

**Complex Enough to Capture
Simple Enough to Use:
FIDES' Early Lessons from a Multi-Country
Social Performance Monitoring System**

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Contents

Introduction.....	5
Section 1: Why Measure Social Performance?	5
Section 2: Seeking Common Understanding	6
2.1 FIDES' Conceptual Framework	6
2.2 Defining the Unit of Analysis	7
2.3 Risk and Vulnerability in Households	9
2.4 The Relevance of Vulnerability to Microfinance Operations	12
Section 3: Measuring Complexity.....	15
Section 4: Finding Useful Categories	18
4.1 What Does Enterprise Have to do with Vulnerability?.....	18
4.2 Type of Enterprise	19
Section 5: Balancing Comparative and Contextual	21
5.1 Comparative Indicators	22
5.2 Contextual Indicators	23
Section 6: Linking the Simple and Complex.....	25
Section 7: Conclusion	25
Annex 1: FIDES Social Performance Framework	25
References.....	30

Preface

FIDES AG¹ is a development organization and joint-stock company providing and supporting sustainable microfinance services in rural areas, mainly in Africa. FIDES aims, through financial services, not only to raise households above the poverty line but to support them in reducing their vulnerability and improving their capacity to cope with risks and shocks.

FIDES began developing a social performance monitoring system in late 2007. The goal of the system was to access timely and useful information about the poverty and vulnerability of clients in order to improve operations and impact. Attention to Vulnerability was central since most of FIDES' partner microfinance institutions are located in rural areas where exposure to shocks and risks are high. The social performance system needed to be: relevant to the context, rigorous to international standards and, above all, useful and relatively easy to use by management and staff. The countries for application were varied including Mali, Namibia and Algeria.

FIDES' resulting social performance monitoring system has three levels of analysis:

- Client poverty measurement. *Uses poverty score-cards (developed by Mark Schreiner, 2008) to compare clients' poverty likelihoods to the national poverty line.*
- Client profiling and segmentation. *Data organized in percentages or segments for gender, poverty, rurality, nature of enterprise, client retention, distribution of loans and savings.*
- In-depth analysis. *This level analyzes the more complex situation of vulnerability of the household, the business, gender and group dynamics. It makes use of and feeds into the other two levels. For example, client segmentation was used in Mali to analyze household coping strategies and the demand for drought insurance.*

While the social performance system is still being finalized, there are some helpful hindsight lessons for practitioners and donors interested in social rating.

¹ www.fidesgroup.org

Introduction

The recent attention to social performance rating and responsibility is not entirely new. Poverty alleviation has always been near the heart of microfinance. Practitioners and support agencies are keen to demonstrate a relationship between financial services and concrete changes in the lives and businesses of clients. Experience has demonstrated that understanding the social realities of clients not only ensures mission compliance but provides a sound basis for market research. Social performance combined and crossed with financial performance (“Double-Bottom Line Reporting”) allows quick and continual monitoring of client use of services allowing more responsive product development. However, monitoring and measuring the social side of the double bottom line is no easy task. Social is highly contextual. Social is subjective. Social is not easily captured in a cost-effective manner.

This paper will review FIDES' hindsight lessons in developing its social performance monitoring system. There were many lessons in implementing this system across three countries and hundreds of staff. The most important lesson was how challenging, yet absolutely critical, it was to have a “common enough” understanding of the underlying concepts and terms.

A common understanding among those using the social performance system is a sound initial investment in time. This up-front work and clarity helps to ensure a solid foundation for reconciling important tensions between: comprehensiveness and usability; common and contextual indicators; quantitative and qualitative monitoring. Particular attention will be paid to treatment, debate and decisions around the following concepts across the three countries: poverty; vulnerability; enterprise; rurality; household.

Section 1: Why Measure Social Performance?

Social performance according to a sector-represented task force is “the translation of mission into practice in line with accepted social values” (Sinha, 2006, p.5). Social performance, like any form of business monitoring, is useful for both internal and external purposes.

Externally, social performance promotes investment readiness by demonstrating transparent and reliable results to social investors and donors. Both with the introduction of private and social investors and with government subsidy, there is a demand for more accountability. Also investors and donors want to understand if, given alternatives, microfinance is a sound use of their limited funds. For example, there may be justification for subsidy, particularly on a declining basis as the MFIs become more profitable. A clear understanding of social returns may help stakeholders to justify a shortfall in profitability in the short term provided the MFI is moving in the right direction.

The internal role is perhaps more critical. Social performance helps the board and management to make informed decisions based on current data. Management can then effectively and continually adjust

strategy against mission, revisit the business model, develop and refine products and services. The aim is a double bottom-line where the social mission can be achieved without compromising financial and institutional sustainability.

In part social performance monitoring is a response to a long tension between two drives in client monitoring: to prove impact and to improve practice. While the distinction may be subtle, it is important.

Impact studies are concerned with proof. On one hand, donors, academics and technical service providers are interested in proving that there has been an impact, that lives have changed and benefits resulted. Impact studies have been criticised for their lengthy, costly processes that still are subject to measurement difficulties such as attribution (how do we know that it is microfinance that has caused the change) and control groups (how do we have reliable controls with such moving targets as households and businesses in the informal sector). While these criticisms still exist, earlier claims that there is very little in the way of demonstrated rigorous impact assessment (Murdoch, 1999) are still true.

Practitioners are concerned with improving practice. That is, monitoring client information that helps to develop more responsive and diverse products and services.

To do so, they have relied on too little information to ensure that the social aspects of their mission are being met. The main indicator of depth of impact has been average loan balance (sometimes as % Gross National Income) which is too crude a measure on its own. This indicator shows what services clients are using but is limited to assess poverty strategies or business models. The claim that demonstrated demand by clients is enough to prove that there is social worth is limited in contexts where relatively few, if any, reasonable alternatives exist.

There is some agreement in the microfinance sector that social performance is a means to find a balance between these two, sometimes conflicting objectives: impact and improved practice. As there have been in financial performance standards there is an attempt, individually by MFIs, and broadly through task force groups, to be as rigorous and transparent with the social side of operations. Social performance monitoring may include broader policies and strategies such as consumer protection. It includes a pro-poor/social examination of products and details about client monitoring including market research and changes in clients' lives such as impact.

Section 2: Seeking Common Understanding

2.1 FIDES' Conceptual Framework

FIDES aims to achieve a double bottom-line through sustainable financial services and, for client households to reduce poverty, reduce vulnerability and increase security (Osner, 2008). To this end the social performance system complements financial performance monitoring by examining clients in

terms of: changes in their lives and businesses; inclusion/exclusion and market demand. This information is used to shape policies, products and services and the business model. The business model is how each particular MFI balances the financial viability objectives with the social mission and targeting of poor clients. While the system is not focused on impact analysis; that is, no control group is being used, it is possible within the design, for impact analysis to be conducted.

