SOCIAL RATING GUIDE

The Rating Initiative
Microfinance and Transparency

Rating Guide

Volume 2: The Social Rating Guide

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Rating Guide prepared by: Heather Clark with Frances Sinha

Co-ordination: Laura Foose

Layout and design:

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Foreword

Social ratings are a valuable tool to help financial institutions that serve poor and low-income people improve their operations and access capital. They do this by enhancing transparency, suggesting areas for improvement, and demonstrating to investors how well financial institutions achieve their social mission and meet social goals in line with socially accepted values.

From our experience –both avid users of ratings and advocates for greater transparency and accountability in the microfinance industry—we view the Social Rating Guide as a timely and important contribution to the field. We recall the events of a few years ago when financial institutions appeared to have no limits to their growth. Prompted by market exuberance, only the most responsible financial institutions were concerned with social values, reflecting clients, staff and community. When we look at these more socially responsible institutions today, we see that they weathered the crisis with some pain but recovered quickly relative to others.

Social ratings provide a means for financial institutions to improve their own social performance and for investors to understand the policies and practices of financial institutions that promote social values. These institutions may be microfinance institutions or mainstream financial institutions that are dedicated to ensuring social responsibility to clients, staff, the community and environment.

The social rating, as an independent assessment, is a valuable tool for a financial institution because it identifies whether the financial institution has the systems in place to achieve it social mission, suggests areas for improvement, and benchmarks the institution's performance within the sector.

Social ratings also are valuable to investors because they enhance investor decisions and promote transparency in the sector—fundamental values for ensuring capital flows to robust and valued corporate citizens in any society. As a good governance practice, we believe that "double-bottom line" microfinance investors should use social ratings to provide an independent opinion in their investment decision-making process. Social ratings increase the efficiency of the investment process by providing objective information on the social performance risk profile of potential investees. They also provide the valuable service of benchmarking the social and operational performance of financial institutions to facilitate a comparison among institutions.

We encourage both financial institutions and investors to use this guide as a resource for their decision-making.

We acknowledge the dedicated work of the specialized rating agencies who contributed content, energy, experience, and time to making this guide what it is today: M-CRIL, MicroFinanza Rating, MicroRate, and Planet Rating. We give special thanks to Laura Foose of the Social Performance Task Force who provided coordination and community liaison.

Frank Degiovanni
Director, Financial Assets Unit
Ford Foundation

Hans Ramm
Senior Financial Sector Development Policy Advisor
Swiss Agency for Development and Cooperation (SDC)

Introduction

Microfinance rating agencies originally developed the social rating methodology in response to microfinance institutions (MFIs) concerns to go beyond financial assessments. Today, Social Ratings are recognized as a valuable tool by all types of financial institutions, MFIs and investors alike. Financial institutions (FIs) maintain high interest in evaluating their social performance and providing public evidence of meeting their social goals. Investors consider social ratings as a good governance practice. They are increasingly interested in a financial institution's social performance, social returns and ability to meet the double bottom line.

The Social Rating analyzes a financial institution's social performance. This guide describes the key elements of Social Ratings and how they are under-taken. It discusses the uses and benefits of Social Ratings, the synergies with the Microfinance Institutional Rating (MIR),[1] and how Social Ratings are aligned with other industry initiatives. Although there are some differences in the specialized rating agencies' approach and content, this guide focuses on the common features.

The social rating methodology has evolved over the past five years. From experience in social rating, specialized rating agencies contributed to noteworthy initiatives for setting standards in social performance, lending coherence to the industry. These initiatives include the Universal Standards of Social Performance Management (Universal Standards), the Smart Campaign's Client Protection Principles (CPP), the Progress out of Poverty Index (PPI), Truelift and the Principles for Investors in Inclusive Finance (PIIF).

The global demand for ratings from MFIs and investors rose steadily during the past five years. From 2008 to 2013, a total of 416 social ratings were undertaken. [2]

The Social Rating Guide is a companion to the Microfinance Institutional Rating (MIR) Guide. The Guides are products of the Rating Initiative with contributions from specialized microfinance raters (M-CRIL, MicroRate, MicroFinanza Rating and Planet Rating), users of ratings, and the Social Performance Task Force (SPTF).

