

GLOBAL METHODOLOGY

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Analyst Contacts:

Jody Rasch
 Senior Vice President
 +1.212.553.3797
 jody.rasch@moody.com

Michael Rauenhorst
 Vice President
 +1.212.553.2866
 michael.rauenhorst@moody.com

Alan Bonilla
 Assistant Vice President
 +1.212.553.1314
 alan.bonilla@moody.com

Social Performance Assessment

Introduction

Moody's Analytics Inc.'s (MA) microfinance social performance assessment (SPA) is designed to measure the social performance of a microfinance institution (MFI) based on an analysis of the manner in which such an institution oversees, manages and monitors its performance in order to achieve its social mission. In short, the SPA reviews how effective an MFI is at translating its mission into practice. It encompasses an MFI's objectives, systems, services, human resources and results, as well as its use of performance indicators and other information as it seeks to achieve its objectives.

The SPA takes into account the views of microfinance market participants, whose input was used to determine the social performance factors and indicators, or measures, that make up an assessment. Market participants' views were statistically weighted to arrive at a robust framework. The SPA also takes into account the views of the multiple stakeholders in an MFI, including customers, staff, funders, regulators, owners and the community it is intended to serve.

The SPA assesses an MFI's social performance not only by looking at its past results, but also by reviewing the quality of the structure and processes it employs to assess the likelihood of that performance being sustained into the future. It is MA's belief that an MFI that performs better on the SPA will have a higher likelihood of positively affecting the lives of its customers and be less likely to cause harm.

The SPA provides a transparent and globally comparable means of highlighting an MFI's strengths and weaknesses in terms of social performance, while also providing investors with the information needed to make more informed socially oriented investment decisions.

Development of the Social Performance Assessment

The initial step in developing the SPA was to select an appropriate framework for measuring social performance. MA considered a number of measures of social performance, including:

- » **Social impact:** This refers to the effect of microfinance in terms of improving the lives of target populations. In order to demonstrate its social impact, an MFI must show that, without microfinance, the same results could not have been achieved. This means showing not only that the lives of the target population have improved, but that they could not have improved to the same extent if microfinance had not been available. In general social impact is broadly measured using various types of academic research, such as randomized control trials (RCTs).
- » **Social output:** This refers to the effect of microfinance on the lives of borrowers, without the use of a control group. By exploring social output an MFI can determine whether its customers are now better or worse off, though causality cannot be conclusively proven.

While directly measuring social impact and output is important, these measurements are backward-looking. And while social impact analysis shows causality, measuring it can be difficult. Such analysis relies primarily on RCTs, which are expensive for MFIs to implement and are limited in terms of how and where they can be used. There are other measures of social impact, of course, but whether these measure true impact (i.e., that clients' lives would not have improved without the use of microfinance) may not be conclusive.

While MA's methodology takes into account both social impact and social output, it also utilizes proxies to determine the likelihood of an MFI having a positive effect on the lives of its customers and of this being maintained into the future.

The methodology was developed using market research on the importance of different social performance factors, and relies on the experience and judgment of market experts and MA analysts. MA conducted market surveys and analysis in two phases.

The phase 1 survey was developed by MA in association with a consortium of investors, MFIs and service providers representing a cross-section of the microfinance market; key social performance factors and sub-factors were identified at this stage. MA then administered the survey, which was completed by 74 market participants.¹ Survey inputs were analyzed to establish a weighting for each assessment factor and sub-factor. Each was weighted according to its importance as a measure of an MFI's social performance and arranged on a scorecard.

The phase 2 survey was completed by MA analysts and a select group of 16 market experts who specialize in microfinance social performance.² The market experts formed a core working group to assist MA in the development of key indicators to measure MFIs' social performance, and to assign weights to these indicators.

This written methodology does not provide an exhaustive treatment of all the factors reflected in a particular SPA, but rather is designed to enable the user to understand the key considerations used by MA in measuring MFIs' social performance.

Assessing the social performance of MFIs is an emerging area, and MA expects that the weightings, as well as some of the factors and sub-factors, will change over time. MA plans to review the SPA methodology periodically and to make changes and updates as needed. This could result in some assessments being modified up or down based on new criteria, even though the practices of the MFIs themselves may not have changed.

Global Comparability

The SPA is designed to provide global comparability among MFIs. Most of the factors evaluated under the SPA are important in every region of the world. There are two major differences among regions, however, these being what is considered "good practice" and what data is available. An example of the first would be how an MFI ensures that its customers understand credit agreements. In a region where literacy rates are high, including written documentation as part of the credit process may be considered good practice, while in a region with low literacy rates giving customers written materials would not be good practice.

In terms of data availability, in certain regions of the world it may be possible for an MFI to achieve higher scores on some factors, while in others the same standards may not be able to be met. An example here would be that the existence of a credit bureau in

¹ These 74 market participants were: 36 for-profit investors, 25 MFIs or MFI networks, 6 development agencies, 4 not-for-profit funders, and 3 institutions classified as "other."

² The expert panel consisted of 7 MFIs or MFI networks, 5 for-profit investors, 3 not-for-profit funders, and 1 development agency.

a particular region may make it easier for an MFI operating there to achieve a higher score for the Customer Relationship factor than if it were operating in a region without a credit bureau.

The SPA takes into account regional differences in what constitutes good practice, but will not make adjustments for data availability.

Assessment Grades

The key assessment factors and sub-factors make up the scorecard that is used in the assessment process. Each factor and sub-factor is scored according to an MFI's performance. An MFI's overall scorecard outcome is referred to as a grade, as is its final SPA outcome.

