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MEASURING SOCIAL PERFORMANCE IN MICROFINANCE PROGRAMS: A REVIEW OF LITERATURE

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Abstract. This paper reviews previous literature that measure social performance in microfinance program. Measuring social performance is crucial as the aim of microfinance program is to reach unreachable people in terms of financial services. By measuring social performance, MFI can translate their social mission into reality and identified if the loans given to their clients are really having a positive impact on their lives. A Systematic Literature Review was carried out and reported based on the preferred reporting items for systematic reviews. 8156 papers were retrieved by manual search in four databases which are Scopus, Google Scholar, Research Gate, and Ebscohost and 40 primary studies were finally included. The result from these studies, 70% from journal articles and 30% from conference papers. The findings found that research in social performance have started a decade ago with the main focus on impact studies. The impact assessments start from the individual and household impacts. Then it's growing to wider social impacts that include community, income security, and social capital. There are many techniques used by the researchers to analyse the data such as a self-organizing map (SOM), a Data Envelopment Analysis (DEA) and EMN Social Performance Indicators. As a conclusion, this review delivers the evidence that social performance is an active research area. The review provides researchers with some guidelines for future research on this topic. It also provides broad information on how to measure social performance in microfinance which could be useful for practitioners.

Keywords: Social Performance, Microfinance, Literature Review

1. Introduction

Microfinance institutions (MFIs) have played a significant role in helping micro businesses getting sources of capital in running their business. It also helps improving income and to upgrade the standard of living of the micro entrepreneurs both in rural and urban areas (Abdul Halim et al., 2014). MFIs provide not only credit but also including savings, payment and insurance service to their clients. Social performance can be defined as the effective translation of an institution's social mission into practice in line with accepted social values such as serving larger numbers of poor and excluded people, improving the quality and appropriateness of financial services,

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creating benefits for clients, and improving social responsibility of an MFI (The Social Performance Task Force, 2005). Whereas Simanowitz (2003) defined social performance is used to cover the broad concern with social and economic impact including poverty, which together with “financial performance”.

System for routinely measuring social performance of microfinance is still lacked where most formal social performance measurement took the form of ad hoc impact assessment studies that just to justify donor funding (Hulme, 2000). Waweru and Spiraakman (2012) found that empirical research is still lacking in terms of seeking to understand a social enterprise’s internal processes including investigations into social performance of microfinance programs. In addition, measuring social performance and the impact of social businesses is problematic because social performance assessment lacks clarity as compared to the measure of financial performance (Arena et al., 2015; Ebrahim & Rangan, 2014; Copestake, 2007). Woller (2007) argues that measuring social performance is not cost effective to MFIs because the financial and human resources used for this purpose would distract them from their core management activities. Hermes and Hudon (2018) also found that there is a lack of consensus in the literature on the measurement of financial and social performance especially. They argue that social performance should only be assessed by using a multidimensional perspective. This can be done either by applying recent and holistic social performance measures such as the SPI4, or at least by using a combination of proxies, such as outreach, gender, and rural measures. Measuring social performance is vital to ensure the achievement of a social mission (Ledgerwood et al., 2013). MFIs that only rely on financial performance might lead to mission drift, that is, the failure to balance between social and financial objectives (Copestake, 2007; Ebrahim et al., 2014). Therefore this paper tries to gather literature in measuring social performance in microfinance programs.

2. Paper Selection

The four main databases for academic literature and citation indexes which are Scopus, Google Scholar, ResearchGate, and Ebscohost was used to compile the articles relating to the topic chosen. The coverage of Scopus is only on journal publication, while Google Scholar, Ebscohost, and ResearchGate include books, book chapters, and publications in journals not included in Scopus. In Ebscohost, *Academic Search Complete* is the world’s most valuable and comprehensive scholarly, multi-disciplinary full-text database, with more than 8,500 full-text periodicals, including more than 7,300 peer-reviewed journals. In addition to full text, this database offers indexing and abstracts for more than 12,500 journals and a total of more than 13,200 publications including monographs, reports, conference proceedings, etc. The database features PDF content going back as far as 1887, with the majority of full-text titles in native (searchable) PDF format. Searchable cited references are provided for more than 1,400 journals.