The starting point for FIDES' social performance system was an agreement that it should attempt to capture not just the poverty situation of clients but also the situation of the households' vulnerability or the opposite, resilience. Vulnerability may be defined as the ability of an individual or household to deal with risk or uncertainty. The difference between poverty and vulnerability is important:

As traditionally defined and measured, poverty is a static concept and vulnerability a dynamic one. Vulnerability reflects a household's resilience in the face of shocks and the likelihood that a shock will lead to a decline in well-being (World Bank, 2006).

Nevertheless, there is a relationship between poverty and vulnerability as described here by a study on household risk:

The lower the levels of household income and assets and the fewer the mechanisms the household has for coping with risk, the greater the vulnerability of the household. For those households that are close to the lower edge of material survival, a loss associated with a risk could have devastating long-term consequences. Even when material survival is not threatened, the detrimental consequences of a loss can be far-reaching. (Dunn et. Al, 1996, p.6)

Put simply, poverty shows a snapshot of the household at one point in time. Vulnerability is the likelihood that the household may fall backward. Exposure to shocks and risks are much higher for the rural poor. They are exposed to covariate risks as well such as drought and HIV-AIDs that affect communities broadly. In the face of these difficulties, households have developed highly resourceful and elaborate coping and asset building strategies. Some are monetary and formal such as a savings account. Others have monetary elements but are more informal and socio-cultural such as using animals or jewelry as a form of savings or insurance. Thus, it is important to both understand and support the household's ability to cope with shocks, manage risks and build assets and income. Microfinance, the provision of flexible savings, credit and other financial services, plays a key role in this support. FIDES' monitoring system attempts to understand how and if this happens.

2.2 Defining the Unit of Analysis

Many MFIs collect minimal data on clients. Some, for example, focus on data about enterprises under the assumption that the finance is primarily to be used for the business capital or investment. Now, many studies have highlighted the importance of analysis at the household level as well given the *fungibility* of money across the many family needs for finance including consumption, production, asset building and coping (Rutherford, 1999; Zeller, 1996). As microfinance institutions have grown and

developed a wider range of products, particularly savings and insurance, so grew the acknowledgment that the household level may be important to examine as well. There was also a call to examine gender roles and to look, in some way at the individual including power dynamics within the household.

For the average microfinance institution concerned primarily with keeping costs as low as possible, it seems overly ambitious to attempt a monitoring system at all levels: individual; enterprise and household. Doing so comprehensively would make the task likely more costly than what it would yield in usefulness. The key is strategic choice of indicators at each level.

FIDES chose a primary focus on the household because vulnerability and poverty is best understood at this level where income is often pooled and coping strategies often occur (though important exceptions to be discussed later). This data is complemented with information on the enterprise and selected data at the individual level, in particular, for women.

Before dynamics can be discussed at the household level, it is crucial that everyone is operating from the same definition of household. This can not only vary by country but by community and ethnic group. Different understandings of the term household can yield very different results. The following are some of the examples from FIDES' experience:

Table 1: Varying Contextual Treatments of Household

Country	National Definition of Household	Complicating Factors
Namibia	A person or groups of persons, related or unrelated, who live together in the same homestead/compound, but not necessarily in the same dwelling unit. They have a common catering arrangement and are answerable to the same head.	Homestead is not necessarily a household. It is common to have a relative not living in the homestead and either contributing to or taking from household resources without contribution. Some of those resources could be in-kind such as grain contributions and not only money or income.
Mali	A group of individuals, related or not, generally living in the same concession or the same building and sharing their meals, essential components their life, under the responsibility of the household head whose authority is recognized by all members.	Polygamy means that one man will support several households. Therefore, the snapshot of poverty or vulnerability will be different depending on whether the client is a man or a woman. Men can be absent long periods due to migration as well as time in other households. While he is absent the head of the household could be the first wife or, in some cases, the husbands' mother.
Algeria	Persons living together under the same roof and responsible to the household head (person who generally determines the utilization of money in the household)	Most households have more than one family. Often a newly married couple will be living with his parents. The household would include both families but the national definition does not distinguish roof or house from household and family.

An appropriate and useful definition of the household must determine who is in and who is out. It is helpful to understand how family members both contribute to and also draw from household resources affecting the vulnerability of the household.

Although there are difficulties reconciling the reality to the national definition, the resulting discussion can be very helpful to understand coping strategies. For instance, in a Namibian workshop there was a lengthy discussion whether families sending their children to school should be considered a short-term financial stress (potentially increasing vulnerability) or a long-term reduction in vulnerability. Both are also possible. It, of course, depended on the economic situation of the household, on the nature of education and whether or not the children would be likely to finish and earn more for the family. However, the discussion helped staff to see how relative some of these indicators can be and how important it is to find the right questions and indicators.

2.3 Risk and Vulnerability in Households

In order to understand risk and vulnerability of households better, adapted market research tools were used. In each country, we held focus groups with each geographically diverse client group representing a mix of clients for each branch area (for example, urban/town; rural; remote). At least one all-woman's focus group was held in each area as well. During these focus groups the following exercises were conducted:

- Life cycle events from birth to burial in terms of costs, predictability and socio-cultural factors. Included in this exercise was the inclusion of the most commonly identified stress (illness of a family member)
- Wealth ranking chart that included strategies for each group
- Women's risks and strategies
- Seasonal calendar including high and low periods of income, transfers (formal and informal and migrant labour dynamics) and stresses
- Ranking for what households do when they have extra money (including formal and informal saving, investment in business)
- Ranking for what households do when they are short of money (including formal and informal borrowing and the distress sale of assets)

The household level analysis allowed for a preliminary understanding of the range of risks, capital needs, the formal and informal savings and borrowing behaviour, investment decisions. For example, theft and murder are high risks in Namibia. It can be quite costly to the family of the murderer who needs to compensate the victim's family to avoid formal legal charges. This was discovered during the ranking of what clients do with extra money. Investment in business is usually considered a safe way to grow money that, depending, can be good for returns. However, in Namibia, due to the high prevalence of theft this was not a common option.

Poverty and poverty score-cards are included in FDES' social performance system to examine poverty likelihood.² Staff and management agreed that poverty score-cards are an efficient and effective way to bench-mark poverty likelihoods of clients within the country. However, data is derived from national household surveys using primarily data on household composition, assets and income. Therefore, it would be useful for management to combine score-cards with additional information related to vulnerability and strategies.

The focus group field work helped to clarify the difference between vulnerability and poverty for the staff and what this difference might mean for their practice. One example is the cattle trader in Northern Mali who has both income and assets but, in the face of a drought or other covariate risk, is vulnerable in spite of wealth because his livelihood depends almost entirely on agriculture. Another example is a businesswoman in Northern Namibia who runs several family businesses including a video store, a bar and a small garage. She is wealthy by income and assets. Her income diversification provides a certain stability. However, all of the businesses are in her the name of her husband who now lives in Angola. Due to insecure inheritance property rights and local customs around inheritance of women, she runs the risk of losing everything if her husband were to die. In Algeria as well, both widowhood and divorce pose serious risks to women regardless of their material status prior. These examples demonstrate that vulnerability is not the same as poverty though they are related.