The Rating Initiative was launched by ADA in collaboration with the Government of Luxembourg, the Microfinance Initiative Liechtenstein, the Swiss Agency for Development and Cooperation (SDC), Oxfam Novib, the Oesterreichische Entwicklungsbank (OeEB), ICCO, the Principality of Monaco, the Ford Foundation and Blue Orchard. The preparations of the Microfinance Rating Guide and this Social Rating Guide were funded by SDC under the Investors' Awareness component of the Rating Initiative.

[1] The Microfinance Institutional Rating. October 2012. Rating Guide Volume 1. The Rating Initiative.
[2] Number of social ratings conducted as of September, 2013. M-CRIL Ratings from 2011 to September, 2013.

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The Social Rating

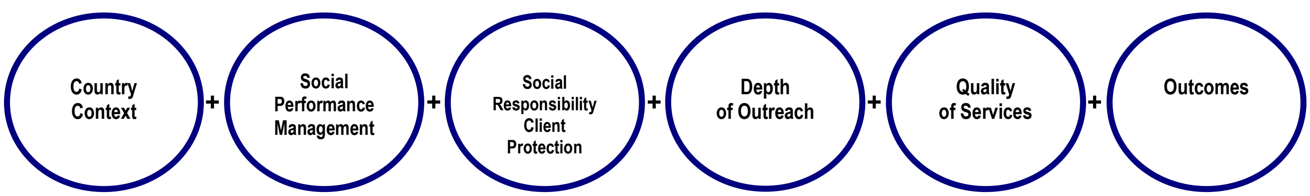
What is a Social Rating?

A Social Rating is an expert opinion on the social performance of a financial institution, and the likelihood that it meets social goals in line with accepted social values.

Social values include increasing sustainable access to financial services to poorer and excluded people, improving the quality and appropriateness of services, creating benefits for clients, and implementing robust client protection measures. Social values also include responsibility to staff, the community and the environment. These values reflect the Social Performance Task Force (SPTF) consensus on social performance as a strategic commitment of the financial institution.

A Social Rating can be conducted for all types of financial institutions –regulated and non-regulated, large and small, specialized microfinance institutions, and financial institutions with a small microfinance portfolio. The Social Rating is useful to all types of financial intermediaries as it covers key aspects of market outreach, quality of services, client protection and responsibility to staff.

Social Ratings examine the country context, social performance management, social responsibility, depth of outreach, quality of services and outcomes.



The four specialized rating agencies examine these six common elements to provide the basis for the social rating opinion. Each specialist rating agency uses its own structure of reporting with some variation in application of data and methods for assessing client level data.

Country Context

Rating Parameters	Review carried out by raters
➢ Socio-economic environment ➢ Microfinance sector regulation ➢ Microfinance sector actors and offerings	**Documents** such as The Human Development Report, World Bank country statistics; Global Findex, regulation for microfinance; country data on FIs.

Key elements for reviewing Country Context

The social performance potential of an FI is influenced by the socio-economic environment of the country. The Social Rating draws on national and regional socio-economic data to analyze country development, levels of poverty, and other development indicators relevant to the target market for microfinance. As new data becomes available (World Bank, Global Findex) the Social Rating can also analyze country issues in financial exclusion. Country data on financial institutions, outreach, competition, regulation and sector initiatives provide a reference for positioning an FI, and understanding local issues and challenges.

Social Performance Management

Rating Parameters	Due diligence carried out by raters
➢ Definition and monitoring of social goals ➢ Board, Management and Staff Commitment to social goals ➢ Balanced financial and social goals and performance	**Interviews** with Board members, Shareholders, Management Team members and field staff **Documents** such as Business Plan, Board minutes, Operations manual, MIS reports, any documentation of client surveys/other research, HR manual

Key elements for analyzing Social Performance Management

The premise of social performance is that a double bottom line institution must have a deliberate strategy and systems in place to put its social mission into practice. Analyzing social performance management is a key element of the Social Rating. Effective Social Performance Management (SPM) is a continual process of translating mission and values into practice, which includes:

- Having a good analysis of the social challenges in the area of operations to define relevant social goals
- Setting clear social objectives and creating a deliberate strategy to achieve them
- Monitoring and assessing progress towards achieving social objectives, and,
- Using information to improve overall organizational performance.

The Social Rating analysis of SPM has evolved over the past few years to incorporate a clear understanding of good practices that integrate social performance into governance, management and field operations. The achievement of social goals in line with accepted social values happens by design, with evidence for the steps that lead to expected outcomes. This design requires:

- Clarity in defining and communicating the social goals and values that are relevant to the FI's mission
- A Board that takes fiduciary responsibility for balancing the institution's achievement of financial and social goals and compliance with social values;
- A strategic plan that formalizes and incorporates social objectives and measurable targets;
- A strategic plan that is backed by a robust monitoring and reporting system; and,
- Staff training, appraisal and incentive systems that support the social objectives and a culture of commitment.