From Scopus, 1006 documents found with keywords (("social* performance*" OR "financial* inclusion*" OR "outreach*" OR "social* sustainability*") AND ("microfinance*" OR "microcredit*")) while in Google Scholar, 5160 documents have been found with a keywords “measuring social performance in microfinance OR microcredit "social performance". In

ResearchGate, a total of 220 have been found with a keywords “measuring social performance in microfinance or microcredit programs”. For Ebscohost, 1770 documents have been found with a title of searching “measuring social performance in microfinance or microcredit program”. Based on those databases, a total of 40 papers were selected that really meet the criteria. The search criteria are confined to English documents that are within the period of 1998 - 2019. Articles that did not score or did not convince the subject of social performance measurement in microfinance and microcredit programs is excluded.

3. Findings

The early approaches to measuring social performance more to impact assessment where mostly focused on the potential of poor people to invest the tiny loan given in income-generating businesses and uplift their living condition. For example, Kabeer (2003) proposes wider social impacts beyond the household impact such as reductions in violence against women and improvement in income security for the community. Based on Copestake (2003), before measure social performance, the MFIs should have a standard of benchmarks that can improve the social performance of MFIs. He argues in favour of establishing a single universal standard for social performance, but one that is very simple and flexible. It would stipulate that all MFIs should develop a clear policy that addresses the following questions: what are your social performance goals, and what indicators do you use to monitor progress towards them? How do you monitor the status of clients? How do you assess the value added or impact of the services that you provide on samples of clients, including those who leave? How do you audit and seek to improve the quality of systems for monitoring client status and impact? Therefore he proposes a useful framework to understand social performance. He separates poverty impacts such as income, non-income and wider from other direct and wider impacts. There is an overlap between social performance and poverty impact, particularly where broad definitions of poverty are used, for example, inequality, vulnerability or powerlessness. It shows that not all social impacts can be reduced to poverty impacts.

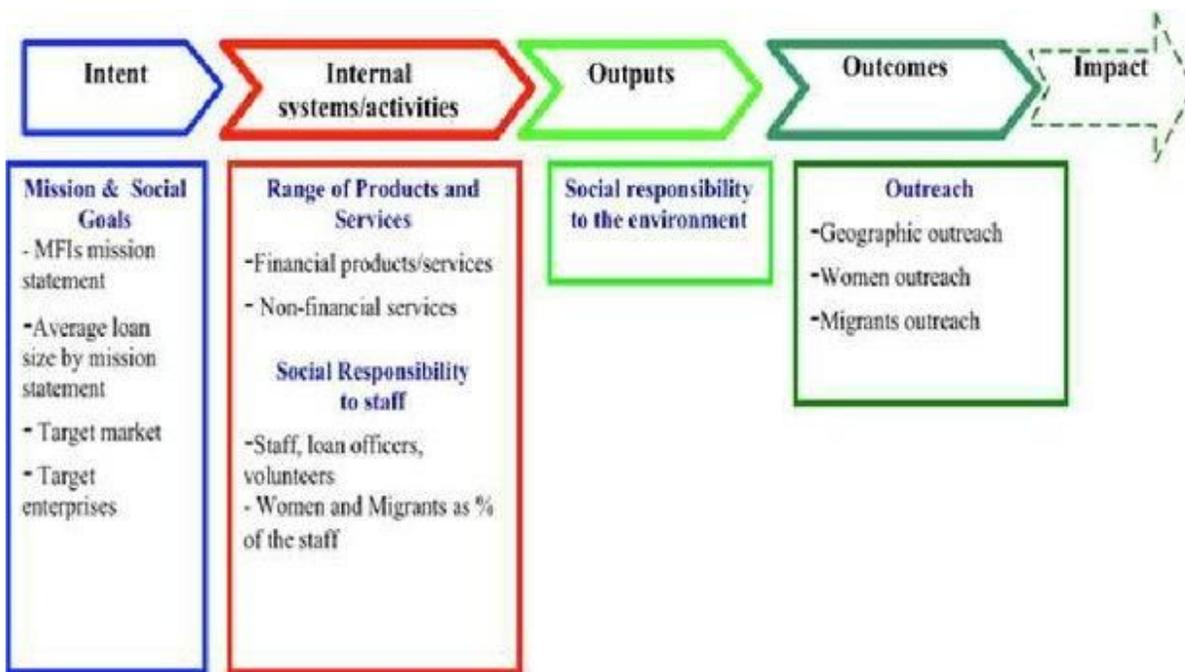
A self-organizing map (SOM) methodology is another method used by the researchers to fully capture the existing heterogeneity among institutions in measuring social impact (Louis et al., 2013). Kohonen maps, also called self-organizing maps (SOM), have been introduced in 1981 by Kohonen. SOM method was used in different fields of studies like exploratory data analysis, web usage mining (Smith & Ng, 2003), industrial and medical diagnostics (Schwartz et al., 2003), and customer profiling (Seret et al., 2012) are contemporary examples of SOM analysis applications and successes. This technique is first used in a microfinance context by Van Gool et al., (2012) and Louis et al., in their study in 2013.