Even these examples did not convince all staff that there was a clear difference between poverty and vulnerability. It became necessary to ground the discussion in what managers commonly know and use; that is, risk management. Poverty is generally related to targeting, mission, perhaps product refinement. Risk management is the broader approach to ensuring that risks such as fraud, non-payment, interest rate and other financial sector changes do not undermine the viability of the institution. What, some managers asked legitimately, is new about this concept vulnerability? Is it not just an aspect of poverty? Or another way of saying risk? Since we already do risk management and consider poverty in who we service, what is different? Good questions.

These questions highlighted subtle tensions that can occur between the Research and Development and the field-based managers. One seeks comprehensiveness, perhaps complexity. The other simplicity and practicality. The goal was to achieve both. In fact, the social performance system is trying to introduce something new both in the conceptualization of poverty but also in how that plays out in day to day operations.

Vulnerability is different than risk though they are related. Risk management, in the context of Microfinance Institutions is generally much narrower for good reason. Managers should not be using valuable time and resources collecting any more information than is needed. Efficiency is a key element of successful microfinance. The following chart demonstrates the differences if we assume risk how it is commonly used and understood within an MFI:

² This paper will not elaborate on this extensive process. For more detail of the Mali score-card development see Schreiner (2008). This score-card was originally developed for use by Trickle-Up Mali.

Table 3: How is Vulnerability Different Than Risk?

	Vulnerability	Risk
Unit of analysis	Household coping strategies Household and enterprise strategies	Mainly enterprise risk though some MFIs collect household level information
Nature of risk	Household and enterprise strategies and exposure to risk are tied	Enterprise and credit risk is the main concern for MFIs
Poverty and Vulnerability	There are wealthy who are vulnerable regardless of wealth. i.e. widows in Algeria, cattle traders in Mali	The material or income poor are generally or more likely to be vulnerable
Targeting	Use knowledge of household strategies to design more responsive products and expand "included" clients within business model	Limit portfolio of riskier client groups i.e. farmers or fishers
Strategies	Broader approach to formal and informal household strategies for building income, assets and coping with risk	Tends to examine clients with respect to formal financial service use (i.e. competition)
Change	Changes in lives of households are not necessarily linear. Progress is not necessarily growth. It could be income-smoothing.	Poverty is a fairly linear process. Progress is usually growth of enterprise or income.

A vulnerability approach has household coping strategies at the centre. FIDES' has been formalizing its use of household coping strategies through its experience using the immersion and dialogue method. With SEWA Bank, FIDES used this in-depth process whereby Bank staff stayed several days with one client and conducted a process of immersion, reflection and sharing about the clients' life, business and financial needs. In this way, it could be considered a form of participatory market research (SEWA Bank/FIDES, 2005). The immersion dialogue method was developed by Karl Osner in the eighties in the context of the reorientation of German bilateral development cooperation toward poverty alleviation through self-help. It has since been applied in various ways in development practice and within FIDES.

What is the difference between vulnerability analysis and the way that risk management is commonly used in MFIs? Perhaps, in a vulnerability approach there is more value recognized in understanding the following:

- Informal mechanisms such as saving in cattle or jewellery are understood as services that compete with and complement formal financial services
- Trade-offs between savings, investment, borrowing and distress sale of assets as market research information
- Household level as well as enterprise changes

A vulnerability approach to households is necessarily broader including informal strategies, trade-offs and various levels of analysis.

2.4 The Relevance of Vulnerability to Microfinance Operations

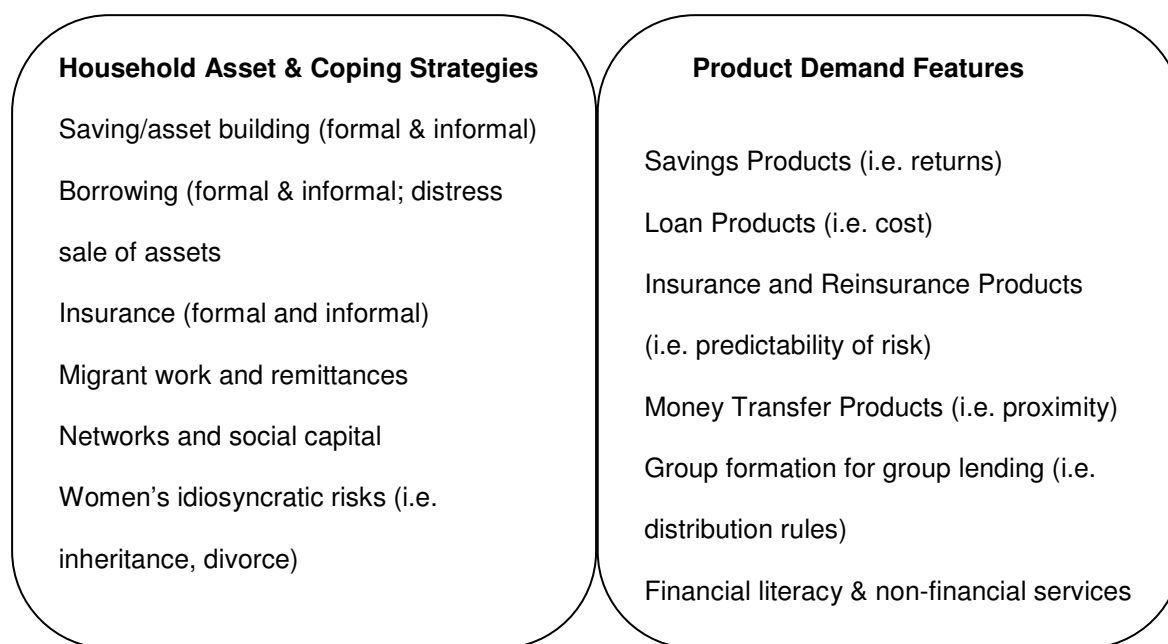
These differences are more than just anthropologically interesting. There are risks at the client level that go beyond typical credit risk analysis and the analysis is used not only for targeting but also for adapting products. Understanding the household level risk and vulnerability means not only labeling that client as risky and limiting the portfolio but attempting to understand the nature of exclusion and vulnerability to see if there are means of reaching this client within this business model. The assumption is also that risk at the client level causes risk at the institutional level as well.

A vulnerability approach also recognizes the importance of social capital and social networks to the rural poor (Dunn et al., 1996; Murdoch, 1999; Perdana, 2005). While group formation has always been a part of microfinance in terms of liability and mutual guarantee, there are other aspects of social intermediation that help to design products.

For instance, how formal and informal mechanisms compete or complement is helpful market research information. Swain and Floro (2007) in a study of self-help groups in India found that group-based systems were helpful for idiosyncratic shocks but in terms of “covariate” shocks such as flooding, group protection is likely to be weak or partial. In FIDES' experience the same is true in terms of drought in Mali. Given the recurrence of drought every five years or so, risk at the client level has potential to cause serious risk at the level of the institution. FIDES has begun to examine the coping strategies of households to determine up to what point (time and costs) social mechanisms and coping mechanisms suffice and when a reinsurance weather scheme might be feasible. This study is still in process. Part of the analysis would examine whether it should be insurance, savings, borrowing or some combination of these instruments.

