



Make the Difference  
We Prove It

# Social Rating

For SME financial service providers

**METHODOLOGY**



## Table of Contents

i. MFR – Company Profile and Experience .....	3
ii. Product map and Synergies.....	4
iii. Social Rating .....	5
iv. Add-on services.....	8
Client Survey and Focus Group Discussions.....	8
Client Outcome Measurement.....	8
Social and/or Client Protection Roadmap.....	9
v. SPI - 4.....	11
vi. Implementation timeline and work plan .....	12
Annex 1: Correspondence Map of Universal Standards of Social Performance management and Social Rating .....	13

## i. MFR – Company Profile and Experience

**MicroFinanza Rating (MFR)** is a global rating agency specialized in responsible inclusive finance. Created in 2000 as a dedicated department of Microfinanza Srl, MFR was spun off as an independent Limited Liability Company in 2006.

Our mission is to provide the responsible inclusive finance industry with independent, high quality ratings and information services, aiming at enhancing transparency, facilitating investments and promoting best practices worldwide.

**Headquartered in Italy**, MFR operates through a **network of 5 regional offices** (Ecuador, Mexico, Kenya, Kyrgyz Republic and the Philippines) and 2 country offices (Bolivia and Peru) across 4 continents, boasting the **largest global geographical coverage** among specialized rating agencies.

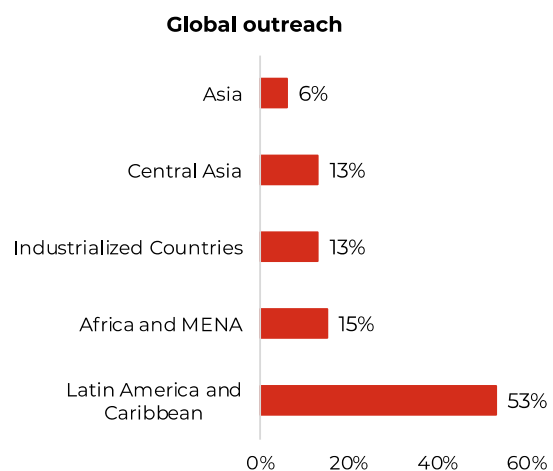
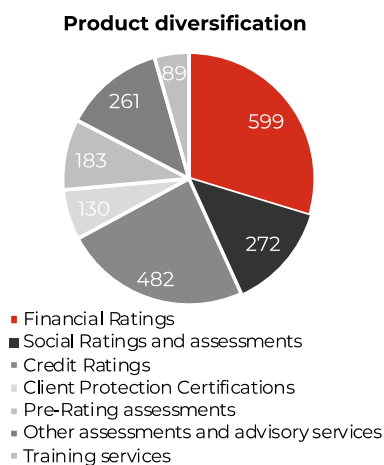
MFR leverages on a well-founded credibility. MFR was the **first specialized rating agency** to be licensed by a Supervisory Authority to carry out mandatory ratings (2007, in Ecuador) and it is currently the **only one to be licenced in 2 countries** (since 2014, also in Bolivia). Over the years, MFR has been accredited by 2 global rating funds (*RF I*) and initiatives (*Rating Initiative*), and a number of regional funds (e.g. *Latin America RF II*, *Moroccan APP*) and initiatives (e.g. *European Jasmine Initiative*, *EASI*).

MFR is licensed by	To conduct
Ecuador local central bank/ Regulator (SBS& SEPS)	Credit Rating of regulated Financial Service Providers (FSPs)
Bolivia local central bank/ Regulator (ASFI)	Credit Rating, Social Rating and Issue Rating of regulated FSPs specialized in microfinance
MFR is registered with	As
Philippines local central bank/Regulator	Microfinance Institutions Rating Agency (MIRA)
MFR is accredited by	To conduct
Smart Campaign GSMA Truelift IPA Cerise	Client Protection Certification of FSPs Mobile Money Certification Truelift Assessment of FSPs PPI Certification of any institution using the PPI* SPI4 and SPI4 Alinus audits

