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Islamic International Rating Agency

Social Performance Evaluation Scope and Indicators

Social Performance Evaluation – Scope and Indicators

Preamble:

A third party assessment of the impact created by a Social Service Provider ('SSP' or 'programme') organization/programme can play a complementary role towards creating a positive change in the society. A structured, comparable and globally recognized impact assessment approach adds value to an SSP's efforts in bringing the desired change, by vesting confidence in supporters, partners and a wide range of stakeholders.

The Islamic International Rating Agency was set up for exclusively providing rating services to a Shari'ah Compliant financial system on a global basis. It is therefore committed to promoting and enabling the achievement of Maqasid-e-Shari'ah, particularly within Islamic economies. As such, the promotion of social well-being and equality through the use of Shari'ah compliant finance, is central to IIRA's constitutional objectives. In addition to this, IIRA is also committed to the principles of Responsible Investing, as also reflected in its listing on the UNPRI (United Nations Principles for Responsible Investment) list of service providers, as companies undertaking to place due consideration of ESG risks in its ratings.

Keeping in mind its commitment to Maqasid-e Shari'ah, the United Nations Sustainable Development Goals (SDGs) and responsible investment, IIRA has developed an approach that captures the achievement of social objectives of SSPs, by providing an impartial assessment of the programme capacity for enabling social change and extent of achievement of social goals. Social Impact is evaluated both in terms of actual impact, which interalia is a function of both scale and depth of impact, as well as the state of the infrastructure that supports the achievement of such goals. This approach is distinct from IIRA's approach towards providing an opinion on repayment risk associated with redeemable capital obtained by an SSP, which is covered under IIRA's credit rating approach in the SSP's specific field of operations.

IIRA's approach to Social performance evaluation is scalable to both 'for profit' and 'not for profit' organizations, as well as financial and non-financial entities/programmes. The ultimate objective is to provide information to programme supporters, partners, donors and other external stakeholders, regarding the efficacy of the program. In this regard, IIRA's approach is tailor-made and specifically assesses the effectiveness of the SSP/programme in the chosen area of operations, in line with its institutional mandate.

Scope of Evaluation:

Three key areas remain fundamental to IIRA's evaluation approach:

- 1) Scale and Depth of Social Impact
- 2) Infrastructure efficacy
- 3) Program viability

1. Social Impact: 45%

Impact in areas identified as core targets and objectives of an SSP involves evaluation of the following factors:

Factor	Indicators
<p>Outreach</p> <p>Pricing (Microfinance)</p>	<ul style="list-style-type: none"> • <i>No. of beneficiaries/size of target market, trends in outreach</i> • <i>No. of beneficiaries targeted below the poverty line / Total beneficiaries</i> • <i>Beneficiaries with limited prior access to services offered / Total beneficiaries</i> • <i>Growth in beneficiaries on year to year basis (in case of Microfinance, this may be looked at across each financing cycle such as Initial, second cycle, third cycle and greater than third cycle)</i> • <i>Average Microfinance Institution's lending rate – Country's lending rate) / Country's lending rate</i>
<p>Geographical Dispersion</p> <p>Marginalized Groups' Inclusion</p>	<ul style="list-style-type: none"> • <i>No. of districts where service is provided / Target no. of districts</i> • <i>Rural v/s urban</i> • <i>Share of women in program beneficiaries</i> • <i>Share of ethnic minorities, differently abled and other marginalized groups with limited service access / Total beneficiaries</i>
<p>Social Impact through Finance (Microfinance)</p> <p>Poverty Alleviation: Household income</p> <p>Asset Ownership: Vehicle, House measured by replacement value</p> <p>Education: Family members enrolled in educational institution</p> <p>Access to Basic Amenities: Internet and mobile communication</p> <p>Finance</p> <p>Access to legitimate power connection</p> <p>Clean Water and sanitation</p>	<ul style="list-style-type: none"> • <i>Growth in average HH income (inflation adjusted)</i> • <i>Number of businesses created</i> • <i>Number of HH members employed</i> • <i>Jobs created (including self-employment)</i> • <i>Growth in key asset ownership by value (inflation adjusted)</i> • <i>Ratio of school enrolled children in family (age 6-18)/ Total number eligible for enrollment</i> • <i>No. of mobile devices in household,</i> • <i>Internet access in household</i> • <i>Access to other loans cultivated after program inclusion</i> • <i>% of households holding registered power connections</i> • <i>Trends (Subjective evaluation depicted as good, adequate or inadequate)</i>

Living conditions, (state of living quarters, health conditions, perceived affordability of medicine and healthcare)	<ul style="list-style-type: none"> • <i>Trends (Subjective evaluation depicted as good, adequate or inadequate)</i>
Social Impact through non-Financial Programs	Tailored to specific Program Objectives

2. Infrastructure Efficacy: 30%

IIRA assesses institutional governance with specific focus on compliance with the principles of Islamic jurisprudence. Central is the SSP's compliance with Shari'ah in terms of vehicles used for financial transactions, exposures, investments and funds raised. In non-financial SSPs, the role of Shari'ah compliant finance is limited, although the social focus inherent in Maqaid-e Shariah continues to be of paramount importance and is assessed in terms of practices institutionalized and fairness in treatment of all stakeholders.