The SPA uses a scale of SP1 to SP5, with SP1 being the highest grade and SP5 the lowest. When assigning an SPA grade to an MFI, a combination of the overall grade derived from the SPA scorecard and some absolute, required factors is utilized. These required factors represent minimum practices that an MFI must comply with in order to be considered for certain SPA grades. Therefore, although an MFI's overall scorecard-implied grade may be consistent with a particular SPA grade, the MFI will not receive that grade if it does not meet one or more of the required factors.

While the scorecard-implied grade should provide a reasonable indication of the final MA SPA grade, the scorecard is only a tool to help MA analysts and SPA committees arrive at their final decisions. In addition to the required factors, an analyst may consider factors that are not included on the scorecard, and as a result may recommend a final grade that is higher or lower than the one derived from the scorecard. To ensure global comparability, an analyst's final recommendation is reviewed by an assessment committee, and it is the assessment committee that assigns the final grade.

The SPA Grade Definitions table below is the framework used by analysts when proposing SPA grades to SPA committees. The scores for each factor and sub-factor on the scorecard are tallied to provide an overall scorecard-implied grade, which is translated, or "mapped" to an assessment scale based on the definitions for each category.

TABLE 1

SPA Grade Definitions

Grade	Explanation	Definitions	SPA Score Range
SP1	Excellent	<p>An SP1 grade indicates that an MFI's infrastructure and processes are consistent with a very high likelihood of operating in the best interests of its customers, that this is among its highest priorities and that the risk of causing adverse effect to its customers and other stakeholders is very low. An SP1 grade is consistent with an MFI that:</p> <ul style="list-style-type: none"> » has a highly coordinated and strategic operation in order to accomplish its social mission » adheres to best practice across all of the key SPA factors and most of the sub-factors » demonstrates it has well-established and reliable information systems, internal controls and procedures relating to the information provided for the SPA » maintains the highest standards in terms of customer over-indebtedness and debt collection practices. 	78–100
SP2	Good	<p>An SP2 grade indicates that an MFI's infrastructure and processes are consistent with a high likelihood of operating in the best interests of its customers, that this is among its highest priorities and that the risk of causing adverse effect to its customers and other stakeholders is low. An SP2 grade is consistent with an MFI that:</p> <ul style="list-style-type: none"> » coordinates strategic operations to accomplish its social mission » adheres to best practice on almost all of the key SPA factors » demonstrates that it has reliable information systems, internal controls and procedures relating to the information provided for the SPA » maintains good standards in terms of customer over-indebtedness and debt collection practices. 	65–77
SP3	Adequate	<p>An SP3 grade indicates that an MFI's infrastructure and processes are consistent with a good likelihood of operating in the best interests of its customers, that this is among its high priorities and that it attempts to manage the risk of causing adverse effect to its customers and other stakeholders. An SP3 grade is consistent with an MFI that:</p> <ul style="list-style-type: none"> » adheres to good practice on most of the key SPA factors » demonstrates that it has adequate information systems, internal controls and procedures relating to the information provided for the SPA » maintains reasonable standards in terms of customer protection. 	50–64

Grade	Explanation	Definitions	SPA Score Range
SP4	Weak	<p>An SP4 grade indicates that an MFI's infrastructure and processes show some adherence to operating in the best interests of its customers, and that this is among its priorities. An SP4 grade is consistent with an MFI that:</p> <ul style="list-style-type: none"> » adheres to good practice on some of the key SPA factors » has weak information systems, internal controls and procedures relating to the information provided for the SPA » maintains some standards in terms of customer protection. 	30–49
SP5	Poor	<p>An SP5 grade indicates that an MFI's infrastructure and processes do not show evidence of being in the best interests of its customers, and that this may not be among its priorities. An SP5 grade is consistent with an MFI that:</p> <ul style="list-style-type: none"> » has no or inadequate information systems, internal controls and procedures relating to the information provided for the SPA » maintains no standards in terms of customer protection. 	0–29

About Moody's Analytics Social Performance Assessments

Framework for Assigning SPAs and the Role of the Scorecard

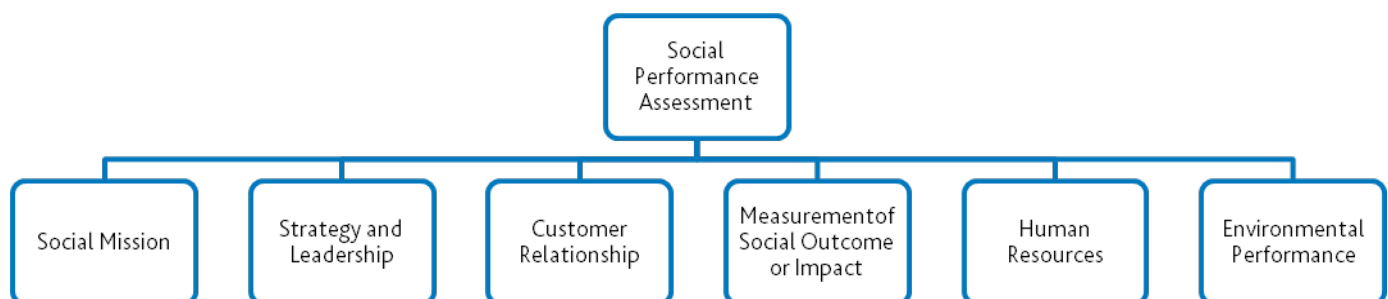
A Moody's Analytics SPA is a monitored assessment that reflects how an MFI is performing now and how it is expected to perform into the immediate future. The analyst looks not only at an MFI's current practices, but also at the systems in place for reporting and monitoring its future results. A monitored SPA is under review and is updated periodically. There is no one exclusive method of monitoring an MFI, but typically analysts will look to publicly available information and ongoing engagement with MFI management. If an MFI's application for an SPA is not renewed annually, and this typically involves the same degree of engagement and visits as an initial assessment, the SPA is withdrawn and is no longer valid.