Meanwhile, Indra and Ali (2015) used a Data Envelopment Analysis (DEA) application to measure the social and financial efficiency of Islamic microfinance institutions. The study proposes a two-stage analysis to measure Islamic Microfinance institutions (IMFIs) performance by comparing them to conventional MFIs. First, they developed a DEA framework to measure MFIs' efficiency in its double bottom line objectives, i.e. in terms

of social and financial efficiency. In the second stage, non-parametric tests are used to compare the performance and identify factors that contribute to the efficiency of IMFIs and MFIs.

Amersdorffer, F.A, Buchenrieder, G.A, B, Bokusheva, R.C, and Wolz, A. (2015) provide a database for the construction of a social output, which, apart from outreach, evaluates social network quality, and client benefits (protection from over-indebtedness). Social Performance Task Force (SPTF) is a new attempt to explore social aspects of microfinance that providing a new definition of social performance which more focused on the whole process leading to a social impact. The framework developed followed in the current social performance analysis examines the whole process of translating MFIs mission into social impact. It includes the analysis of three connected dimensions of the social performance process corresponding to a different set of indicators: the intent of the MFI, the effectiveness of the internal system and activities in achieving its targets, MFI outputs and eventually its capacity to positively affect clients' life and achieve social goals. Figure 1 shows the framework developed by the SPTF.

Figure 1: EMN Social Performance Indicators in the SPSR reference framework



Source: Botti and Corsi (2011)

Since 2005, Social Performance Task Force (SPTF), the global industry-wide has focused on developing ways to measure social performance in microfinance. One of the achievements of this initiative has been the creation of social performance indicators to assess how an MFI aligns its systems to its mission and how it uses social performance information to reach its social goals. There are 11 social performance indicator categories in Microfinance Information Exchange (MIX's) Social Performance Standards Report as follows:

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1. Mission specifics
2. Governance
3. Range of products and services (financial and non-financial)
4. Client outreach by lending methodologies
5. Measuring client retention
6. Social responsibility to clients
7. Transparency of the costs of services to clients
8. Human resources and staff incentives
9. Employment creation and enterprises financed
10. Social responsibility to the environment
11. Poverty outreach

Conclusion

Measuring social performance is important to ensure that the tiny loan given to the unbankable clients are benefited and can improve their standard of living. Denying social performance measurement may lead to mission drift. While social performance management is on the rise globally, reporting on tangible results related to an MFI's mission is more challenging. Very few MFIs can actually state whether their goals are being met. An emblematic example is that of poverty reduction. This was defined as a goal by 84 percent of MFIs but, when it came to reporting client progress out of poverty, only 10 percent of MFIs could provide this information.

Measurement of poverty outreach is thus difficult to benchmark not only because it is limited to a few MFIs but because of the variety of tools available and the different poverty lines used. Many MFIs cite generating employment and supporting business creation as development goals, but these types of outcomes are not commonly tracked. Management information systems (MIS) rarely capture data of this kind.

This paper reviews past literature in the context of measuring social performance in microfinance. The research on social performance starts with impact assessment, individual and household. Then it expands to a wider impact such as community and other impacts like education, safety, and health. There are many methodologies used to measure social performance, for example, SOM, DEA, Poverty Assessment Tool, Participatory Wealth Ranking (PWR) and the EMN Social Performance Indicators developed by SPTF. This review provides researchers with some guidelines for future research on this topic. It also provides broad information on how to measure social performance in microfinance which could be useful for practitioners.

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