IIRA places strong emphasis on Maqasid-e-Shari'ah, evaluating the protection of livelihoods and lives, and therefore an SSP's adherence to the principles of customer protection is a key concern, enabled through Program structure, transparency of transactions with beneficiaries and quality of interaction with program staff and personnel.

Significant in the same vein, is the transparency enabled to other stakeholders, which would be ascertained by the regular provision of impact and outreach data and key viability indicators. A key expectation from an SSP is its adherence to deploy contributions towards achieving the set mandate. The premise of program viability also pre-conditions sanctity of donors' funds that should mostly comprise registered bodies / entities and have verifiable sources of income, free from any regulatory or other sanctions. The institution shall need to put appropriate checks in place to verify the source of income for donations from individuals/corporates who are contributing towards the cause of SSPs.

The quality and commitment of personnel, work environment and policies governing staff interactions, both within the SSP and externally with beneficiaries, are instrumental for any SSP to achieve its mission. In addition, other resources including the use of technology, and their adequacy is ascertained in relation to the scale of the program.

Beneficiary support enabled through inculcating awareness and business training is evaluated for efficacy and extent of coverage, with implications for long-term sustainability of the program. Given the nature of the target market / beneficiaries, for instance Microfinance-based SSP's support to livelihoods / quality of life is instrumental, to building an infrastructure, which supports growth and program viability and in turn enables achievement of impact goals.

Key segments of Infrastructure Efficacy are:

- Compliance with Shari'ah in product design, operations and Purpose of Finance (chiefly for Microfinance SSPs and also to the extent applicable to non-financial SSPs)

- Dignity of Life (All SSPs)
 - Beneficiary Protection
 - Working conditions of beneficiaries
 - Working Conditions of Staff
- Transparency (All SSPs)
- Effectiveness of controls ensuring avoidance of funds intended for laundering (All SSPs)
- Capacity of Human and Technological Resources Available to enable outreach (All SSPs)
- Beneficiary and Business Training (Microfinance)

3. Program Viability: 25%

Even though, the key focus of IIRA’s assessment is the extent of achievement of social objectives pursued by an SSP, long-term program viability remains a key concern. IIRA’s approach therefore does not place excessive focus on recovery ratios or profitability, rather the assessment criteria is focused on financial viability indicators in relation to sustainable operations, and as such these factors are evaluated within the context of enabling operations in the long-term. The three major evaluation factors are as follows:

Factor	Assessment Criteria
Portfolio Recovery Ratios (MicroFinance only)	<ul style="list-style-type: none"> • <i>Portfolio at risk >30 days / Gross disbursements</i>
Expense Ratios (All SSPs)	<ul style="list-style-type: none"> • <i>ER = Operating Expenses – Depreciation / Operating Income</i> • <i>Average yield-Intermediation cost (for instance, cost per microfinance transaction or cost per beneficiary reached)</i>
Operating Self Sufficiency (All SSPs)	<ul style="list-style-type: none"> • <i>OSS = Operating Income / (Finance expense + Operating Expense + Loan Loss Provision)</i>
Scale and Reliability of Access to External Funds (All SSPs)	<ul style="list-style-type: none"> • <i>Funding lines available</i> • <i>Diversity of fundsources</i> • <i>Donations or subsidies as % of total assets</i>
Liquidity (for SSPs utilizing redeemable capital for funding, usually microfinance)	<ul style="list-style-type: none"> • <i>Matching of expected inflows and outflows, after sensitizing inflows for non-performance</i>

Methodology

The Rating process will involve a review of performance data, financial data and other information related to operations and work processes. This will be supplemented with on-site meetings and interviews of management and key staff. Field visits will also be undertaken in select areas to strengthen the review of programme structure. While the SSP will remain the primary source of data, client surveys will be conducted to further corroborate and standardize data collection related to impact. The size of the sample will depend on scale and dispersion of operations. For social impact assessment, data will be collected from customers/ beneficiaries who have been with the programme/SSP for at least three

years. Impact will be assessed at 5 year and 10 year cycles. Depending on the nature of the SSP programme, the criteria may be further developed for various cycles (including smaller cycles).