\*currently discontinued

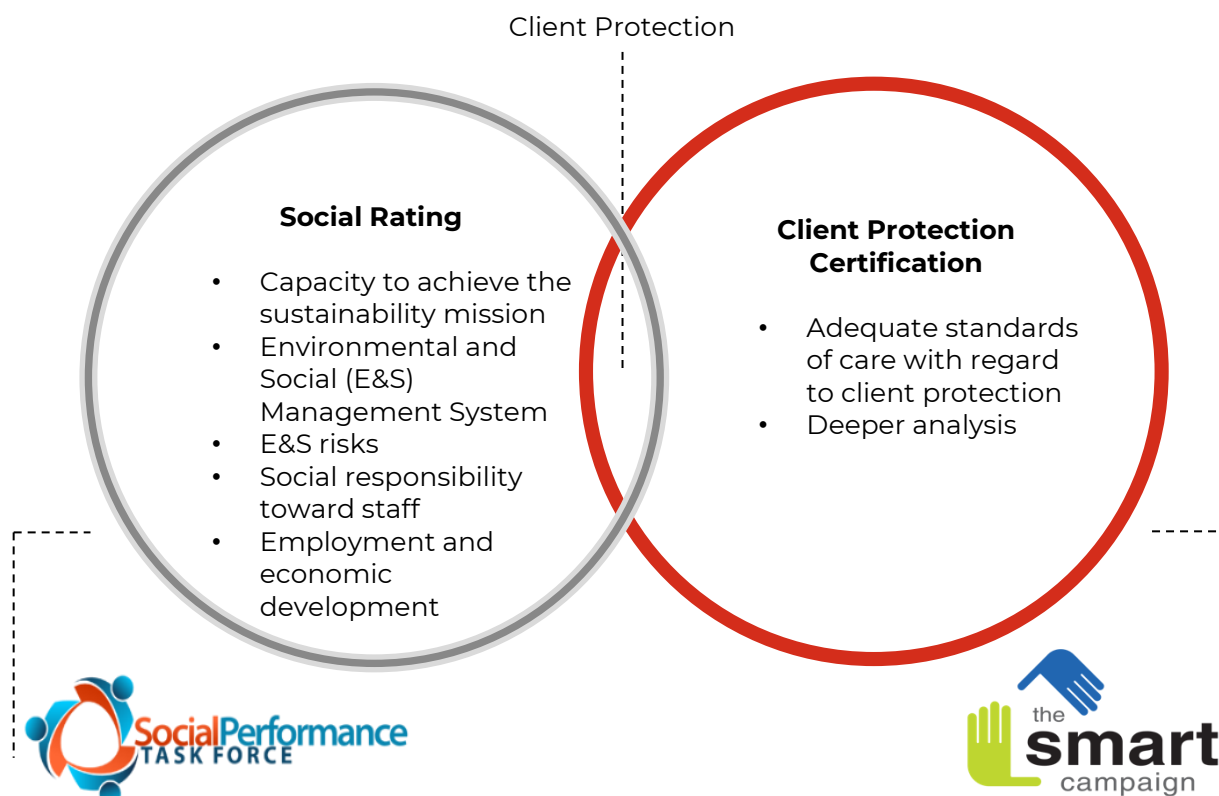
Its credibility and technical expertise are further proven by the **relations and partnerships** established with some of the leading private social investors and fund managers (e.g. responsAbility, OikoCredit, Blue Orchard, Incofin, Triple Jump, Symbiotics, Triodos etc.), DFIs (e.g. KfW, EBRD, EIB, IFC/WB, IFAD, FMO, IADB, UNDP/UNCDF, USAid, OPIC, AfD, CDC Group, etc.), and specialized hedging funds (e.g. TCX, MFX).

As of December 2017, MFR has conducted more than **2,016 assignments in 106 countries worldwide**.



## ii. Product map and Synergies

Below is an illustration of the main differences and overlaps between Social Rating (implemented based on the proprietary methodology of MFR) and Client Protection Certification. For a complete overview of all the services provided, please see the [Product Map](#).



[Universal Standards of Social Performance Management](#)

[Smart Campaign](#)

### VALIDATION THE IMPLEMENTATION OF THE UNIVERSAL STANDARDS WITH THE SOCIAL RATING

The Standards of the SPTF are fully included in Social Rating ([see map](#)); In addition to the sustainable performance management *systems* of the Standards, Social Rating covers the sustainable performance *results*: employment, economic development and quality of the services.

The social rating automatically provides an external validation of the FSP implementation of the Standards:

- [Summary table of validation of the Standards' implementation](#) in the annex 1 of the Social Rating;
- [Detailed analysis of implementation of the Standards](#) in the Social Rating report.

### CLIENT PROTECTION CERTIFICATION AND SOCIAL RATING SYNERGIES

- [Certification and Social Rating can be combined](#): only one rating visit is needed, saving time and resources to the FSP - the cost of a certification combined to a Social Rating is significantly lower than the cost of a stand-alone [Client Protection Certification and a stand-alone Social Rating](#).
- [Social Rating provides an opinion on the efforts required to achieve certification](#): social rating helps FSPs to plan and prepare for a future certification, highlighting the main client protection gaps to be addressed and estimating the efforts required to reach the certification level (Social Rating annex 1).