MA believes certain qualitative factors play an important role in determining the stability and predictability of an MFI's social performance over time. Its analytical approach therefore includes both qualitative and quantitative analysis.

As noted, MA surveyed industry participants in order to determine the factors and sub-factors to include on the scorecard.

The six main factors considered in the SPA are grouped as follows:

- » Social Mission
- » Strategy and Leadership
- » Customer Relationship
- » Measurement of Social Outcome or Impact
- » Human Resources
- » Environmental Performance



Based on market surveys and analysis, as noted, MA has determined the weights to assign to these main factors on the SPA scorecard as follows:

TABLE 2

Scorecard factors	Weight (%)
Social Mission	18
Strategy and Leadership	23
Customer Relationship	20
Measurement of Social Outcome or Impact	15
Human Resources	15
Environmental Performance	9

Social Mission

This factor includes a review of how well an MFI defines and communicates its social mission, but not necessarily how well it carries it out. The review of an MFI's social mission includes examining its history of defined social goals, objectives and measurable indicators. It also includes how well the mission, goals and objectives are communicated within the organization and to other stakeholders.

- » History of the social mission, goals and objectives
- » Focus of the social mission
- » Plans and communications for achieving the social mission, goals and objectives

Strategy and Leadership

This factor includes a review of an MFI's leadership's ability to steward the organization toward achieving its social mission, goals and objectives, and its strategy for doing so. The factors in this section are further broken down into Management, Governance, Outreach and access, and Administrative setup, each of which is described in detail below.

- » Management quality
- » Governance
- » Outreach and access
- » Administrative setup

Customer Relationship

This factor encompasses an MFI's approach toward customer protection and customer service, both of which are described in detail below.

- » Customer protection
- » Customer service

Measurement of Social Outcome or Impact

This factor includes a review of the procedures, systems and tools an MFI uses to evaluate whether it is on track to achieve its social objectives, and of the evidence that it has achieved these objectives. Analysts examine the tools used by the MFI and also consider the frequency of data collection and measurement. In addition, the analysts assess the transparency and availability of the MFI's research results.

- » Participation in social outcome or impact studies
- » Explicit tool to measure social outcome or impact
- » Frequency of data collected on social outcome or impact
- » Transparency

Human Resources

This factor addresses how an MFI uses its hiring, compensation, incentive structure and other employment and development practices to improve its social performance. It encapsulates an MFI's organizational structure, facilities, processes and staffing policies as these relate to meeting its social objectives.

- » Organization and facilities
- » Code of ethics
- » Hiring policies (gender and anti-discrimination policies)
- » Culture of delegation
- » Fair compensation
- » Staff skills and training
- » Promotion and retention
- » Staff incentives and audit

Environmental Performance

This factor addresses an MFI's responsibility toward the environment as defined in its policies and as evidenced in its products and operations.

- » Customer standards
- » Internal standards

Assessment Factors

Social Mission

In evaluating an MFI's social mission, analysts review the MFI's objectives and goals and how well these are communicated to stakeholders. This section is broken down into three sub-factors, as follows.

History of the social mission, goals and objectives

Analysts assess the length of time an MFI's social mission has been in place and the extent to which it has been translated into specific objectives and measurable goals.

Focus of the social mission

Analysts examine the focus of an MFI's social mission and the social benefits the organization intends to generate.

Plans and communications for achieving the social mission, goals and objectives

Analysts review an MFI's plans to achieve its social mission and the way it communicates these to stakeholders.

Strategy and Leadership

Analysts review the ability of an MFI's top-level leadership to steward the organization toward achieving its social goals and the strategy it has put in place to do so. This includes a review of the quality of an MFI's leadership, governance, administrative setup, and customer outreach and access practices.

Management quality

The quality of an MFI's management is one of the keys to success in providing a high level of social performance. This section assesses the ability of an MFI's leadership to steward the organization toward achieving its social mission. The analysis includes the strategy the leadership has put in place to bring the MFI's goals and objectives to fruition.

- » **Experience:** Analysts review key managers' number of years of relevant experience, as well as the quality of that experience and how it relates to the MFI's ability to realize its social goals and objectives.
- » **Professionalism of staff:** Analysts assess the effectiveness of an MFI's management in terms of conducting and promoting behavior consistent with social principles.
- » **Management turnover:** Analysts look at the number, level and gender of management personnel leaving an MFI, as well as the frequency with which they leave.
- » **Key worker risk:** Analysts assess how dependent an MFI is on a few individuals to achieve its social mission and carry out its operations, and how the departure of one or more of these individuals might affect its ability to achieve its social mission.
- » **MFI history/Product history:** Analysts review an MFI's history in terms of products with social objectives. In addition, it looks at the maturity of an MFI's product offerings and how often the MFI improves on them.
- » **Availability and quality of training:** Analysts look at whether an MFI provides relevant training regarding its social mission, goals and objectives to managers and other staff. Analysts also measure the frequency and quality of training.
- » **Management transparency:** Analysts look to see whether an MFI has an effective strategy for communicating policy decisions to customers and other stakeholders, including whether the means of doing so are adapted to each audience. For customers this may include workshops, "town hall" meetings, presentations, or leaflets or other written materials. For other stakeholders, analysts look at the quality and frequency of management reports on social issues.