Social Responsibility

Rating Parameters	Due diligence carried out by raters
➢ **Client protection:** compliance with the seven client protection principles; and with country regulation or code of conduct ➢ **Responsibility to staff:** written HR policies that protect employees, provide a living wage, create a supportive working environment, and ensure non-discrimination policies and practices. ➢ **Services to Community, Protection of the Environment:** analysis of methods the FI uses to minimize its ecological footprint, manage the environmental risk of the activities financed, and contribute to the social development of the communities where the FI operates	Questions related to these topics are added to the discussions conducted for SPM **interviews** with field staff and with clients. For more in-depth analysis, specific **focus groups** and a **client survey** may be performed. **Documents** such as the Code of Ethics, HR manuals, Reports on Client Grievance, Operations Manuals, Internal audit reports and; Environmental policy, Staff survey, Salary survey/benchmarks **Review of documentation and agreements** with clients

Key elements for analyzing Social Responsibility

Social – or 'institutional' responsibility-- covers responsibility toward clients, staff and the community and the environment.

At the heart of responsibility toward clients is the evaluation of client protection. Client Protection is a central focus for the microfinance sector that aims to work with low income, poor, and more vulnerable people who are particularly at risk. The evaluation determines if consistent and effective mechanisms are in place to prevent over-indebtedness, ensure transparent and fair pricing, respectful treatment, data privacy and response to complaints. In countries where regulation covers client protection issues in microfinance or a code of conduct for the microfinance sector is in place, compliance with these provisions are also included in the Social Rating.

Responsibility to staff highlights the importance of staff in service delivery. Social Ratings evaluate whether staff are respected and treated with dignity, fairness and professionalism. The Social Rating analyses staff satisfaction using any existing surveys and the institution's response, with additional interviews with staff; staff turnover and reasons for exit, if possible; employment of temporary staff; compliance with international and national labor laws/rules (working hours, etc.) compensation levels and regular benefits (such as healthcare and pensions); and security measures (in case of travel, cash transfer or work in risky areas). The social rating analyzes a range of anti-discrimination policies and practices, including gender equity, fairness to people with disabilities, religion and ethnicity.

Services to the community and environmental protection measures may be included in the Social Rating where these seem relevant, or in response to investor requirements, for example, as part of ESG (Environmental, Social and Corporate Governance) reporting. Services to the community may include non-financial services that are targeting the wider community, apart from microfinance clients.

Depth of Outreach

Parameters	Due diligence carried out by raters
➢ Outreach to underserved, less developed regions, including rural areas ➢ Outreach to clients without prior access to formal financial services ➢ Outreach to vulnerable communities (ethnic, religious, vulnerable in local context) ➢ Fair representation of women in the clientele ➢ Outreach to poor clients ➢ Accessibility of the services to all types of clients and activities (start-ups, informal businesses, formal businesses.)	**Documents:** MIS information for portfolio distribution and analysis; reports/surveys on client profile indicators, with rater verification of data quality. **Interviews:** with staff and management, including branch offices ***Optional***: In the absence of good quality data generated by the FI, a client profile sample survey is part of the rating

Key elements for analyzing Depth of Outreach

Social Ratings use data available from the FI to analyze outreach beyond the overall numbers of clients. Portfolio analysis reviews loan size and deposit composition, if offered by an MFI. The analysis uses MIS reports that show distribution of the clients by gender, by economic activity or socio-economic status (if available) and by rural or urban geographical area. This segmentation may reflect branch location rather than client household location. The analysis may also use details on the distribution of the portfolio according to the type of business financed. .

When the FI has client level data of adequate scope and quality, social ratings analyze entry-level client data to compare outreach to national or regional poverty benchmarks. This data can also be analyzed to assess other quality of life indicators, and compared to the FI's social goals for outreach. When the FI does not have quality client level data available, a field sample survey of entry level clients is an optional means of providing direct measurement of depth of outreach. The client survey can complement the data available from the FI with client data on poverty, financial exclusion, social vulnerability, client businesses that are financed as well as client protection and satisfaction. This enables a richer analysis of depth of outreach. The client sample survey also serves to demonstrate the type of relevant data that can be collected and reported. It is important to recognize that if the FI does not have quality client level data available, it is very difficult for the social rating to draw reliable conclusions regarding depth of outreach without undertaking field sample surveys of entry level clients.