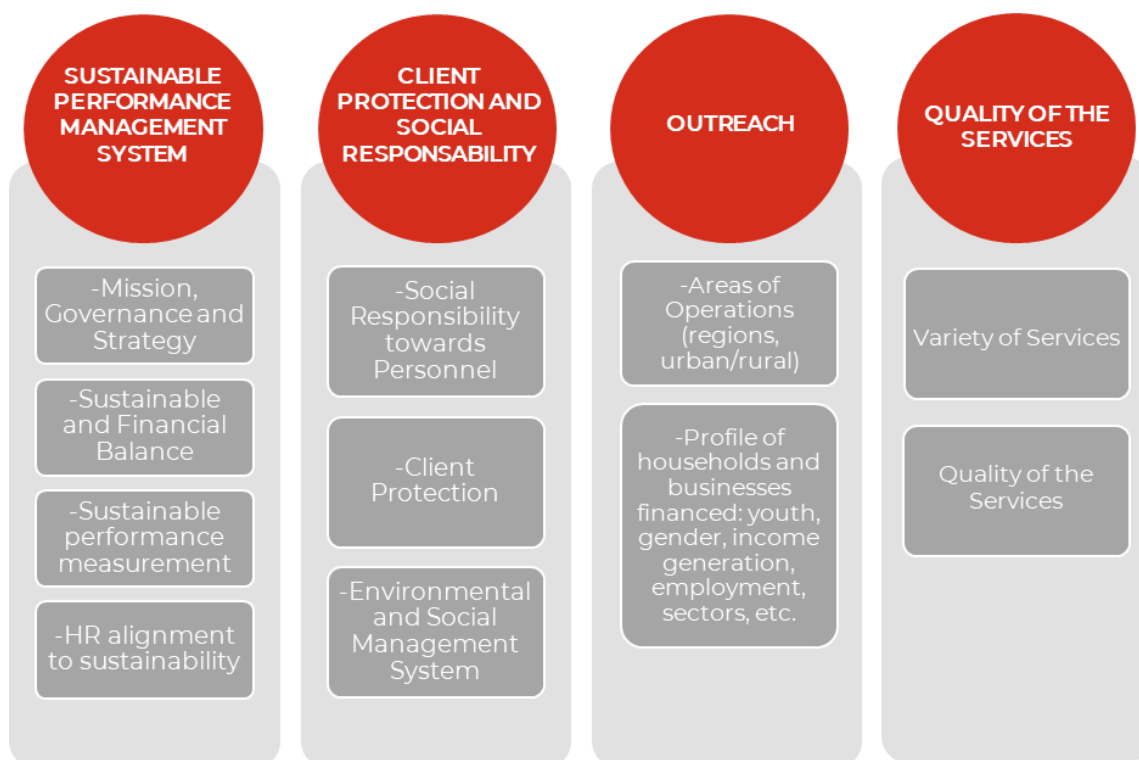
### iii. Social Rating

The Social Rating provides an opinion on the capacity of a Financial Service Provider (FSP) to put its mission into practice and achieve sustainable goals through an independent assessment of the FSP's sustainable performance

Our proprietary rating methodology

- Is fully aligned with **international sustainable performance standards** as defined by global initiatives such as the Social Performance Task Force and the Smart Campaign, of which MFR is an active member.
- Features a **comprehensive reporting** with customized explanation of the social rating findings to ensure full understanding of the sustainable performance strength and challenges to support the final grade.
- Provides an external validation of the implementation of the **Universal Standards of Social Performance Management** (Standards) as well as an indicator of the efforts required to achieve the Smart Campaign Client Protection Certification (CPP), helping FSPs to improve their sustainable performance management systems and get ready for the CPP.
- Measure **sustainable results** in terms of economic development and quality of the services, i.e. analysis of data available at institutional level (Social Rating). Possibility to further deepen the analysis with dedicated survey and focus group discussions (FGDs) administered to a representative sample of clients.
- Can be easily combined with **additional services** including
  - i) Add-on **survey of clients** and **focus group discussions** to measures the economic development contribution and quality of the service at the client level.
  - ii) **client outcome** measurement to obtain indicators of the change in the households and businesses financed from the MIS, loan files and an ad-hoc survey of clients,
  - iii) development of a **social roadmap** based on the detailed findings of the social rating to guide FSPs in improving their sustainable performance management systems;
  - iv) **SPI4**.

The table below shows the framework of the Social Rating including areas and sub-areas of analysis. More details about the rating indicators per sub-area are provided in the next table.



The table below provides further details on the Social Rating methodology by showing the indicators per each sub-area and their relative weight. The sub-areas indicated with the symbol ★ are aligned with the [Universal Standards of Social Performance Management](#) of the SPTF and those with the symbol ● with the [Smart Campaign Client Protection certification](#) indicators.