Governance

Analysts review the process by which a board of directors (or equivalent governing body) guides an MFI toward fulfilling its social mission, and how an MFI reinforces board members' knowledge and commitment to social performance. Analysts evaluate the composition of the board in terms of members' areas of expertise. It also reviews how frequently board and board committees meet and whether social performance topics are discussed at meetings. Disclosure of board members' responsibilities and terms of service are also reviewed, as are board members' compensation and whether and how board members benefit from financial returns.

- » **Board composition:** Analysts assess the quality (i.e., professional background and expertise), neutrality (i.e., ability to act in the best interests of the MFI), independence (i.e., no employment relationship) and diversity (i.e., representing different populations) of an MFI's board. Analysts also review the different roles directors take in not-for-profit MFIs, for-profit MFIs and membership MFIs. Analysts review the diversity of an MFI's board, that is, its composition in terms of government representatives, community leaders, representatives of not-for-profit organizations and private financial institutions, and customers. In addition, the gender and proportion of independent (i.e., not affiliated with the MFI) board members is examined.
- » **Board meetings:** In addition to frequency of meetings, Analysts look to see whether social performance topics are discussed at board and board committee meetings and whether meeting minutes are produced, and whether boards and board committees work according to a manual of procedures.
- » **Association with other groups:** Analysts review associations and links among an MFI's board members and other groups, such as development agencies and investor groups, and whether these links affect the nature and quality of the decisions made by the board in fulfilling the MFI's social objectives.

Outreach and access

Outreach and access refer to an MFI's strategy for reaching its target population.

- » **Number of customers:** Analysts review various metrics to assess an MFI's number of customers, both the percentage and absolute number of customers within the MFI's target population. Analysts also look at the demographics of the country and target area in which the MFI is based.
- » **Depth of outreach:** Analysts look at an MFI's customer outreach, that is, how it reaches its target market, which may include populations in undeveloped and rural areas and populations below the indicative poverty line. Analysts also look at the percentage of female customers and the number of customers from socially marginalized and/or vulnerable groups.
- » **Range of products offered:** Analysts review the design of an MFI's financial and non-financial products and services and assesses whether these are structured to meet customers' needs. Analysts also review the range of credit, savings and other products an MFI offers its customers and how these are delivered.
- » **Proximity to customers:** Analysts review customers' ease of access to an MFI and whether an MFI has branches or regular service points located in areas where there are no other MFIs or bank branches. Analysts also look to see whether loan officers go to customers' places of business or residence as part of their due diligence or product suitability process and whether an MFI offers services that help customers in remote locations, such as mobile banking.
- » **Community involvement:** Analysts review whether an MFI is involved with its target community in ways other than those directly related to its core business.

Administrative setup

Administrative setup refers to the framework under which an MFI's management executes the MFI's strategy. This section looks at whether the way an MFI is organized allows it to function effectively in terms of realizing its mission, taking into account organizational structure, internal communication systems and quality control of operations.

Customer Relationship

The Customer Relationship section contains two categories: Customer protection and Customer service. Each of these is broken down into a number of sub-factors.

Customer protection

Customer protection refers to the level of protection customers receive against any excesses on the part of MFI loan officers or other staff, as well as how fairly they are treated. Analysts look at the procedures an MFI has in place to safeguard its customers and at how widely these procedures are disseminated. The key sub-factors of the Customer protection category are as follows.

- » **Pricing transparency:** In evaluating pricing transparency analysts review how well customers understand the all-in cost of loans or other product offerings. Analysts review whether an MFI has rules on pricing transparency, and if it does the quality of those rules and how well they are transmitted both to loan officers and customers. Analysts look to see whether the prices, terms and conditions of all financial products are disclosed prior to the customer agreeing to accept a product and whether all initial and subsequent fees and charges, and any penalties, are fully disclosed. Analysts also review whether staff have been trained in how to disclose this information to customers and whether an MFI has a system for surveying customers' understanding of terms.
- » **Debt collection practices:** Analysts review how an MFI handles customers who have problems repaying loans and how extensively it monitors its debt collection practices to ensure that they are implemented fairly across its operations. Analysts also look at oversight and awareness of debt collection practices at the senior management and board levels.
- » **Policies:** Analysts examine an MFI's written policies as they relate to customer protection issues. Policies are reviewed for product suitability, that is, whether they state that product designs must take customer characteristics into account and will help prevent over-indebtedness. Policies are also reviewed to see whether they mandate the use of internal systems to monitor and help prevent over-indebtedness.
- » **Customer complaints/Litigation history:** Analysts look to see how effectively an MFI's management monitors customer complaints and complaint resolutions. Analysts assess whether customers are appropriately informed and encouraged to give feedback and make complaints.
- » **Product suitability process:** Analysts look to see how suitable an MFI's products are for its customers. Analysts review the range of products an MFI offers and their terms, and how they are geared toward customers' well-being.
- » **Household debt burden:** This sub-factor covers what an MFI does to come to a comprehensive understanding of its customers' debt burdens and the impact its loans and products may have on borrowers' and borrower households' ability to pay. Policies on customer debt thresholds are reviewed, as are trends in portfolio at risk (PAR) levels, rescheduled loans and default rates.

Customer service

Customer service looks at service before, during and after transactions, and measures the satisfaction of an MFI's customers with the products and services offered.