The percentage of financial institutions with sound data collection and tracking systems is still limited today. However, FIs are increasingly developing systems to collect and analyze client profile data (including for example Progress out of Poverty Index data) as part of their SPM system. To date, methods to track client profile data are limited and used mainly by poverty focused MFIs. Growing attention to tracking this data will allow the rating effort to gradually shift to data verification (e.g. checking the scope of data, the method of data collection and entry, existing checks on quality of data, the type of reports, and the use that the FI makes of the findings).

Quality of Services

Parameters	Due diligence carried out by raters
➢ Institutional understanding of the needs and preferences of different types of clients, demonstrated by findings from client retention statistics, client satisfaction surveys and how clients use products and services by client characteristic (e.g. men, women, income level, business type ➢ Range and type of financial products and services (within regulatory limitations); non-financial services and client access to these services ➢ Design of products, services and delivery channels in such a way that they provide, benefit to clients, in line with the institution's social goals ➢ Adequacy of products services and delivery channels and models to clients' needs: e.g. convenience, procedures, collateral, repayment schedules, amounts, cost to the client ➢ Monitoring client retention and reasons for exit ➢ Understanding client satisfaction (e.g. overall experience and value, convenience of accessing services, suggestions for product improvement) by client characteristic	**Documents:** description of products and services, MIS, transparent documentation provided to clients; any relevant documentation/research available produced by the FI, such as client satisfaction surveys, market research, quality monitoring, or internal audit reports. Questions related to these topics are added to **interviews** with relevant departments (marketing, research, operations, MIS); ***Optional*** to include relevant questions in the sample survey conducted as part of rating **focus groups** with field staff and clients.

Key elements for analyzing Quality of Services

Recent research, including financial diaries and 'Portfolios of the Poor', has led to better understanding of the diverse needs and market segments of poor and low income households. As a response to these findings, microfinance is evolving as a sector to provide a range of financial and support services that respond to varied demand of customers.

The Social Rating analyzes the FI's ability to develop and adapt product offerings to different client segments, their financial needs and opportunities, as well as client feedback.

The rating reviews the capacity of the FI to reference relevant market intelligence, and provide convenient services at a reasonable cost. The analysis includes the extent of client uptake of different types of products and services.

Relevant documentation of mechanisms to monitor client feedback is reviewed for quality, appropriate frequency, and use of findings by the management to improve products and services. A rating recognizes any legal limitations on the FI's ability to directly provide certain services (such as savings, insurance) but will look for ways that FIs can use to facilitate access to these services for its clients through information, partnerships or linkages. Non-financial services that an FI may provide to clients or family members (either directly or through linkages with other institutions) are also covered and analyzed in the same way.

The Social Rating reports on the FI's findings and normally includes any additional feedback from staff and clients conducted as part of branch visits and interviews. A Social Rating with a client survey will have relevant questions on client satisfaction, awareness of product terms, and client feedback to supplement the existing market intelligence that the FI may have.

Outcomes

Parameters	Review carried out by raters
➢ Indicators of client progress associated with FI services ➢ Evidence of change for clients with data and methods that are reasonably robust	**Documents and MIS data** that provide relevant information (e.g. distribution of mature clients by loan size, and, savings amounts). **Review of documents**: If the FI has conducted studies or robust surveys that document outcome indicators, these documents are reviewed. They may review client use of services and change over time. Client case studies -allowing for client dropout and failures as well as success stories-- are also examples included in the review.

Key elements for analyzing Outcomes

Client outcomes (or evidence of change) are important for many stakeholders, particularly social investors and MFIs. Outcomes are complex to measure convincingly, as there are really no standard benchmarks for the type of change expected, for whom, over what period of time, and as a result of what inputs. While challenging, this is certainly an area that MFIs that have a clear goal to improve the socio-economic situation of their clients should tackle. The Social Rating reports comment on the scope and validity of relevant data, studies or reports that address client outcomes.

Measuring outcomes is an emerging area. Impact assessment employs research and statistical techniques to attribute change to an intervention within a limited time frame. This is an option, but there are lower cost methods that MFIs are now introducing. Some of these methods, which often work well in combination, are an analysis of loan size distribution over time, analysis of savings deposits over time or evolution of assets overtime, a food security survey, survey on the evolution of clients' awareness on key topics after training or awareness raising sessions, and client case studies that explore successes and challenges. These methods require quality checks, a reasonably representative sample design, sound analysis and reporting. A Social Rating can include this quality check and will only report data on outcomes after verifying the information.