<b>Sustainable Performance Management System</b> <span style="float: right;"><b>28%</b></span>	
<ul style="list-style-type: none"> <li>• Mission, Governance and Strategy ★</li> <li>• Sustainable and Financial Balance ★</li> <li>• Sustainable Performance Measurement ★</li> <li>• HR alignment to sustainability ★</li> </ul>	<p>The sustainable performance management system of the FSP is evaluated considering all the actors and functions that contribute to its implementation within the organization. The sustainability strategy is assessed in terms of products alignment to the sustainable goals and in terms of senior management environmental and social risk management practices.</p> <p>The governance mechanisms are reviewed to assess the guidance and supervision on Environmental and Social risk management aspects. The balance between sustainable and financial results is reviewed in terms of growth, funding structure and management compensation transparency. The sustainable performance measurement system review includes the capacity of measuring and reporting sustainability data, including the profile of the households and business financed, as well as their progress over time.</p> <p>The alignment of HR to sustainability is assessed based on the personnel capacity to implement the Environmental and Social Performance Management System (ESMS), including training, roles and responsibilities, supervision and audit.</p>
<b>Client Protection and Social Responsibility</b> <span style="float: right;"><b>27%</b></span>	
<ul style="list-style-type: none"> <li>• Social Responsibility towards Personnel ★</li> <li>• Client Protection ●</li> <li>• Environmental and Social Management System (ESMS) ★</li> </ul>	<p>The institution's social responsibility towards the personnel is assessed in terms of labour climate and staff turnover, HR policies and occupational safety, evaluation and development.</p> <p>Client protection is assessed based on the institution's adherence to the Client Protection Principles as defined by the Smart Campaign to determine how the process and practice in place mitigate the risk of a negative impact on the client.</p> <p>The ESMS review includes: the Environmental and Social (E&amp;S) policy, the portfolio classification according to E&amp;S risk categories, the E&amp;S assessment proportional to E&amp;S risk categories, the mitigation of E&amp;S risks, the monitoring and reporting systems.</p>
<b>Outreach</b> <span style="float: right;"><b>25%</b></span>	
<ul style="list-style-type: none"> <li>• Area of Operation</li> <li>• Profile of households and businesses financed</li> </ul>	<p>The FSP's outreach is assessed based on the sustainability goals defined in its mission. The review includes the geographic coverage, the demographic profile of clients (youth, gender, etc), the contribution to economic development of the activities financed (employment, income generation, sectors, business characteristics), and the outreach to the excluded from formal financial services. The breadth of outreach is evaluated in comparison with peers in the country and region.</p> <p>The analysis of outreach and change in clients lives can be further enriched on demand with an in depth <a href="#">survey on clients</a> or with a tailored <a href="#">client outcome measurement</a>.</p>
<b>Quality of the Service</b> <span style="float: right;"><b>20%</b></span>	
<ul style="list-style-type: none"> <li>• Variety of Service</li> <li>• Quality of the Service ★</li> </ul>	<p>The variety, accessibility and flexibility of financial services provides an opinion on the services' capacity to respond to the needs of the different client segments targeted in the mission of the FSP. The quality and relevance of non-financial services is evaluated if applicable.</p>

The social rating grade is based on the social rating scale illustrated below.

Grade	Definition
<sup>S</sup> AA	Excellent sustainable performance management and client protection systems. High likelihood of achieving the sustainability goals.
<sup>S</sup> A	Good sustainable performance management and client protection systems. Sustainability goals likely to be achieved.
<sup>S</sup> BB	Adequate sustainable performance management and client protection systems. Satisfactory alignment to the sustainability goals.
<sup>S</sup> B	Moderate sustainable performance management and client protection systems. Partial alignment to the sustainability goals.
<sup>S</sup> C	Weak sustainable performance management and client protection systems. Medium environmental and social risk.
<sup>S</sup> D	Poor sustainable performance management and client protection systems. Environmental and social risks.

The modifiers "+" and "-" which can be added to the rating grade indicate small relative differences within each rating category.

### iv. Add-on services

#### Client Survey and Focus Group Discussions

The Client Survey and Focus Group Discussion service can be added as an optional module of the Social Rating, tailored to the specific needs of the financial service provider.

Measurement of the profiles of households and businesses financed, as well as the quality of the services at the client level through a survey on clients and focus group discussions. The direct collection of reliable information on the field complements the data already available with the FSP and allows an in-depth analysis of the sustainability results.



- A **questionnaire** is administered to a **representative sample of clients**, covering: demographic profile of clients; employment and economic development contribution of businesses, financial inclusion of clients, client satisfaction with the services and client protection.



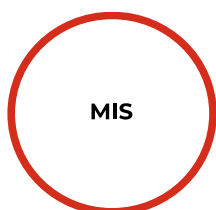
- **Focus group discussions** (FGDs) with the clients are carried out to obtain **direct feedback** on the **quality of the services** and client protection. The FGDs composition reflects the target market segmentation.

The Client Survey and Focus Group Discussion service provides the FSP with inputs for improving its sustainable performance management and measurement<sup>2</sup>. It contributes to the dissemination in the FSP of sound techniques to measure the socio-economic profile of the households and businesses financed, customer protection and satisfaction and can create baseline data for subsequent measurements of households and businesses progress over time.

#### Client Outcome Measurement

The Client Outcome Measurement service can be added as an optional module of the Social Rating, tailored to the specific needs of the financial service provider (e.g. inclusion of recommendations on how to improve the internal sustainability outcome measurement system).