Understanding trade-offs between formal and informal strategies as well as between instruments is critical to sound analysis for market research. Rutherford's (1999) seminal study on how the poor use money helps to position these household dynamics in terms of practical product development. He emphasized that people use financial services because they need, at different points and for various reasons, large lump sums of money. Instruments to provide those lump sums vary. The lump sum could take the form of saving small amounts for a lump sum later or the lump sum could be received up front and paying back in small amounts later. Here the trade-offs between choices is demonstrated.

Figure 1: Household Strategies and Market Research



As was aptly pointed out by a staff member in one of the workshops in Namibia, “with some clients our competition may be the banks but for the rural poor our competition is cattle”.

When people have extra money, formal savings is not their only strategy, especially for the poor. As Rutherford (1999) described they choose between (but mainly among) many simultaneous strategies that may not be typically understood to be savings. Some of these include: “saving” in jewelry, “saving” in animals, saving in a ROSCA or ASCA, reinvesting in the business, putting cash aside in the home, improving their home, buying a productive assets, giving money to a friend. Some of these are closer to investment but still help in developing products. Each of these is a form of competition for an MFI’s saving services so needs to be understood in terms of product features: returns; liquidity; terms; proximity; risk.

They often have more choices than are immediately apparent if we consider what people do, beyond borrowing, when they need money. Some strategies or instruments include: a financial institution; a friend; a ROSCA or ASCA (many countries have several types); distress sale of assets; supplier credit; retailer credit; moneylender. Again, many households use more than one strategy at the same time. It is important to understand them again in terms of trade-offs and product features: cost; terms; proximity; quick access in case of emergency.

Households use many simultaneous instruments and strategies because they have several simultaneous financial needs. Households have three key types of financial needs: life-cycle events; productive needs of different businesses in the family and unforeseen needs or shocks (SEWA Bank/FIDES, 2005). For the poor, many of these needs can be uncertain posing a risk for which they will need to prepare.

Economists, household economists and microfinance practitioners have helped to clarify relevant aspects of household vulnerability and risk. Households can:

- Experience risk in terms of both stresses and shocks (Rutherford, 1999). A shock is defined as a sudden disturbance or the cause of such a disturbance. It can be a trigger leading to or adding to impoverishment of individuals and households (May 1997 in Cohen & Sebstad, 2000). A stress is more frequently and predictably occurring though it can cause financial difficulty.
- Experience both idiosyncratic (affect some households) and covariate risk (affect all households at the same time) (Cohen & Sebstad, 2000, p. 33)
- Deal with risk before it happens (precautionary strategies) or after the shock has happened (ex-ante strategies) (Murdoch, 1999; Zeller et. al, 1997; Dunn et. al, 1996)).

Financial needs determine product feature design. This is not new. However, unplanned or even more known risks are not always built into product planning. It is helpful to understand the factors related to risk and predictability that will influence product feature design. Some of these factors include: scale and costs of risk; level of predictability; level of frequency; if it will affect whole community or only a part; timing.

Table 2: Household Financial Needs and Product Features

Type of Financial Need	Examples	Product Features
Life-Cycle Event (or Stress)	Wedding, child's education, death	Some predictability/ planning ability Future Large sums relative to income
Enterprise	Working capital Investment	Smaller sums; quicker turnover Larger sums needed up front; possible seasonality; slower turnover
Unforeseen Events	Shocks such as sudden death or illness, drought, political unrest causing inflation	Less predictability and perhaps frequency Can be large cost relative to income
Foreseen Stresses	Illnesses or seasonal lows in income	Some predictability and frequency Size of sums vary

This chart illustrates that not all financial needs are risks or contain uncertainty. Take, for example, saving for a child's marriage. Even though this event is foreseen and can, to some extent, be planned, it still may cause financial stress for households.

Household strategies and dynamics are complex. It is easy to get lost in nuances. The line between risk and uncertainty, savings and investment, investment and coping strategy, formal and informal may be blurred. The important distinctions relate to differences that would be played out in different financial products or features.

Section 3: Measuring Complexity

Taking gender dynamics into account is one example of the type of complexity that is required to do social performance well. If vulnerability is to be understood, it is critical to take into account the gender and power dimensions of the household explicitly.

Johnson (1999) warned that analysis often stops at the level of the household, but a woman may be additionally constrained by society's norms of behaviour, legal rights and perceptions of the value of what women do. Households are, in fact, a nexus of social relations. Individual level constraints interact with and reinforce constraints at the household. Zeller et. al, 1996 adds that household resources may not benefit everyone in the same way. The extent of participation of a household member in borrowing and saving is dependent on: who has the power to make decisions; who benefits from additional resources and income generated; who bears the burden of repayment.

Gender dynamics in the context of poverty and vulnerability are not easy things to measure or analyze particularly in a cost-constrained structure like an MFI. Any static point in time may not fully capture a dynamic. Further, gender like household or coping strategies have many socio-cultural and power elements that are not easily studied without some depth and prior knowledge of the context.

The solution to understanding complexity was to avoid trying to measure it. Instead, pointed markers or indicators are measured. These are used to identify where analysis might take place in more depth and with fewer client households. In order to identify such markers, adapted household analysis and market research tools were used to understand salient issues related to poverty, vulnerability and gender. These focus group sessions, earlier described, were done in concert with the development of the poverty score-card to be sure that the indicators chosen were contextually-relevant. Based on this analysis, a few pointed questions could be asked of clients that would be monitored continually along with other data.

Such pointed questions relate to household strategies mentioned previously:

- Borrowing (formal and informal)
- Distress sale of assets (as an alternative to borrowing)
- Asset building and saving behavior (formal and informal)
- Remittances and money transfer or movement
- Insurance schemes (formal and informal)
- Gender dynamics- ownership, inheritance rights, risks
- Participation in groups/networks/associations

The in-depth analysis allowed us to ask pointed questions in each context based on what was most relevant to understanding clients and their households' situation and vulnerability to risks or exclusion. The following are some examples of country-specific strategy-related questions:

Table 4: Selected Country-Specific Questions Related to Household Strategies

Namibia						
In the last 12 mo. was your family forced to sell something important?	Yes 30%	No 69.7%				N=950
How often does the family receive money from someone who doesn't usually live at home?	Never 55.6%	Sometimes 35.5%	Monthly 9.7%	NA .21%		N=950
Do you have a family account where family members contribute monthly for future expenses?	Yes 11.3%	No 88.5%	NA .21%			N=950
How much do you contribute to the family account per month?	Average 84	Most common 50; 100	NA .21%			N=950
Outside of FIDES how many savings accounts do you have?	0 16.4%	1 64.6%	2 or > 18.7%			N=950
Do you have business assets in your name? (crossed with gender)	Yes 42.7%	No 57%	NA .21%			N=950
Mali						
Is there jewellery in gold and silver in the household?	Yes 41%	No, only silver 36%	No, neither 22%	NA 2%		N=884
Does your household receive money from someone who doesn't usually live in the house? If yes, at what frequency?	No 54%	>1 month 30%	Monthly 9%	<every month 5%	NA 2%	N=883
What type of animals does your household have?	No animals 15%	Only chickens 3%	Goats or sheep 32%	Cattle 48%	NA 3%	N=883
Does a member of your family have a term deposit outside of FIDES?	Yes 14%	No 84%	NA 13%			N=882
Was your household forced to sell assets in the last 12 months	Yes 30%	No 69%	NA 1%			N=882
In the last drought, did your household diminish the quantity of food eaten?	Yes 47%	No 51%	NA 1%			N=881

Notice the nature of the household strategy questions:

- The questions are few and pointed/closed like poverty score-card questions
- While types of questions are similar (i.e. forced sale of assets) the wording has been adapted to the context and local language translation

- There are some individual questions to understand women's vulnerability. They are few and pointed. In Algeria, for example, marital status is relevant.