What is the Rating Process?

The process for a Social Rating is similar to the Microfinance Institutional Rating, as described in Volume 1.[3] The opinion expressed for both types of ratings is the result of a thorough desk analysis and structured on-site review of quantitative and qualitative information regarding the performance and features of the MFI. The information is collected from appropriate sources, verified and cross-checked at different levels during the visit, and validated for consistency and reliability.

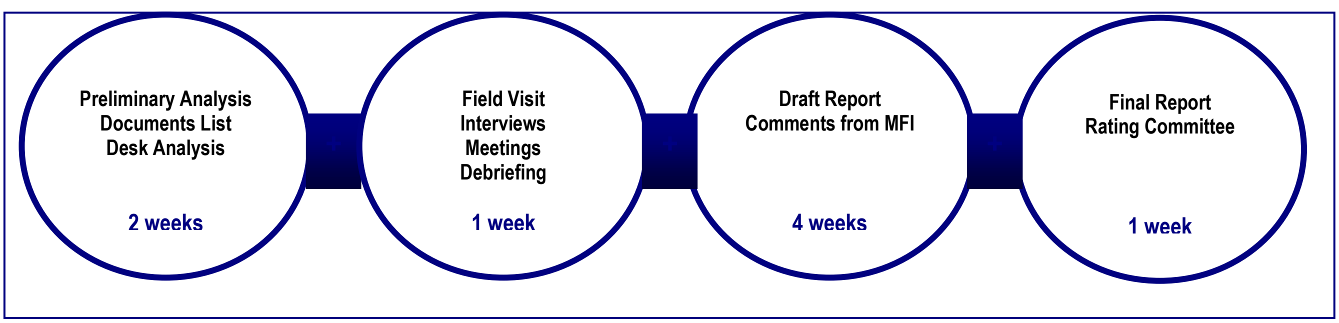
Social Ratings are carried out by rating agency analysts who have social performance experience and skills. A team of two analysts conduct the rating visit to the MFI. Documents are collected from the MFI in advance. In the field, the team conducts interviews with Board members, senior and middle managers at Head Office, and branch managers, field staff and some client at selected branches.

The team reviews Strategic Planning documents, main policy manuals, recent Board minutes, documents relating to products and services. The analysts review and cross-check the scope and quality of social data in the MIS and in other reports, covering information related to client outreach, access to different products and services, client retention or exit, client satisfaction and feedback, and tracking progress over time.

The visit to the MFI takes four to five working days, depending on the size of the MFI and the complexity of its operations. The working days include visits to branch offices, operations in the field and client interaction. When a client survey or focus group discussions are included, the time is increased by 3-4 days on average. The visit to the MFI concludes with a debriefing to top management or board members.

The field work is followed by a draft report which is submitted to the MFI for comment. The report is finalized by the specialized rating agency's Rating Committee.

Rating Timeframe



[3] Rating Initiative. October 2012. Rating Guide Volume 1: The Microfinance Institutional Rating

Comparison of Rating Agency Scores: How Is It Done?

Each of the four specialized microfinance rating agencies uses difference social rating scales. As a general guideline for comparison, the rating grades can be divided into four levels of performance 1) “excellent”, 2) “very good or good”, 3) “adequate, medium, or fair”, and 4) and weak to negative, which may include doing harm.

The rating grade comparability table below allows a general comparison[4] of the different agency rating grades in order to facilitate a common understanding for those who use ratings as part of their work.

Category	Classification	Definition	M-CRIL	MICRO-FINANZA RATING	MicroRate	PLANET RATING
1	**EXCELLENT**	Excellent social performance and responsible finance practices; High likelihood to achieve social mission	**α+** **α**	**AA+** **AA** **AA -** **A+** **A** **A-**	★★★★★ ★★★★☆ ★★★★	**5+, 5, 5-** **4+, 4, 4-**
2	**GOOD**	Good social performance and responsible finance practices; Likely to achieve social mission	**α-** **b+**	**BB +** **BB** **BB -**	★★★☆ ★★★	**3+, 3, 3-**
3	**FAIR**	Fair social performance and responsible practice Partial alignment to social mission.	**b** **b -**	**B +** **B** **B -**	★★☆ ★★	**2+, 2, 2-**
4	**WEAK**	Weak social performance and responsible practices. Risk of mission drift.	**y +** **y**	**C +** **C** **C -** **D +** **D** **D-**	★☆ ★	**1+, 1, 1-** **0+, 0**

[4] This is not an official comparability table. It has not undergone extensive comparison and scientific analysis

Frequently Asked Questions (FAQ's)

What are the benefits of Social Rating?