Measurement of indicators of the change in client lives in the areas of employment, income, assets, financial access, well-being, ability to cope with shocks and other areas relevant for the FSP sustainability goals. The measurement is based on the unexploited potential of data collected by the FSP or on an ad-hoc client survey. The indicators are aligned as much as possible to the [universal outcome indicators](#) defined by the Social Performance Task Force (SPTF).



Option 1:  
Recommended when the financial institution's database has a large potential for the outcome measurement



Option 2:  
Recommended when the most relevant outcome data are collected on paper but not in the MIS



Option 3:  
Recommended when the MIS does not include all the desired outcome data. Advantage: meaningful outcome measurement with any MIS.



Option 4: Recommended when the MIS does not include all the desired outcome data and the goal is to understand the complete outcome picture for both repeat and drop out clients. Advantage: complete & meaningful outcome measurement with any MIS.

<sup>2</sup> Providing a set of indicators that the FSP can consider introducing in the internal systems. It can also provide information to design technical assistance interventions aimed at putting in place effective systems to measure and monitor sustainable performance.



The analysis of client outcome can use exclusively the data already collected by the FSP (options 1 and 2), or complement them with a survey on clients (options 3 and 4), as described in the figure above.

### Social and/or Client Protection Roadmap

Based on the social rating results and identification of priority areas for improvement, the Social Roadmap provides FSPs with guidance remarks on how to improve their sustainable performance management and client protection system and results.

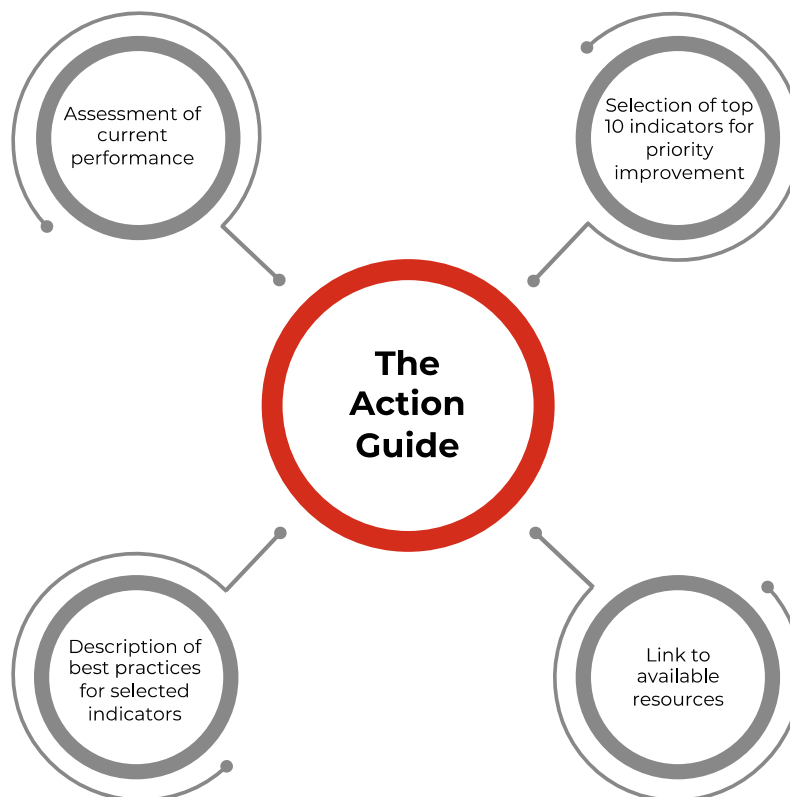
The Social Roadmap can be added as an optional module of the Social Rating.

Organizations can choose between **three types of social or client protection roadmap**:

