



# What are social performance standards in microfinance?

The microfinance industry has jointly developed a number of standards and core management practices to define what constitutes “strong” Social Performance Management (SPM). LMDF has participated in and supported several initiatives that have created social performance standards both for microfinance institutions and investors in microfinance.

In an earlier section of this report, the Fund has explained its approach to encouraging partner MFIs to integrate social performance management in their operations. Ultimately, better management of social performance and the emergence of a wider body of industry benchmark data will help the sector to live up to its social mission.

## Standards applicable to investment funds

### The Principles for Investors in Inclusive Finance (PRI-PIIF)

The United Nations-backed Principles for Responsible Investment (PRI) were developed by an international group of institutional investors reflecting the increasing relevance of environmental, social and corporate governance issues to investment practices.

As a sub-set, investors in inclusive finance developed the Principles for Investors in Inclusive Finance (PIIF) to promote seven fundamental principles:

1. Expanding the range of financial services available to low-income people;
2. Integrating client protection into all policies and practices;
3. Treating investees fairly, with clear and balanced contracts, and dispute resolution procedures;
4. Integrating ESG factors into policies and reporting;
5. Promoting transparency in all operations;
6. Pursuing balanced long-term returns that reflect the interests of clients, retail providers and end investors; and
7. Working together to develop common investor standards on inclusive finance.

For the curious ones, we recently published a report on social performance 2010 – 2015, called «Driving Social Impact Through Microfinance» available on [www.lmdf.lu](http://www.lmdf.lu) or by scanning this code



## Standards applicable to microfinance institutions

### Universal Standards on Social Performance Management

The Universal Standards for Social Performance Management, gathered by the Social Performance Task Force, are organized into six dimensions, each dimension contains multiple standards. A standard is a simple statement of what the institution should do to manage social performance.

For each of these standards, there are several “Essential Practices,” which detail how to achieve the standard. The Universal Standards contain all of the Smart Campaign’s client protection standards.

### The Client Protection Principles

1. Appropriate product design and delivery
2. Prevention of over-indebtedness
3. Transparency
4. Responsible pricing
5. Fair and respectful treatment of clients
6. Privacy of client data
7. Mechanisms for complaint resolution

The seven Client Protection Principles (CPPs) are minimum standards clients should expect to receive when doing business with an MFI. These principles provide MFIs with set guidelines needed to deliver transparent, respectful, and prudent financial services to their clients. By endorsing the CPPs, MFIs provide a positive signal that they take client’s basic interests seriously. An external certification process can validate the implementation of CPPs in an MFI’s governance and operations.

## Tools helping MFIs to measure Social Performance

**The Social Performance Indicators (SPI4)** is a social audit tool, launched by CERISE (Comité d’Echanges de Réflexion et d’Information sur les Systèmes d’Epargne-crédit), which evaluates MFIs’ ability to achieve their social mission by allowing them to measure the level of implementation of the Universal Standards, including the Smart Campaign’s Client Protection Principles.

**The Progress out of Poverty Index (PPI)** is a poverty measurement tool for organizations and businesses with a mission to serve the poor. The PPI can be easily put in place by socially motivated MFIs to measure their commitment to poverty alleviation. Though 10 questions about a household’s characteristics and asset ownership, MFIs can identify the clients who are more likely to be poor and track changes in clients’ poverty levels over time. The Progress out of Poverty Index (PPI) is a poverty measurement tool for organizations and businesses with a mission to serve the poor. The PPI can be easily put in place by socially motivated MFIs to measure their commitment to poverty alleviation. Though 10 questions about a household’s characteristics and asset ownership, MFIs can identify the clients who are more likely to be poor and track changes in clients’ poverty levels over time.

### Social Ratings or Integrated Ratings

Social ratings are an external assessment by a knowledgeable entity of the social performance of an MFI. Today most financial ratings in microfinance incorporate “social risks” caused by insufficient social performance management.