- » **Products and services:** This sub-factor includes an assessment of an MFI's product range and the quality of its products and services. Analysts assess the appropriateness of an MFI's product and service offerings to its customers' needs. In addition, Analysts look at whether an MFI offers non-financial products and services and whether any products are mandatory (e.g., savings or insurance linked to credit). Other issues, such as an MFI's market research on products and product design, are also considered.
- » **Speed of transaction:** One element of customer service is how quickly an MFI responds to applications for loans, disbursements or other product offerings. In addition to reviewing absolute turnaround times, analysts will compare responsiveness times with what is possible in specific markets.
- » **Customer retention/Dropout history:** This sub-factor includes how an MFI handles customers that are leaving or opting out of certain products, including its use of exit interviews, surveys or other methods that can help identify customer dissatisfaction.
- » **Staff qualifications and credentials:** This sub-factor includes the educational background and qualifications of an MFI's staff, including local language ability.
- » **Timeliness and quality of reports:** This sub-factor includes management's ability to generate timely and accurate reports on customer satisfaction.

Measurement of Social Outcome or Impact

This section looks at an MFI's ability to show that it is accomplishing its social goals. An MFI could show that it is accomplishing its social goals by using a standardized tool, a custom tool and/or by participating in different types of research studies.

- » **Participation in social outcome or impact studies:** Analysts look to see whether an MFI participates in studies that measure MFIs' social outcome or impact. Such studies would include RCTs, financial diaries and poverty-wealth rankings.

- » **Explicit tool to measure social outcome or impact:** Analysts look to see whether an MFI uses a recognized tool to measure the social outcome or impact of its products or whether it has an internally developed tool. Analysts will consider the effectiveness of an MFI's social outcome or impact measurement tool, as well as how extensively the tool is integrated throughout the MFI's operations.
- » **Frequency of data collected on social outcome or impact:** Analysts review how often an MFI collects data on the social outcome or impact of its activities on its customers and how frequently it participates in social outcome or impact studies.
- » **Transparency:** Analysts evaluate the quantity and quality of an MFI's social and related financial information that is made public, such as annual reports or reports for organizations.

Human Resources

Analysts review an MFI's human resource management processes, including its hiring process, compensation, incentive structure and other employment practices, and how these enhance or detract from its social performance.

- » **Organization and facilities:** Analysts review how an MFI's human resources department is organized, whether it is a discrete department or function, how the department is staffed and the type of facilities provided for staff.
- » **Code of ethics:** Analysts review whether an MFI has a comprehensive code of ethics or conduct that is widely disseminated and understood by stakeholders, and whether it has mechanisms in place to ensure that the code of ethics or conduct is consistently followed by staff and board members.
- » **Hiring policies (gender and anti-discrimination policies):** Analysts review how well women and ethnic minorities are represented within an MFI compared with the general population, and the extent to which equal opportunities are available to them.
- » **Culture of delegation:** Analysts look at the levels of decision making among staff and the ability of loan officers and other staff to respond to customers' needs and make decisions.
- » **Fair compensation:** Analysts look to see whether an MFI's staff members receive a living wage (i.e., the minimum hourly income necessary to meet basic needs) and whether compensation is equal, regardless of gender or ethnicity. Analysts analyze factors such as incentive-based compensation formulas, local market rate adjustments and differences in staff salaries. Analysts also review staff turnover rates, the percentage of staff with long-term contracts and an MFI's overall employee benefits package.
- » **Staff skills and training:** Analysts review staff training on social performance management, including the frequency and quality of training and the extent of formal and on-the-job training for all staff, both upon hiring and thereafter. Analysts look to see whether the training covers topics aside from credit, such as social performance, ethical and conduct guidelines, gender awareness, the MFI's social mission, poverty measurement and prevention of over-indebtedness. Analysts also look at how accessible training is and the frequency of training programs.
- » **Promotion and retention:** Analysts review an MFI's past and current practices for staff promotion and retention, turnover rates for different genders and other categories of staff, and policies and practices in terms of recruitment. Analysts assess whether social performance criteria are considered in the MFI's promotion and recruitment decisions.
- » **Staff incentives and audit:** Analysts review an MFI's staff incentive schemes and evaluates them for consistency and alignment with the MFI's social mission and objectives. Analysts examine how an MFI monitors and evaluates its incentive practices and conducts performance appraisals in relation to its social mission. The effectiveness of external and internal audits in validating the information provided is also assessed.

Environmental Performance

Analysts review an MFI's policies, products and operations as they relate to the environment.

- » **Client standards:** Analysts assess an MFI's standards and policies in terms of its customers' environmental policies and practices.
- » **Internal standards:** Analysts assess an MFI's own internal environmental standards, including its management of those standards and any incentives for implementing them.

Possible Adjustments to the Inputs and Outputs of the Scorecard

Rationale for possible adjustments

The SPA scorecard provides an indicative SPA grade, but is intended as only one input in the process of arriving at an MFI's final SPA grade. Neither committees nor analysts are bound by a scorecard-implied grade if they believe there are factors other than those covered by the scorecard that need to be taken into account. Committees will consider the reasons why certain factors and sub-factors may not capture the totality of an MFI's social performance. Such reasons could include aspects of an MFI's accounting and reporting practices, business model, or regulatory or market environment that limit the comparability of certain key factors and metrics.

Where analysts make adjustments to a scorecard-implied grade, they will present to SPA committees both an unadjusted grade and an adjusted grade following the guidelines described below. Analysts will present their remarks on the adjustments, and will be required to explain and substantiate them.

General guidelines on allowable adjustments

While it is practically impossible to enumerate all adjustments that might be made to an MFI grade, here we provide examples of circumstances in which analysts may adjust SPA scorecard-implied grades, or overlay other considerations, in their assessment of an MFI, and where committees may allow these adjustments and/or other considerations to be reflected in the MFI's final SPA grade. The overall aim is to avoid the risk of discretionary treatment of important factors by analysts, while also providing a common framework of opinions on adjustments to SPA grades.