The focus group field work in Namibia uncovered informal family funds that are used for future emergencies, mainly burials. Knowing that they exist and roughly how much is contributed is helpful market research information. It also gives more information about a coping strategy used by the households. Both the simple descriptive information and the potential for more in-depth analysis present opportunities.

While the above questions seem simplistic, they have been workshopped and developed through a great deal of iteration to arrive at the right phrasing (taking translation into account). While there are overlapping issues such as distress sale of assets, it may be phrased slightly differently according to what makes sense for the context.

In Namibia and Mali both formal and informal strategies are important. In fact, it is helpful to see where clients cluster in response to these questions and how they change over time. While in Mali, there is some stability and significance to having even chickens, in Namibia unless you had at least a few cattle you were considered more vulnerable. In Namibia, because savings accounts are relatively more common, it was helpful to know not where clients were banking but how diverse their savings strategies were proxied through the number of accounts.

This approach allows for contextual differences both in wording and in selection of questions based on poverty and vulnerability in that area. However, since this information will be primarily used to develop relevant products and services, there is a limited range of areas that are helpful to examine. Selection would depend, as well, on the existing or new products that the MFI might be launching. For example, Namibia might add a question related to cell phone ownership since they are exploring mobile banking.

It is essential to determine which few pieces of information could be helpful for continual monitoring. However, analysis does not stop here. As with other indicators, financial and social, these are simply early warning signs or interesting flags with which to pursue further analysis. For example, in Mali 30% of the 886 clients interviewed between January and December, 2008 said that they receive transfers from someone who usually doesn't live at home more than once per month. Therefore, a more detailed demand analysis could be done for remittances.

In this way, the understanding of vulnerability is not separated into a separate or one-off study. It is threaded throughout pointed questions and in-depth analysis. Each MFI can determine where best to focus these efforts with helpful leads to begin the process. If there is ample iteration between the in-depth studies and the pointed indicators, the system can become more robust over time.

One of the key lessons was that the operational framework does not have to match the complexity of the conceptual framework. Likely it should not. Many of these concepts and indicators are widely varied in use and understanding. Iteration is absolutely essential if it is to be useable by a range of managers and staff in different countries. While the system needs to be informed by complex analysis and theory,

the final system that is used should be as simple as possible. There was an expression raised in the development of the social performance system: complex enough to capture but simple enough to use.

Section 4: Finding Useful Categories

One of the best up-front investments in time, is choosing well to ensure that you select useful categories. Enterprise type, size and premises are examples of categories often used. To narrow down the categories, we unpacked each one to understand why it was being used and where it fit into the broader picture in terms of usefulness. Let's examine what was done with enterprise categories for example.

It has become more widely accepted that an understanding of the enterprise alone is not enough. It is necessary to understand the household dynamics as well, though at an operational level this is still curious to many staff. An analysis of the enterprise was presented as part of the overall framework: household poverty and vulnerability, enterprise, rurality and use of services. Many did not understand what enterprise analysis has to do with vulnerability.

4.1 What Does Enterprise Have to do with Vulnerability?

There were two different reactions to the inclusion of enterprise indicators. Some felt that this is mainly what we should be looking at since the financial services support the businesses. Others could not make the conceptual link between vulnerability and enterprise analysis. For them, poverty and vulnerability took place at the household level and it was unclear how the enterprise was related.

These are both valid perspectives and the dissonance between them forced us to sharpen our conceptual framework. It was important to position the enterprise within and related to household strategies. Starting a business, growing a business or even choosing not to grow a business to hedge risk are all strategies that households and individuals use to meet other needs such as consumption, life events and assets.

Particularly for the micro and small enterprises, there is much less division between household finance and the business finance. Accounts are non-existent or informal at best and money is fungible in the household going to where it is needed most, such as a sick child (Rutherford, 1999). This social-economic fungibility at the household level is critical to capture.

The other important conceptual clarification was the link between vulnerability, poverty and enterprise. It is helpful to understand the risks that enterprises face that are distinct from but will necessarily affect the household. Dunn et al. (1996) identified a number of enterprise-related risks including harassment from police, hostile by-laws, technological risks and, particularly for resource-dependent livelihood activities, covariate risks such as drought, pests. Even in urban and peri-urban areas flooding is an issue.

The other disconnect between design and “take-up” had to do with how staff understood that this information would be used. In some cases, where enterprise data was being collected analysis had not been run on it because of quality data problems and staff understanding of the categories. This is not a new story in microfinance. Many MFIs collect a great deal of information on enterprises that is never really analyzed or used by management. If it is used, it is limited to a profiling for donors or investors.

4.2 Type of Enterprise

A key use of enterprise data is to help segment the client base for market research information. This requires categories that lend themselves to market research. That is, information should be sorted by at least: the amount of capital required; the nature of turnover (short, medium, long-term). A key problem for FIDES was intellectual arguments about what the categories meant rather than a focus on how the data would be used.

There were many understandings of the common categories: commerce/trade; services; non-agricultural production; agriculture and farming; professional/salaried. For example, where do you put a cattle trader from Northern Mali that is basically medium-scale commerce but is agriculturally-related? “Cattle” as it was being captured covered a wide range of activities from cattle-slaughtering a relatively small commerce activity to the trade of live cattle that required large investment capital and had a very quick turnover period.

In order to sort through these categories, we held workshops with staff with an emphasis on the use of information for market research. Without pre-determined categories, definitions or instruction on product design, we made file cards where dozens of different types of enterprises were individually written. Staff was asked to group them in “like categories” based on the financial needs of the activity and be able to defend their choices. The results were fascinating. The richness and challenge of the exercise is best illustrated through the outliers or the ones that were debated.

