI/CBA framework. ROI/CBA is a time-tested, widely-accepted, and intuitively powerful framework and the primary criteria for assessing both private investment alternatives and the impact of social programs and organizations.
- It frames social return in the language of outreach using terms and concepts already

familiar to microfinance practitioners. In doing so, it creates a common language for understanding, discussing, and measuring social performance.

- It makes explicit the crucial dimensions of social return, thereby increasing the likelihood that all dimensions are integrated into the MFI's strategic planning and action. Moreover, it provides a conceptual framework for understanding how indicators falling under each dimension contribute to social value creation.
- It integrates social performance measurement with financial performance measurement, and it provides a conceptual framework for understanding how financial performance indicators contribute to social performance. It also makes clear the complementarities and tradeoffs between social and financial return inherent in management decision making.

The next task in this project is to operationalize the Six Aspects framework. This will be done in close collaboration with various industry stakeholder groups. This task will demonstrate how the Six Aspects framework can feasibly be integrated into MFI operations and the investment decision-making process and will demonstrate its usefulness. The final task of the

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project will be to develop a social audit tool as the second component of a broader social accounting framework that will allow MFIs and external auditors to validate the process and outcomes produced under the Six Aspects framework.