For Financial Institutions

A Social Rating provides:

- An independent and in-depth analysis of social performance management systems and results, compared to best practice and benchmarks in the sector.
- A diagnostic of social performance, to assess whether the MFI has the systems in place to put its mission and socially accepted valued into practice
- An assessment and diagnostic that can be used as a capacity building tool to strengthen the financial institution's social performance management systems
- A rating grade that can be used to compare institutional performance to peers, and a rating rationale that identifies strengths and gaps in MFI social performance management and results.
- A set of indicators that are aligned with common social performance reporting standards
    - A guide to comply with the Universal Standards
    - A guide to prepare for Client Protection Certification
- A tool to communicate with fund providers or partners.

For DFIs and MIVs

Social Ratings cover the core elements of social performance and responsible finance. The ratings serve to promote transparency and accountability for a financial institution's social performance. Ratings use consistent methodologies that produce objective appraisal and benchmarking information on the performance of potential and current investees.

A Social Rating provides:

- Objective third party opinion of the FI alignment to its mission, social goals and social values.
- Information that supports and enhances investment screening, the investment decision, and on-going monitoring
- Judgment on responsible finance practices to gauge reputation risk
- Information that can be used to identify areas for technical assistance to strengthen investee good practice in social performance
- Coverage of the USSPM standards
- Adherence to Smart Campaign Client Protection Principles
- Verified information for ESG reporting and application of the Principles for Investors in Inclusive Finance (PIIF)

What are the differences between a Social Rating and the Microfinance Institutional Rating?

Social ratings have evolved in the past five years. Some social rating criteria are included in the MIR, such as client protection and topics relevant to mission alignment. The MIR analyzes these criteria to form an opinion on reputation risk and credit risk as a basis for an opinion on sustainability.

The Social Rating deepens analysis of client outreach, adaptation of service offerings and focuses on the institution's ability to achieve social goals. The Social Rating views social performance more broadly than only reputation risk affecting sustainability. Social Ratings: give an opinion on how well financial institutions implement social practices and achieve social goals.

How Do the Social Rating and the Microfinance Institutional Rating (MIR) Work Together?

The two types of ratings conducted together provide a comprehensive analysis of the institution's double bottom line performance. When a Social Rating and a Microfinance Institutional Rating are undertaken together for the same institution, the overall time and cost is significantly lower than if each is conducted separately.

Does the Social Rating Cover the Universal Standards?

Yes. A Social Rating covers the six Universal Standards for Social Performance Management. The Social Rating incorporates these standards as shown in the table below. More details about what the rating considers are presented in the Section: What is a Social Rating - Key Elements. An Annex to the Social Rating report may be added to provide an opinion on how well the Universal Standards are implemented.

The SPTF consensus guidelines include six categories as shown in the table below[5] :

Universal Standards		Social Rating Parameters
1	**Define and Monitor Social Goals** • The institution has a strategy to achieve its social goals. • The institution collects, reports, and ensures the accuracy of client-level data that are specific to the institution's social goals.	**Social Performance Management**
2	**Ensure Board, Management and Employee commitment to social goals** • Members of the board of directors are committed to the institution's social mission. • Members of the board of directors hold the institution accountable to its social mission and social goals. • Senior management sets, and oversees implementation of, the institution's strategy for achieving its social goals. • Employees are recruited, evaluated, and recognized based on both social and financial performance criteria.	**Social Performance Management**

[5] Social Performance Task Force, 2013. Universal Standards for Social Performance Management