Adjusting for trends and regulatory environment

An MFI's performance, including its social performance, may be influenced by uncertainties in the legal, regulatory and/or security environment or by the level of business and government transparency in the region in which it operates.

Adjusting for local infrastructure and behavior issues

Behavior, literacy rates and other factors vary among local populations, as do the infrastructure and remoteness of the locations in which they live. An MFI's products and services may be more or less suitable given such characteristics, and analysts may make adjustments to reflect this. Importantly, this does not mean that adjustments are made for services that are needed in an area but are not available. For example, if a credit bureau is required to check levels of indebtedness and there is no credit bureau, this would not be a reason for adjusting the SPA grade.

Adjusting for financial sustainability

Analysts may adjust the SPA grade where an MFI or an MFI's main product line is not financially sustainable and its termination could cause disruption or harm to its customers. For example, if an MFI's financial insecurity threatens the safety of savings, deposits, insurance or other products where customer assets are at risk, the analyst may adjust the SPA scorecard-implied grade to reflect this and the committee may allow the adjustment when deciding on the MFI's final SPA grade.

Adjustment for absolute levels of interest rates

It is difficult to determine from interest rates alone whether the amounts charged to borrowers are reasonable. Analysts therefore concentrate on an MFI's transparency in relation to the interest rates it offers. But charging fair interest rates is also important. What is considered fair may vary according to a number of factors, including an MFI's operating costs, location and the type and size of the loans it makes. These kinds of interest rate factors are not addressed directly in the SPA scorecard, but may lead an analyst to adjust the SPA scorecard-implied grade and a committee to approve such adjustment when deciding on the final SPA grade.

Appendix I: Scorecard Factors and Sub-Factors and Their Weights

Scorecard Factors	Weights (%)
Social Mission	18
History of the social mission, goals and objectives	18
Focus of the social mission	37
Plans and communications for achieving the social mission, goals and objectives	45
Strategy and Leadership	23
Management quality	33
Governance	27
Outreach and access	24
Administrative setup	16
Customer Relationship	20
Customer protection	58
Customer service	42
Measurement of Social Outcome or Impact	15
Participation in social outcome or impact studies	16
Explicit tool to measure social outcome or impact	23
Frequency of data collected on social outcome or impact	17
Transparency	44
Human Resources	15
Organization and facilities	9
Code of ethics	13
Hiring policies (gender and anti-discrimination policies)	9
Culture of delegation	9
Fair compensation	14
Staff skills and training	17
Promotion and retention	13
Staff incentives and audit	16
Environmental Performance	9
Client standards	40
Internal standards	60

Appendix II: Scorecard Sub-Factors and Indicators

Social Mission

Sub-Factor	Indicators
History of social mission, goals and objectives	Existence of a social mission with specific goals and measurable objectives; number of years an MFI has had a social mission with specific goals and measurable objectives; frequency of an MFI's review of its social mission, specific goals and measurable objectives.
Focus of the social mission	Focus of the social mission, such as access to financial services, poverty reduction, employment creation, income generation.
Plans and communications for achieving the social mission, goals and objectives	Existence of a plan for achieving the social mission with specific goals and measurable objectives and an MFI's communications to internal and external stakeholders.

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Management quality

Sub-Factor	Indicators
Experience	An examination of the average number of years an MFI's staff has worked in microfinance, in positions with social performance responsibilities and with the MFI's target market.
Professionalism of staff	A review of the scope of written employee manuals, including policies, procedures, behavior and performance expectations in relation to specific social objectives; whether or not staff undergo performance reviews that cover achievement of social performance goals at least once per year; whether customer feedback, if relevant, is used in the assessment of staff behavior; and whether an MFI conducts exit interviews when staff members leave.
Management turnover	An assessment of the number of, and frequency with which, management personnel at all levels leave an MFI and turnover rates by gender.
Key worker risk	An examination of the percentage of senior managers with social performance responsibilities, whether an MFI has a detailed key worker or succession plan, whether the key worker or succession plan specifies qualifications for replacement personnel, and whether the key worker or succession plan stipulates that replacement personnel must have qualifications that relate to social performance.
MFI history/Product history	A review of the number of consecutive years an MFI has offered products with social goals and measurable objectives and when it last adjusted features of its core products in order to better achieve its social goals.
Availability and quality of training	An examination of the number of days per year senior management, mid-level managers, loan officers and board members receive training related to social objectives. An examination of the topics covered in training, including prevention of over-indebtedness, communication with customers about pricing, acceptable payment collection practices, collecting social information, procedures for safeguarding customer data, responsible complaint referral practices, responsiveness to customer needs,