Table 5: Enterprises That were Difficult to Categorize

Country	Enterprise	Difficulty	Decision
Namibia	“Cuca” shop (small shop)	A cuca shop is a shell for a wide range of activities from baking to sale of canned goods. Also a range of cuca shops from precarious materials to large, concrete owned buildings with employees	Categorize activities within shop. Combine with size and premises indicators.
	Subsistence farming and pot production	Both are for home use more. If most have farms but few actually sell their produce (or sell very occasionally) how do you determine the cut off for agricultural	Only farm activities and activities that form a regular part of the livelihood income
	Fat cakes (donuts) sales	Technically it could be considered non-agricultural production because it is	Conceptual definition less important than use.

		transforming a raw good	These are small vendors requiring little capital and have more in common with small commerce.
Mali	Cattle	Not enough information. Can be considered agriculture, service or commerce depending on the situation. Cattle slaughterers are generally small commerce but those who trade live cattle would be considered medium. There are even live cattle traders that need large sums of investment but the turnover is very quick.	Separate cattle slaughter and live cattle trade because they have different investment needs and terms.
	Teacher	If they don't get paid regularly and do other businesses on the side. Can't assume that some of these professional livelihoods are stable.	Professionals are those that have a regular and stable income. This could include pensioners
Algeria	Carpenter	Some staff considered carpenter a service and others non-agricultural production	Service is for those who sell and tailor their skill to specific clients. See explanation below.
	Bookkeeper	Could be considered a service or a professional.	Those whose skill is physical would be considered service. Those whose skill is intellectual only would be considered professional.

In Namibia, it was difficult to categorize the “cuca” shop. It entirely depended on what they were selling or doing as well as the size or scale. Did they have no employees and a small precarious structure? Or was it an owned concrete building with employees? It would be necessary to look at the size of the enterprise and its formality in terms of premises. The lesson here was to let the combination of indicators be effective and not try to fit too much analysis in one.

The “service” category was tricky and varied by context. One staff member in Algeria made an important distinction between service and non-agricultural production. He clarified that the carpenter who sells his skill and tailors that skill to the client requests would be a service. However, the carpenter that produces a number of tables and chairs in bulk and sells them later would be considered non-agricultural production. The second carpenter may require larger investment capital and have a longer turnover period. In another example, the dressmaker who makes several dresses in bulk would be considered non-agricultural production. To contrast, the tailor who designs something specifically upon request and adjusts each order to the client would be considered service.

It is very helpful to have the local staff help to choose and make sense of the categories. From these exercises, it was apparent that there is ample room for error. It is not enough to say the sale of beer or the sale of fish. Differences, for example, between the sale of fresh and dried fish, live and slaughtered cattle, bottled and local beer meant different financial needs and turnover periods. In other words, these distinctions would matter for product development.

Delving into the specificity of enterprise in each context also reveals the danger of stereotyping enterprises. Generally, for example, investment capital (larger sums of money) has a longer turnover period. Examples include traditional beer brewing, brick-making and some forms of agriculture. Live cattle trade in Namibia, however, requires investment size capital of between 10-15,000 Namibian dollars yet the turnover can be within one to two weeks.

Section 5: Balancing Comparative and Contextual

The aim was to have client profiling indicators that could be compared across MFIs and countries. The challenge was that only some really made sense at an aggregate level (comparative). Others were much more contextual and likely less meaningful to compare.

Table 6: Client Profiling Indicators

Social - Comparative	Portfolio - Comparative
% of active clients belonging to groups	Total number of shareholders
% of active clients who are women	Total number of active clients
Total number of poverty score-cards completed during the period	Total number of active individual clients
Total number of poverty score-cards completed to date	Total number of active clients in groups
% Total scored clients in each poverty likelihood segment (only where national data sets allow for calibration); average score for each segment	Number of clients who resigned during the period
Average number of enterprises per client	Total new clients during the period
Average number of employees per client	Product depth scale (1: one loan; mandatory savings; 2: flexible loans or savings; 3: varied including time deposits; 4: sophisticated including insurance or transfers or electronic banking)
Average number of employees per enterprise	Distribution of loans disbursed as % GNI per capita
% of clients that are professional	Distribution of savings account balances as % GNI per capita
Type of enterprises (small commerce/trade; medium commerce/trade; services; non-agricultural production; agriculture, fishing and animal husbandry).	Average loan disbursed per borrower during the period

Social – Comparative though Categories Vary	Average monthly savings balance per saver during the period
Size of enterprises (based on number of employees) – <i>categories vary</i>	Portfolio- Contextual (Not Comparable)
Premises of enterprises (mobile; informal stall; formal stall; rented shop; owned shop)- <i>categories same; definitions vary</i>	Retention rate (simple and including resting) – <i>formula same; definition varies by average loan terms</i>
% of total enterprises that are licensed- <i>categories same; definitions vary</i>	Product demand/ household strategy questions – <i>categories same but not all may be used; definitions and wording varies</i>
% of clients living in rural areas – <i>categories same; definitions vary</i>	

**the goal is to be able cross social and financial indicators but this requires an integrated database that is not possible in all MFIs.

How do you determine which should be comparative and which contextual?

5.1 Comparative Indicators

Comparative indicators allow for both comparison and aggregation. Even if definitions vary, comparisons are important particularly for networks, federations and organizations that work with several microfinance institutions. It is important for FIDES to be able to both aggregate and compare data between MFIs and countries. Since FIDES is a holding company, investors are interested to understand the nature of FIDES-wide holdings as well as the particularities of each MFI.

The following are examples of some key enterprise indicators in Mali and Namibia with data ending December 31, 2008:

Table 7: Selected Enterprise Indicators (ending December 31, 2008)

	Mali	Namibia
Size		
Microenterprise	0 employees= 83.9% sample	0 employees= 84.3%
Small 1	1 employee= 8%	1-5 employees= 15.4%
Small 2	2-3 employees= 5.3%	6-10 employees= 0.3%
Medium enterprise	4+ employees= 2.8%	>10 employees= 0%
Premises		
% licensed	6.8%	30.2%
Mobile	16.8%	28.3%
Owned shop	2.9%	36.3%

Sample size ³	886	943
Active client base	8,846 (to Sept. 31, 08)	3,231

It is limiting to draw literal comparisons given the difference in contexts. However, it is still possible to understand the differences between client enterprises and the sector in which they are operating with this comparison. In Namibia, clients are much more likely to be licensed and to own their own shop. In part, this difference can be explained by the fact that some of the owned shops are made from make-shift materials such as corrugated steel. Nevertheless, the data provides a starting point for a discussion about the contexts.

Licensing differs widely across countries but aggregation of data is possible if the varied definitions are provided. In the case of Algeria, not being licensed makes the enterprise highly vulnerable to closure and harassment. The context does not tolerate informality in businesses. Mali, on the other hand, has a strong and large informal sector. Therefore, it is possible to find even medium sized or bigger enterprises that are not licensed. This comparison can be explained by local staff using the data. In this way, contextual differences do not paralyze but rather enhances analysis.

In the case of enterprise size, there is greater difficulty to compare across different categories. Different categories were used to allow a match in Namibia with a working categorization of enterprises nationally. It may be that internal comparison becomes more important than comparison nationally. The MIS system has been designed to allow for that change, if necessary.

5.2 Contextual Indicators

Contextual indicators are so socially constructed that comparison is not reliable or really very useful. Retention rates, for example, become quite contextual when the resting clients are factored in. Resting clients is determined by each microfinance institution according to their average loan terms.