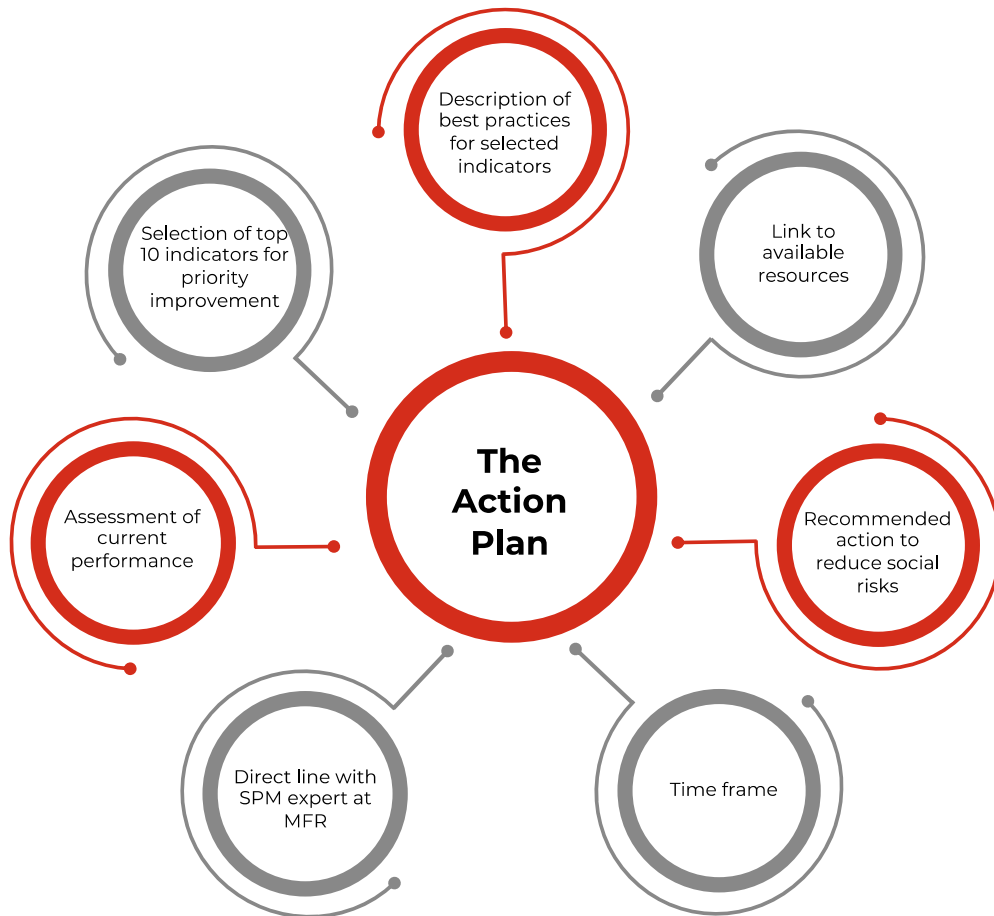
- The **Workshop** focuses on the key gaps identified in the Social Rating analysis and provides examples of good practices and solutions to improve in those areas (e.g. define objectives and indicators to measure client profile and change in clients' lives, in accordance to the sustainability goals). The workshop is an interactive and practical session conducted at the end of the Social Rating visit with personnel identified by the Financial Service Provider. The improvements that the financial service provider may achieve based on the workshop will be reflected in future Social Ratings (as opposed to the current Social Rating, based on the evidence observed during the onsite visit).



- The **Action guide** provides **quick indications** of the priority areas for improvement.



- The **Action plan** provides **tailored recommendations** and features: an extended debriefing at the end of on-site visit to review in-depth the main gaps and the best practices; a participatory elaboration of the plan: interaction with the institution to identify in a participatory way the priority areas to improve and the actions to implement to achieve the preferred solutions.



### v. SPI - 4

MFR offers the possibility to carry out the [SPI4](#) audit and [SPI4 ALINUS](#) in combination with Social Ratings.

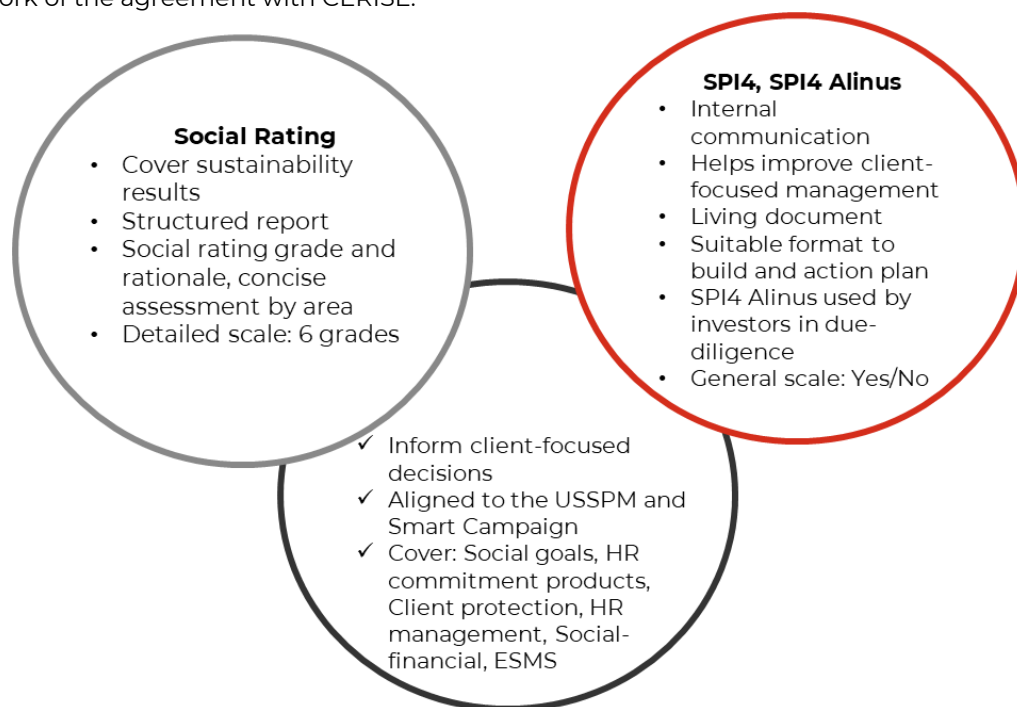
The **SPI4** is an Excel social performance assessment tool for financial service provider (FSP). The SPI4 helps FSPs evaluate their level of implementation of the Universal Standards for Social Performance Management, including the Smart Campaign Client Protection Principles

The **SPI4 ALINUS** is the sub-set of 80 SPI4 indicators selected by ALINUS (Aligning Investors due diligence to the Universal Standards), a group of investors and fund managers committed to using the Universal Standards / SPI4 in their investments.