3	**Design products, services, delivery models and channels that meet clients' needs and preferences** • The institution understands the needs and preferences of different types of clients. The institution seeks client feedback for product design and delivery. • The institution's products, services, delivery models and channels are designed to benefit clients, in line with the institution's social goals. The institution designs products that are appropriate to client needs and do no harm.	**Social Responsibility** **Depth of Outreach** **Quality of Services** **Outcomes**
4	**Treat Clients Responsibly** • Financial services providers take adequate care in all phases of their credit processes to determine that clients have the capacity to repay without becoming over-indebted. In addition, providers will implement and monitor internal systems that support prevention of over-indebtedness and will foster efforts to improve market level credit risk management (such as credit information sharing). • Providers communicate clear, sufficient and timely information in a manner and language clients can understand so that clients can make informed decisions. The need for transparent information on pricing, terms and conditions of products is highlighted. • Providers and their agents treat their clients fairly and respectfully, and without discrimination. The institution has safeguards to detect and correct corruption as well as aggressive or abusive treatment by their employees and agents, particularly during the loan sales and debt collection processes. • The privacy of individual client data will be respected in accordance with the laws and regulations of individual jurisdictions. Such data will only be used for the purposes specified at the time the information is collected or as permitted by law, unless otherwise agreed with the client. • Providers have in place timely and responsive mechanisms for complaints and problem resolution for their clients. They use these mechanisms both to resolve problems and to improve products and services.	**Social Responsibility**
5	**Treat employees responsibly** • The institution follows a written Human Resources policy that protects employees and creates a supportive working environment. • The institution communicates to all employees the terms of their employment and provides training for essential job functions. • The institution monitors employee satisfaction and turnover.	**Social Responsibility**
6	**Balance financial and social performance** • Growth rates are sustainable and appropriate for market conditions, allowing for high service quality and do not jeopardize either financial sustainability or client well-being. • Equity investors, lenders, board and management are aligned on the institution's double bottom line and implement an appropriate financial structure in its mix of sources, terms, and desired returns. • Pursuit of profits and setting of prices serve both the long-term sustainability of the institution and client well-being. • The institution offers compensation to senior managers appropriate to a double bottom line institution.	**Social Performance Management**

How do Social Ratings and Social Performance Assessments Work Together?

The primary aim of a Social Rating is to provide a publicly available rating grade, succinctly summarizing an opinion that is supported by analysis of systems and comparative data that benchmarks an MFI to sector performance. The rationale section of the rating report summarizes strengths and remaining issues, but in a succinct way.

The primary aim of an assessment is to identify strengths and weaknesses and to prioritize areas for further improvement. An MFI may undertake a self-assessment or an external assessment as a first step to carry out a diagnostic of social performance systems. The report is generally an internal management and planning document. No grade is provided. The report is not necessarily published.

Ratings are usually used by mature institutions. For financial institutions that are not experienced in the rating process, a Social Rating is generally recommended after an in-depth self or external assessment is completed and recommendations are implemented. However not all FIs have to conduct assessments prior to ratings, particularly those with strong social and financial performance.

The specialist rating agencies also conduct social performance assessments, applying their social rating methodology.

How Do Social Ratings and Client Protection Certification Work Together?

Client protection practices are included in a Social Rating and contribute to the overall social rating grade for an FI. A Social Rating provides a broad analysis of each of the seven Client Protection Principles, identifies strengths and gaps, and assigns a grade that reflects the FI's level of achievement in client protection.

If a Social Rating is conducted prior to Client Protection Certification, it can help an MFI diagnose its client protection strengths and weaknesses. A Social Rating may also include an Annex that indicates the degree of effort required for an MFI to be "certification ready" for each of the Client Protection Principles.

When a Social Rating and a Client Protection Certification are conducted simultaneously this joint analysis can be an effective cost-saving measure. This is because a Social Rating and certification mission analyze similar policies and procedures, albeit at different levels of depth. The Client Protection Certification analyzes 30 client protection certification standards, and all associated indicators to determine whether a financial institution meets the standards. The Social Rating does not go into such depth.

The Smart Campaign mobilized industry consensus around defining client protection standards and developing the certification program. The four specialized microfinance rating agencies contributed significantly to the development of the standards and the certification program. They are licensed Certifiers for the Smart Campaign.

How Are Social Ratings Aligned with the Principles for Investors in Inclusive Finance (PIIF)?

The Principles for Investors in Inclusive Finance (PIIF) recognize the critical role investors play to support inclusive and responsible finance, including microfinance. Fund managers and investors sign the principles to signify their intent to uphold seven principles in their investments. Five of these principles are covered in a Social Rating. The other two principles concern investor relations with investees and other investors, and are not covered by the Social Rating of the financial institution. The table below shows the coherence between the PIIF principles, the Universal Standards and the Social Rating parameters. Please refer to the section: What is a Social Rating - Key Elements for more detail on the social rating parameters.