The household strategy questions are good examples of contextual indicators. While the broad categories are common, each microfinance institution will determine whether there is a relevant and useful question associated. Because there is different definitions of terms and even wording, it is not fruitful to compare them. These questions are designed for internal use to explore as potential market research or other in-depth analysis.

Rurality is another indicator that is highly contextual. While it may be helpful to make a statement about FIDES clients overall in terms of rurality, accompanying country qualifiers would be necessary. Rural is challenging to measure since it is a spatial point as well as a dynamic. Nevertheless, rurality is important to understand. Generally, with more rural areas and less densely populated areas and higher exposure to risks, the cost of lending and borrowing are higher. Therefore, part of managing risks and

³ Clients were scored and place in the system usually at the point of their first loan or a renewed loan between January 1 to December 31, 2008 [flow data]. Active clients represent active clients at the end of the period [stock data].

understanding trade-offs in the business model rest on a sound understanding of the rurality of clients. Rural clients also have different rates of cash turnover, predictability in their businesses and exposure to seasonality making product development different for rural clients.

One of the difficulties of tracking rural and urban against national definitions was the lack of specific or useful information regarding the parameters. In Namibia, we decided to measure the distance both to the nearest financial outlet and to the nearest FIDES outlet from each client. The definition of rurality was taken from the National Household Survey.

Table 8: Rurality⁴ in Namibia (December 31, 2007)

Indicator	Results	Notes
Average time for clients to access nearest financial institution	76 minutes by foot and taxi	79% go by foot and taxi (most common form)
Average time for clients to access our nearest service point	37 minutes by foot	92% go by foot

While this was helpful information for transaction costs, it did not allow for an easy grouping or segmentation of the client base. Also, when we tried to transfer this methodology to Mali it proved unusable. Neither clients nor staff could estimate either in distance, time or money how far they were from these outlets with any degree of accuracy.

Rurality, in terms of distance traveled, is an example of where the time and resources used to collect the information outweighed its usefulness. What we really needed was a simpler categorization of urban/town vs. rural so that these groups could be compared in financial and portfolio terms. Also, because FIDES has a rural emphasis, for both internal and external purposes, it was important to be able to describe the clientele at aggregate levels and by MFI or country.

In the end, we decided to use a common definition for rural that would be relatively applied. Each client is categorized based on their household residence (not their business or group locale). Rural, for FIDES, is defined as: any village/locality where livelihood activities are predominantly agriculture, animal husbandry, fishing and agriculturally-related trade.

Based on this definition clients are classified as either rural or urban/town which allows for segmentation. It is clearly a subjective decision and will be determined by each management team in collaboration with their field staff and local officials. Namibia may continue with the distance traveled measures for its own purpose.

⁴ Urban areas were defined as all proclaimed municipalities and towns in Namibia at the time of the national household survey (NHES, 2006, pg. 6). All else (villages, large farms) are considered rural.

It is time-consuming but essential to invest some time up-front in determining what should be comparative across MFIs (and presented in aggregate) and what would be completely contextual. In some cases, as with rural it may be possible to straddle the two.

It may be interesting to think about the social performance monitoring system as an expandable suitcase. It is essential that the suitcase can be small and lean if needed. The smaller and less sophisticated programs are able to collect and use the bare minimum of indicators and compare these to others. However, there may be a need for expansion with some microfinance institutions. This elasticity or flexibility is key to a system that works well in even the most challenging environments.

Section 6: Linking the Simple and Complex

Implementation of a social performance monitoring system that is complex enough to capture but simple enough to use is no easy task. There was confusion about social vs. financial, household vs. enterprise, poverty vs. vulnerability.

In the end, uptake or usefulness was the most important characteristic for the system so it was greatly simplified. Following workshops with staff and management, rating by management on ease of collection and usefulness for management, dozens of indicators were excluded. The conceptual framework was simplified too so that the three major forms of analysis were distinct and clear.

Table 9: Three Types of Social Performance Analysis

Level	Example	Brief Description
I. Client Poverty Likelihood	67% of clients were below the poverty line.	This data generates a score for each client. Then comparisons can be made between client scores and scores of all inhabitants who have responded to the national household survey for the same questions. It has all of the limitations of pointed, quantitative analysis.
II. Client Profiling	87% of clients are in the two poorest poverty segments	This data describes (in %s) and segments (in quartiles or sections) the client base in terms of social data: gender, poverty, rurality and the nature of their enterprise. Key portfolio data is also included that is relevant to social: retention rate; distribution of savings balances and distribution of loans disbursed as % GNI p.c.
III. In-Depth Analysis	30% of clients were forced to sell assets in the last 12 months. The rate is even higher for women.	This levels attempts to analyze the more complex situation of client vulnerability at the household level. It requires various qualitative and quantitative methods. This analysis uses data from the previous levels and other relevant portfolio data to conduct higher-level analysis. It is highly context-specific and relates to risk-reduction, income and asset building strategies. This analysis could include vulnerability analysis, market research studies and targeting strategies for the business model.

The social performance system is designed to combine the simple effectiveness of quantitative with the contextually relevant and more complex in-depth analysis. The three levels of data are interdependent.

Poverty score-card collection and analysis is separate. It is used mainly for investors and donors. In some cases, the MFIs might segment the poverty likelihood scores. However, the main use is to report a sample of clients' poverty likelihood compared to the national poverty likelihoods.

The second level of analysis is mainly used for segmentation and profiling. Segmentation is a way of breaking the client base into groups to see patterns of clients that can be helpful in better understanding them and their product demands. While it can be helpful to describe the % of women or % of rural, for example, it is most useful for managers to group the information and to compare these grouping to their use of finances. For example, "60% of the client base is women" is not very useful on its own. However, 60% of the client base is women and they save, on average 20% less than men is extremely useful in terms of understanding their demand for savings. It would require more in-depth analysis and combination with other indicators to know if women are saving less because they are limited by the products and group methodology or if it is reflective of their true demand.

Questions related to segmentation and profiling could include:

- Does this breakdown make sense given what we know or would expect? Why or why not?
- Which groups are over represented?
- Which groups are underrepresented?
- Why might these results have occurred? (factors that could affect them)

These questions could lead to more in-depth analysis. In-depth analysis could be a market research study, a study of the business model, a feasibility study or a study on a particular aspect of gender, group formation, vulnerability, impact or risk. It may take different forms and use quantitative, qualitative analysis or both. This analysis takes its lead from the regular client reporting. However, this analysis may go more in-depth on a particular issue or trend that has been highlighted. The following are some examples of the types of questions that be pursued in-depth:

- Is the business model formed at the inception of the MFI still relevant?
- Is it possible to meet the double or triple bottom line? How do we balance them?
- Is there a product that needs refinement?
- Do we need to adapt the group methodology?
- How are groups formed indigenously in this area? Rules for membership, distribution, profit-sharing? Can this information help us understand why some groups are not working?
- Can we capture the excluded better without risking the business model?
- Do our costs, features, accessibility affect exclusion? Can these be improved?
- Are there risks that are particular to women? How can financial services help to reduce these risks?