Strategy and Leadership	
	gender sensitivity and the MFI's social mission. A review of training delivery methods, including classroom, on-the-job mentoring/supervision, self-study and/or e-learning.
Management transparency	An examination of whether or not non-confidential social performance data is accessible to staff, whether it is reviewed/audited by an internal or external auditor and whether it is available for review by interested parties.
Governance	
Sub-Factor	Indicators
Board composition	An analysis of the quality, neutrality, independence and diversity of an MFI's board as these relate to providing effective governance and guidance, including expertise in finance and banking, the law, development, human resources, government/public services, microfinance, marketing, public relations, accounting, fundraising and business. An examination of the level of representation of different types of stakeholders, including government entities, NGOs, private institutions, customers, an MFI's target market, staff, donors and investors. A review of the number of female board members, the proportion of external (i.e., non-affiliated) board members and how board members are compensated.
Board meetings	An examination of the number of regular board meetings per year, whether an MFI's social performance is discussed as an agenda item at regular board meetings, whether social performance data is reviewed at regular board meetings, whether the board compares the MFI's actual performance with its strategic plans in terms of social performance and whether the board maintains a social performance committee.
Association with other groups	An examination of an MFI's interaction with NGOs, bilateral or multilateral donor organizations, local municipal organizations, community groups, business associations and other MFIs.
Outreach and access	
Sub-Factor	Indicators
Number of customers	An analysis of the absolute number and proportion of customers that an MFI serves in its target market.
Depth of outreach	An analysis of the proportion of customers below the indicative poverty line and the percentage of female and rural customers.
Range of products offered	The range of financial and non-financial products and services an MFI offers, including individual loans, solidarity group lending, village banking, micro leasing, voluntary savings, compulsory savings (cash collateral for group loans), fixed-term deposits, checking accounts, debit/credit cards, mobile banking services, money transfer or remittance services, enterprise skills development, business development services, training in financial literacy, general education programs, basic health/nutrition education, medical services for women and youth, leadership training, gender issues training and legal counseling or services.
Proximity to customers	An examination of customers' ease of access to an MFI's products, whether procedures require loan officers to go to customers' places of business or residence to determine product suitability, whether loan officers attend group meetings,

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whether an MFI has service points located near customers' places of business or residence and whether it uses mobile technologies to deliver its products.

Community involvement

The number of community activities not directly related to its core business that an MFI participates in per year within its service area.

Administrative setup

Sub-Factor
Indicators
Administrative setup

A review of the degree of regular involvement of senior management and staff in social performance activities, whether meeting agendas cover social performance objectives and whether senior management's and staff's social performance responsibilities are written, clearly defined and appropriately structured. A review of how an MFI's social performance department is structured and how the responsibilities for heading the social performance function are split among managers. A review of an MFI's management information systems and how these are used to track social performance data and management processes. A review of whether or not an MFI's social performance reports are audited (internal or external) for accuracy.

Customer Relationship

Customer protection

Sub-Factor
Indicators
Pricing transparency

Communication to customers concerning the all-in cost of an MFI's products, including compulsory savings, fees and how well customers understand these issues. This sub-factor includes disclosure of annual percentage rates (APR) or effective interest rates (EIR), amortization schedules that clearly separate principal, interest and fees, the disclosure of penalties and fees including account closure and usage fees, schedule of payments to be made, terms and conditions of products and whether an MFI publicly discloses its pricing formulas. Also taken into consideration are whether staff are trained to disclose pricing to customers, whether product prices are disclosed in writing or in discussion with customers and whether there is a system for staff to report customer feedback.

Debt collection practices

An MFI's written procedures, including required staff behavior toward customers such as speaking respectfully and speaking in a confidential environment, and prohibited staff behavior toward customers such as violating customer privacy, clearly specifying when staff are required to follow an MFI's legal department's advice and whether third-party collection agents are required to follow the same practices. An MFI's practices in regard to conducting internal investigations are also examined.

Policies	Whether an MFI's written policies express the need for products to be designed according to customer characteristics, whether they mandate the use of internal systems to monitor and help prevent over-indebtedness, whether they address the need for staff to communicate information in a manner that customers understand and to treat customers with respect and/or nondiscrimination, whether they cover pricing terms and conditions and privacy of customer data (including whether robust information security policies and practices are in place) and whether they contain procedures for customer complaints.
Customer complaints/Litigation history	Whether an MFI's written policies and procedures support customers' right to complain, provide customers with a written explanation of how to submit a complaint, ensure customer complaint information is secured from unauthorized use, and ensure that staff are trained to handle complaints and refer them to the appropriate person for investigation and resolution.
Product suitability process	A review of an MFI's product design process, including whether it takes suitability, simplicity and affordability from a customer's perspective into account, as well as whether customer interviews and/or focus groups are used as part of the design process.
Household debt burden	An MFI's assessment of its customers' debt capacity, including checking with or participating in a comprehensive credit registry or credit bureau, checking a database shared among financial institutions or its own internal customer database, and/or checking with an informal network of loan officers or branch managers from other organizations.
Customer service	
Sub-Factor	Indicators
Products and services	A review of an MFI's products and services, including microcredit loans for microenterprises, loans for consumption purposes, small and medium enterprise (SME) loans, agricultural loans, rural microcredit loans, education loans, housing loans, emergency loans, special purpose savings accounts (education, etc.), credit life insurance, life insurance, housing insurance, agriculture insurance, health insurance and workplace insurance. In addition, a review of whether an MFI offers non-financial services such as enterprise skills development, business development services, training in financial literacy, general education programs, basic health or nutrition education, special medical services, leadership training, gender issues training and legal counseling or services.
Speed of transaction	A review of the time taken from application to approval and disbursement of individual, solidarity group, self-help group and village banking loans.
Customer retention/Dropout history	A review of customer retention rates on a per product basis, as well as whether items such as standardized customer exit surveys are routinely carried out by an MFI and whether the MFI tracks over time the specific reasons why customers exit or opt out.

Staff qualifications and credentials	A review of the educational background of senior, mid-level and relationship managers, including whether the language of the target market is spoken by senior and mid-level managers with responsibilities for periodically interacting with customers and loan officers.
Timeliness and quality of reports	Evidence that customers are immediately given receipts for all transactions, whether they are provided with principal, interest and repayment amounts for loan transactions and whether they are able to check balances in their accounts periodically. Evidence that an MFI has a complaint box and/or hotline, and whether it utilizes standardized written surveys and/or focus groups. In addition, a review of the number of days per year on which customer satisfaction data is collected.