Limitations

The availability of data for measuring social impact for financial institutions may pose a challenge and the whole breadth envisaged in this document may not be harvested in each SSP. It may further not be available for the whole length of period indicated in the methodology to be able to yield meaningful evaluation of impact. As such IIRA will require at least 5 of the identified variables for evaluation of SSPs in microfinance and will distribute weights accordingly. For SSPs, not engaged in microfinance at least 3 relevant impact variables will be required to quantify impact. Moreover, shorter cycles may be used, not falling below 3 years.

Final Rating

The final rating assigned takes all key areas into account according to indicated factor weights. In all cases, independent factor assessments (scores) will also be provided to allow for investors / contributors to view each inter-dependent and yet distinct area, independently of final rating. This is expected to not only enhance the transparency of the assigned rating, but also allow decision making on grounds of individual partner objectives and preferences. The rating criteria will be globally uniform to allow for international comparability and acceptance.

Rating Scale

SPI 1: Superior performance in achieving social objectives of the programme and well entrenched practices to ensure continued outperformance.

SPI 2: High level of achievement against social objectives of the programme and a streamlined infrastructure to enable continued good performance.






SPI 3: Largely meeting social objectives of the programme. Minor weakness in programme infrastructure that may hinder continued achievement of objectives.


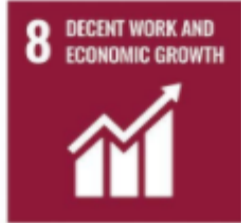



SPI 4: Impact falls short of programme objectives but demonstrates progress. Developing organizational infrastructure which features notable gaps versus standard practices / requirements.

SPI 5: Both the scale and depth of actual impact against objectives is limited. Organizational infrastructure is at an incipient stage of development with significant gaps from requirements.

Annexure – Coverage of UN Sustainable Development Goals

IIRA’s methodology has been developed with a view to assessing a rated programme or entity’s commitment towards Maqasid-e Shari’ah, broadly categorized as safeguarding *faith (deen)*, *lives (nafs)*, *intellect (‘aql)*, *posterity (nasl)*, and *wealth (māl)*. Through various facets of coverage, IIRA’s approach addresses Maqasid Shari’ah and Sustainable Development Goals (SDGs) with the latter deemed well-aligned with and even a subset of the broader Maqasid-e-Shari’ah. Dispensing social responsibility in a manner compatible with principles of Shari’ah compliant Finance is a significant step towards safeguarding of our Faith (deen) as a fundamental objective of Shari’ah. The mapping of Maqasid-e Shari’ah and SDGs with key facets of IIRA’s rating approach is presented below.

Maqasid-e-Shari’ah	SDG Goal	Coverage
<ul style="list-style-type: none"> • Lives • Lineage • Wealth 		<p>Poverty eradication is a key factor covered under the ‘Social Impact’ section of IIRA’s Social Performance Evaluation Approach.</p>
<ul style="list-style-type: none"> • Lives • Lineage • Wealth 		<p>One of the objectives of the rating is to assess the impact of SSP’s in uplifting the community with increased household income. Hence, the level of ‘hunger’ is also assessed via shadow factor of household income.</p>
<ul style="list-style-type: none"> • Lives • Lineage • Wealth 		<p>The assessment of an SSP’s contribution in improving well-being of the community is specifically covered under the ‘Social Impact’ section of the approach.</p>
<ul style="list-style-type: none"> • Lives • Intellect • Lineage • Wealth 		<p>The assessment of SSP’s contribution in improving education of the community is covered specifically under the Social Impact section covering % enrollment of children between 6-18 years of age. There may also be SSPs focused on education which will be evaluated against programme specific indicators.</p>
<ul style="list-style-type: none"> • Lives • Intellect • Lineage • Wealth 		<p>The assessment of SSP’s contribution in improving gender equality is covered under the Social Impact through gender inclusivity indicators.</p>

<ul style="list-style-type: none"> • Lives • Lineage 		<p>The assessment also involves assessment of availability of clean water and sanitation to the beneficiaries.</p>
<ul style="list-style-type: none"> • Lives • Intellect • Wealth 		<p>The methodology assesses factors pertaining to programme quality in terms of safeguarding the dignity of life which addresses employee related matters and working conditions.</p>
<ul style="list-style-type: none"> • Lives • Intellect • Wealth 		<p>By assessing access to education, health, power, housing, internet connection, IIRA's approach evaluates progress towards eradication of inequalities.</p>
<ul style="list-style-type: none"> • Lives • Lineage • Wealth 		<p>Though not directly covered, IIRA's methodology is designed to assess impact of organizations working to improve clean water and sanitation. In developing economies, rural development may also contribute to slowing down the pace of rapid urbanization which large cities are not being able to sustain.</p>
<ul style="list-style-type: none"> • Faith • Lives • Lineage 		<p>Indirectly covered through focus on reducing social inequalities and access to opportunity and resources.</p>
<p>Green Font: Directly covered in the rating methodology Blue Font: Indirectly covered in the rating methodology</p>		