- What are the inheritance property rights in this area? How does marital status affect access to financial services and ability to keep assets protected?
- Does asset ownership change risk and vulnerability for women? Do they have to be in her name?

One of the most important pieces of analysis combines the social and the financial or cross-analysis:

Are there products that might be excluded for some groups? This could combine the loan distribution with another social indicator. For example, once we look at the distribution of loan sizes where do women tend to fall? Where do microenterprises?

Pointed quantitative data on its own, at a point in time, is limited as the microfinance industry has found with average loan size. Likewise, narrative detailed accounts of the coping strategies of a handful of clients may be interesting and colourful but is considerably less useful without contextualizing these client stories within the aggregate picture.

Differentiating the nature of analysis and data at each level also allows for a cost-effective design for the social performance monitoring system. It is possible to capture poverty likelihood or score-card data on all clients given that it is a quick 5-7 minute interview. Client profiling data can also be captured by all clients if it is pointed. The in-depth analysis then would be done with a sample of households, clients or enterprises depending on the most pressing issues for the microfinance institution.

Section 7: Conclusion

A sound and robust social performance monitoring system balances pointed client indicators with more in-depth analysis and a balancing of the tensions between comparative and contextual, simple and complex. To achieve the balance, it is necessary to ask what differences really matter for each indicator and each broader type of analysis. This type of interrogation cannot be done at a head office or even a regional workshop. It needs to be done in each microfinance institution with all of the key staff that will be using the system.

Toward that end, the following are some key lessons learned in reflections of early implementation:

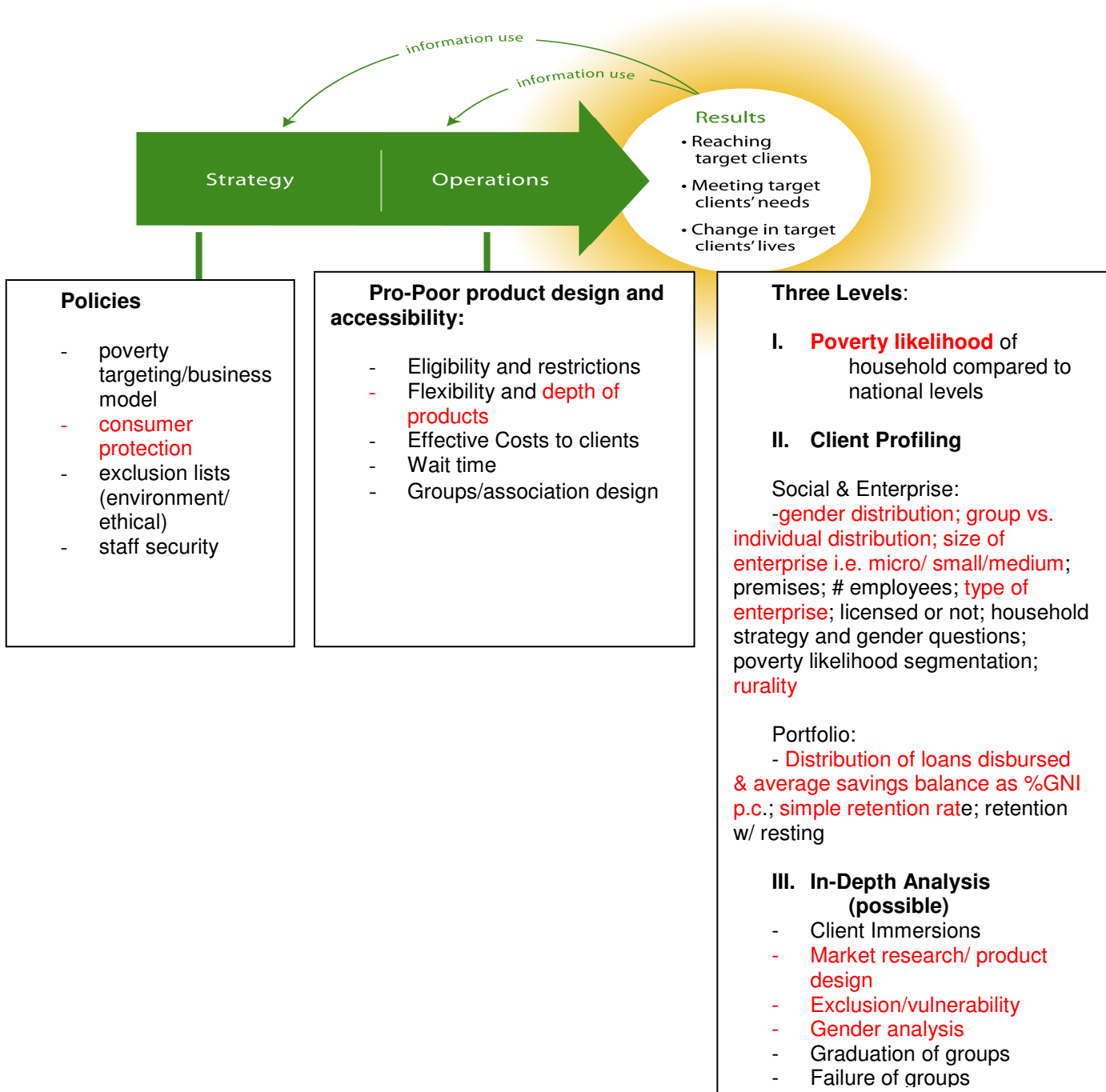
- Social performance is highly subjective and negotiable. It is crucial to invest up-front time with all of the staff that will be using and contributing to the system. A strong system requires broad iteration and workshopping. It cannot be designed separately.
- The simpler the better. The system needs to be simple as possible to use. Simplified does not, and should not mean, that it is based on a simple design.
- Social performance will be considered an add-on and will not be useful for management decisions unless combined with portfolio data.

- The social performance system cannot be all things in all countries. To be useful, the indicators have to be prioritized to ensure that, at a minimum, there is useful management data that is consistent with international standards for social performance.

The main lesson in developing the social performance system was that the pointed, seemingly simple indicators required the backing of in-depth analysis and debate of those using them. Conversely, the more in-depth analysis required some grounding, some direction from the pointed indicators. The design is based on the assumption that more rich information will be derived from the interaction between the simple and complex, the quantitative and the qualitative. It is possible to have a social performance monitoring system that is complex enough to capture and simple enough to use. Such a system requires a heavy up-front investment in prioritizing indicators based on common iteration and understanding.

It is useful to think of the social performance system as an expandable suitcase. A robust system should be possible in the most difficult of contexts and the most limited management information system. At the same time, the system should allow the clarity and flexibility for more sophisticated MFIs to expand beyond these priority indicators. A successful social performance system demands the right balance between inherent tensions: financial and social; contextual and comparative; qualitative and quantitative; comprehensiveness and use.

Annex 1: FIDES Social Performance Framework⁵



⁵ Diagram elaborated by International Development Studies, University of Sussex. Indicators and framework for indicators developed by FIDES. Indicators in red are priority (bare minimum).

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