MFR was qualified by [CERISE](#) in February 2016, having successfully completed the qualification process. A SPI4 or SPI4 ALINUS conducted by a specialized rating agency offers the highest level of quality among the different types of SPI4 assessments.



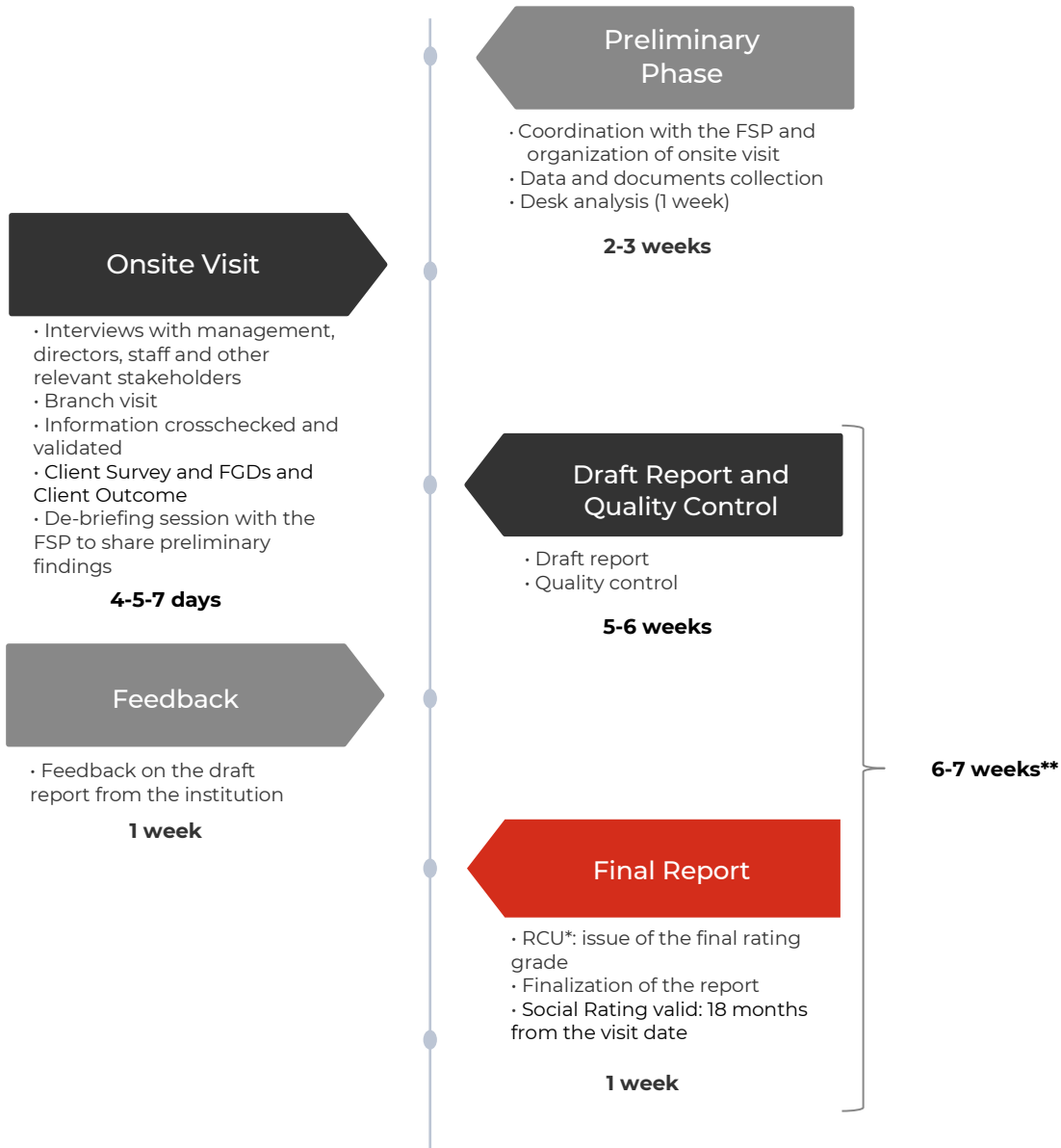
MFR analysts conducting SPI4 are included in CERISE's [list of SPI4 qualified auditors](#). MFR commits to using the most updated SPI4 tool and the highest standards of quality, in the framework of the agreement with CERISE.