Principles for Investors in Inclusive Finance (PIIF) **In signing the principles, investors commit to a set of seven standards:**	**Universal Standards**	**Social Rating Parameters**
1. Expanding the range of financial services available to low-income people.	**Design products, services, delivery models and channels that meet clients' needs and preferences**	**Depth of Outreach** **Quality of Services** **Outcomes**
2. Integrating client protection into all policies and practices.	**Treat clients responsibly**	**Social Responsibility:** Client Protection
3. Treating investees fairly, with clear and balanced contracts and dispute resolution procedures.	N/A	
4. Integrating environmental, social performance and governance (ESG) factors into policies and reporting.	**Define and monitor social goals** **Ensure board, management and employee commitment to social goals**	**Social Performance Management** **Social Responsibility:** to community and the environment
5. Promoting transparency in all operations.	The Social Rating is a valuable transparency tool, which benchmarks a financial institution's social performance management systems and results in the sector and, compared to best practice. It is an independent and in-depth analysis of social performance management systems and results.	
6. Pursuing balanced long-term returns that reflect the interests of clients, retail providers, and end investors.	**Balance financial and social performance**	**Social Performance Management**
7. Working together to develop common investor standards on inclusive finance.	N/A	

How do rating agencies maintain the objectivity and independence of ratings?

Rating agencies need to be independent and objective so the results of the rating are deemed credible by all actors. Rating agencies derive their independence from governance structures that minimize potential conflict of interest. Controlling shareholders and managers of rating agencies must not have vested interests in the entities they rate. Rating agencies also have procedures in place to manage conflict of interest, if and when they arise. The 4 specialized microfinance rating agencies, including M-CRIL, MicroFinanza Rating, MicroRate, and Planet Rating, have signed a Code of Conduct with the goal of ensuring and promoting the integrity and quality of microfinance ratings. [6]

[6] Microfinance Gateway - Ratings "Hot Topic" August 2013. For more informationhttp://www.amt-forum.org/fileadmin/media_amt/Activities/Code_of_Conduct_final.pdf
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Glossary

Assessments are usually designed for internal use, or are shared only with selected technical or financial partners. Assessments are generally tailored to the specific needs of an organization at a certain time. They are used to analyze performance and as a tool to improve practices. The do not have the same comparability as ratings.

Certification is the verification that a company complies with a set of norms, at a given point in time. These norms are defined by standard-setting bodies (for example, the International Organization for Standardization, which defines all "ISO" standards). Standard-setting bodies can be regulators, or industry associations that provide a tool for the self-regulation of their sector. The Smart Campaign is the standard setting body for client protection in microfinance. The standard-setting body delivers licenses that verify an organization's level of compliance with standards. Certification is meant to guarantee full and complete compliance with the norm. Minor breaches to the norm might be accepted, and lead to a Certification with reservations or qualifications, and a timeframe for correction.

Microfinance Institutional Rating: A Microfinance Institutional Rating provides an opinion on the long term viability and creditworthiness of a regulated or unregulated microfinance institution through a comprehensive assessment of risks, performance, and market position. The term was developed and agreed upon by the four specialized microfinance rating agencies, namely M-CRIL, MicroFinanza Rating, MicroRate, and Planet Rating.

Ratings provide objective analysis of an institution and benchmark that institution along a scale to facilitate comparison between institutions. Ratings are used as a tool to communicate with the market, particularly investors. Ratings are publicly available. They serve as a means to communicate among investors, regulators and financial services providers. When ratings are mandated by the regulator, they serve to ensure that all market players have the information they need to make informed investment decisions. Wide communication of grades is a mandatory requirement for regulated rating agencies.

Social Performance Management (SPM): is "the effective translation of an institution's social mission into practice in line with accepted social values." In other words, social performance management refers to the institution's strategy and internal processes which lead to the accomplishment of its social mission.

Social Rating: A Social Rating is an expert opinion on the social performance of an MFI and the likelihood that an MFI meets social goals in line with accepted social values. The rating provides an opinion on the FI's capacity to achieve its mission by putting social goals into practice.

Social Values (in microfinance): Social values include increasing sustainable access and outreach to poorer people, improving the quality and appropriateness of services to poorer or excluded clients, creating benefits for clients and ensuring social responsibility to clients, staff, the community and the environment. Social values include client protection and ensuring staff are treated fairly and with professionalism. These values reflect the Social Performance Task Force (SPTF) consensus on social performance as a strategic commitment of the financial institution.