Measurement of Social Outcome or Impact

Sub-Factor	Indicators
Participation in social outcome or impact studies	The extent to which an MFI participates in studies that measure the social outcome or impact of its social mission and whether these studies are internally or externally delivered.
Explicit tool to measure social outcome or impact	An analysis of the number of years an MFI has had a tool for measuring its social outcome or impact and whether the tool covers poverty assessment, customer protection, social auditing, participatory wealth ranking, means testing and/or housing indexes.
Frequency of data collected on social outcome or impact	Frequency of the data collected by an MFI to measure the social outcome or impact of its social mission.
Transparency	An analysis of how an MFI reports its social information, including via its own website, press releases, periodic internal reports and annual reports or via third-party reporting organizations, and/or whether this information is integrated into the MFI's own information systems.

Human Resources

Sub-Factor	Indicators
Organization and facilities	An examination of how an MFI's human resources functions are structured and managed, the formality and frequency of use of any systems to assess employee satisfaction or staff grievances, exit interview processes and written policies and reports regarding the health and safety of staff.

Code of ethics	A review of whether or not an MFI has implemented a code of ethics or conduct. A review of an MFI's policies covering conflicts of interest, anti-discrimination, anti-harassment, anti-corruption, gender, debt collection and customer protection, and whether the board of directors has approved an MFI's code of ethics or conduct. A review of an MFI's policies for ensuring compliance with the code of ethics or conduct, whether it assesses staff for compatibility with organizational ethics, whether staff sign pledges regarding the code of ethics or conduct, whether there is an ethics or conduct committee that has responsibility for overseeing and enforcing the code of ethics or conduct, whether there is a disciplinary committee that has responsibility for overseeing and enforcing the code of ethics or conduct, whether staff are required to pass an exam on the code of ethics or conduct, whether supervisors have a role in ensuring staff's knowledge of and compliance with the code of ethics or conduct, whether the code of ethics or conduct is reinforced in internal communications and whether an MFI has a written ethics or conduct violation process.
Hiring policies (gender and anti-discrimination policies)	An examination of written policies on hiring staff, including equal pay for equal skills, anti-discrimination, anti-harassment, equal opportunities, staff quotas, work time adapted to family constraints, maternity/paternity leave, women's mobility in the field and the proportion of women at different management levels.
Culture of delegation	A review of the scope of delegation of responsibilities for tracking and evaluating social performance and a review of the scope and quality of systems used to track and evaluate social data.
Fair compensation	An examination of an MFI's practices for ensuring fair compensation and whether or not the MFI provides written explanations of fixed and variable compensation formulas to all staff. A review of incentive-based compensation schemes and whether they are audited, whether staff compensation takes into account market rate adjustments, whether there are policies in place for ensuring equality of pay for men and women of equal experience and position, whether staff salaries are compared with minimum wages and whether the salaries of the highest paid employees are disclosed.
Staff skills and training	A review of an MFI's initial and ongoing training on social performance and whether or not training topics include credit analysis; code of conduct and/or ethical guidelines; gender awareness; the MFI's social mission, goals and objectives; poverty measurement; mission alignment; over-indebtedness prevention; communication with customers regarding products, pricing and conditions; acceptable payment collection practices; collection of social measurement data; policy and procedures for customer information protection; and customer complaint procedures.

Promotion and retention	An assessment of the degree to which an MFI retains and promotes its staff and whether or not promotions are linked to achievement of social performance goals, customer-satisfaction feedback, compliance with policies, the code of ethics or conduct, customer dropout rates, loans disbursed, collections, repayment rates, obtaining customers in target markets, poverty outreach, outreach to remote/rural communities and outreach to women/minorities. Verification that the social data collected by staff and used to evaluate performance is reliable.
Staff incentives and audit	An examination of whether an MFI has staff incentive schemes that include social performance, whether it periodically reviews its incentive scheme for unintended consequences or behaviors, and whether it systematically audits social performance data according to standards similar to those applied in its financial auditing process.

Environmental Performance

Sub-Factor

Indicators

Customer standards	An examination of the scope of an MFI's environmental standards as these relate to customers, including written policies and whether they cover pollution, clean air, clean water, waste management and recycling, resource depletion (forests, animals, etc.), soil depletion, workplace health and safety, community health and safety, housing and health, sustainable energy and green technology, water resources and management and sanitation, and whether the MFI gives preference to customers that adhere to these standards. A review of whether an MFI includes environmental factors in its management information systems, educates or trains customers about environmental improvements or risks posed by their activities, has clauses in customer contracts requiring environmental risk mitigation, identifies customer enterprises that pose environmental risks, includes environmental risk as a factor in the loan approval process, tracks the total environmental risk posed by its loan portfolio, seeks out customers engaging in eco-friendly micro-enterprises, requires periodic reporting on environmental factors by customers, includes environmental assessments in customer site visits, promotes customer workplace safety, identifies customer businesses in environmental services on borrower applications, tracks legal requirements relevant to customer practices, and whether an MFI uses an environmental impact assessment tool.
Internal standards	An examination of an MFI's policies relating to its internal operations to promote workplace safety, adopt energy efficiency measures and recycle water and paper. A review of whether an MFI commissions an auditor to review its environmental performance, partners with other organizations to monitor or improve its environmental performance, tracks legal requirements relevant to its practices and trains staff to identify potential environmental problems. A review of whether staff training programs cover environmental standards, whether staff incentive systems are in place for achievement of environmental performance and whether there is a senior manager responsible for environmental issues.

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