#### Benefits of combining SPI4 to Social Rating:

HIGH QUALITY	TIME SAVED	COMPETITIVE PRICE
<ul style="list-style-type: none"> <li>• SPI4 validated at the highest level of quality available;</li> <li>• In-depth understanding of the FSP thanks to the analysis conducted for social rating and, if applicable, for Client Protection Certification or Financial Rating;</li> <li>• Analysis of all the USSPM, with detailed comments to support the scores assigned.</li> </ul>	<ul style="list-style-type: none"> <li>• Less time needed for the financial institution to obtain a high quality SPI4 audit for internal use and improvement, and for external reporting to the investors (SPI4 ALINUS).</li> <li>• Less time needed for the investor to validate a self-reported SPI4 since a high quality SPI4 ALINUS produced by an independent rating agency is already available</li> </ul>	<ul style="list-style-type: none"> <li>• Small marginal cost of the add-on SPI4.</li> </ul>

## vi. Implementation timeline and work plan



\*MFR's final report review, as well as the issue of the final grade and outlook, are sealed by the **Social Rating Committee Unit (SRCU)**. Four senior members (two are MFR top managers) constitute the RCU and are in charge of supervising the rating process, while ensuring high quality standards to the deliverables.

\*\*Not including FSP's feedback

## Annex 1: Correspondence Map of Universal Standards of Social Performance management and Social Rating

The implementation of the [USSPM](#) by the FSP can be demonstrated with the social rating, through the specific social rating areas indicated in the map below.

Universal Standards of Social Performance management (USSPM)	analyzed in Social Rating sections*
<b>1 Define and Monitor Social Goals</b>	→ <b>1 Sustainable Performance Management system</b>
1a The institution has a strategy to achieve its social goals	→ 1.1 Mission, governance and strategy
1b The MFI collects, reports, and ensures the accuracy of client-level social data	→ 1.3 Sustainable performance measurement
<b>2 Ensure Board, Management, Employee Commitment to Social Goals</b>	→ <b>1 Sustainable Performance Management system</b>
2a Members of the Board of Directors are committed to the mission	→ 1.1 Mission, governance and strategy
2b Board of Directors holds the institution accountable to its mission	→ 1.1 Mission, governance and strategy
2c Senior management sets and oversees the strategy for achieving its social goals	→ 1.1 Mission, governance and strategy; 1.3 Sustainable performance measurement
<b>3 Design Services and Channels That Meet Clients' Needs</b>	→ <b>2.2 Client protection</b>
3a The MFI understands the needs and preferences of different types of clients.	→ 2.2 Client protection
3b The products and delivery channels are designed to benefit clients	→ 2.2 Client protection
<b>4 Treat Clients Responsibly</b>	→ <b>2.2 Client protection</b>
4a The MFI avoids client over-indebtedness.	→ 2.2 Client protection
4b The MFI communicates clear, sufficient and timely information to the clients.	→ 2.2 Client protection
4c The MFI treats their clients fairly and respectfully.	→ 2.2 Client protection
4d The institution respects the privacy of client data.	→ 2.2 Client protection
4e The MFI has timely and responsive mechanisms for complaints resolution.	→ 2.2 Client protection
<b>5 Treat Employees Responsibly</b>	→ <b>2.1 Social responsibility towards the personnel</b>
5a The MFI policies protects employees and create a supportive working environment.	→ 2.1 Social responsibility towards the personnel
5b Employment terms are transparent and training is provided to the employees	→ <b>2.1 Social responsibility towards the personnel</b>
5c The institution monitors employee satisfaction and turnover.	→ 2.1 Social responsibility towards the personnel
<b>6 Balance Financial and Social Performance</b>	→ <b>1.2 Sustainable and financial balance</b>
6a Growth is sustainable for market conditions, allowing for high service quality	→ 1.2 Sustainable and financial balance
6b The financing structure is appropriate to a double bottom line MFI	→ 1.2 Sustainable and financial balance
6c Pursuit of profits does not undermine the sustainability or client well-being	→ 1.2 Sustainable and financial balance
6d The senior managers compensation is appropriate to a double bottom line MFI	→ 1.2 Sustainable and financial balance
<b>7 Green microfinance</b>	→ <b>2.3 Environmental and Social Management System</b>
7a The institution addresses environmental issues through a formalized strategy	→ 2.3 Environmental and Social Management System
7b The institution manages its internal environmental risks.	→ 2.3 Environmental and Social Management System
7c The institution manages its external environmental risks.	→ 2.3 Environmental and Social Management System
7d The institution fosters green opportunities.	→ 2.3 Environmental and Social Management System

\*For more details, please see section Areas of analysis, or contact Lucia Spaggiari, Business Development Director: l.spaggiari@mf-rating.com



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