Impact Assessment

METHODOLOGY

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i. MFR – Company Profile and Experience

MFR is a global rating agency, providing assessments, data and technical expertise for the sustainable finance industry. Created in 2000 as a dedicated department of Microfinanza Srl, MFR was spun off as an independent Limited Liability Company in 2006.

> We believe in a transparent and sustainable future, where capital combines with purpose. Our mission is to generate independent opinions for the sustainable finance industry, based on verified information, to foster responsible investments.

Headquartered in Italy, MFR operates through a **network of 5 regional offices** (Ecuador, Mexico, Kenya, Kyrgyz Republic and the Philippines) and 2 country offices (Bolivia and Peru) across 4 continents, boasting the **largest global geographical coverage** among specialized rating agencies.
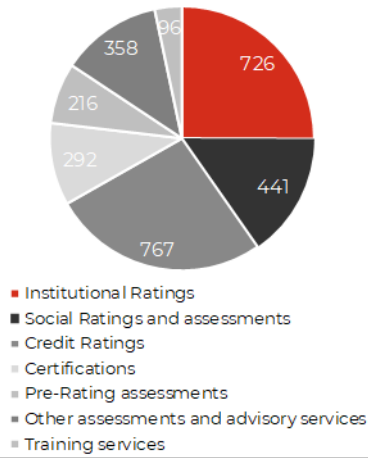
MFR leverages on a well-founded credibility. MFR was the **first specialized rating agency** to be licensed by a Supervisory Authority to carry out mandatory ratings (2007, in Ecuador) and it is currently the **only one to be licenced in 2 countries** (since 2014, also in Bolivia). Over the years, MFR has been accredited by 2 global rating funds (*RF I*) and initiatives (*Rating Initiative*), and a number of regional funds (e.g. *Latin America RF II*, *Moroccan APP*) and initiatives (e.g. *European Jasmine Initiative, EASI*).

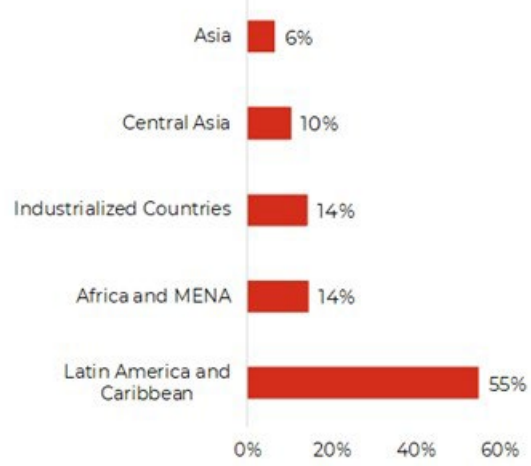| MFR is licensed by	To conduct
Ecuador Regulators (SBS, SEPS & SC)	Credit Rating of regulated financial institutions (FIs) and Issue Rating
Bolivia Regulator (ASFI)	Credit Rating, Social Rating and Issue Rating of regulated FIs
MFR is registered with	**As**
Philippines local central bank	Microfinance Institutions Rating Agency (MIRA)
MFR is accredited by	**To conduct**
Smart Campaign/SPTF+CERISE	Client Protection Certification of FIs
European Commission	European Code of Good Conduct
Truelift	Truelift Assessment of FIs
CERISE+SPTF	SPI4 and SPI4 Alinus Social audits
MFX/DFC	Rating of MSME funds, clean energy (PAYGO) funds, agricultural funds and housing funds
GOGLA	Consumer Protection Assessment of Off-grid Solar Companies

Its credibility and technical expertise are further proven by the **relations and partnerships** established with some of the leading private social investors and fund managers (e.g. responsAbility, OikoCredit, Blue Orchard, Incofin, Triple Jump, Symbiotics, Triodos etc.), DFIs (e.g. KfW, EBRD, EIB, IFC/WB, IFAD, FMO, IADB, UNDP/UNCDF, USAid, OPIC, AfD, CDC Group, etc.), and specialized hedging funds (e.g. TCX, MFX).

As of December 2020, MFR has conducted **2,800+ assignments in 110+ countries worldwide** and hold **>70% of the global market share***.

Product diversification

- Institutional Ratings
- Social Ratings and assessments
- Credit Ratings
- Certifications
- Pre-Rating assessments
- Other assessments and advisory services
- Training services

Global outreach

Region	Percentage
Asia	6%
Central Asia	10%
Industrialized Countries	14%
Africa and MENA	14%
Latin America and Caribbean	55%

*number ratings and certifications conducted by MFR / total number ratings and certifications known to have been conducted by all rating agencies specialized in inclusive finance from 2014 to 2021

ii. Impact Assessment

> The Impact Assessment measures the capacity of an Financial Services Provider (FSP) to generate impact in the lives of its clients, evaluating its impact management systems and impact results.

Why an Impact Assessment

The Impact Assessment can be used by the FSP to strenghten its ability to monitor and report impact indicators, as well as the fulfillment of its social objectives and the theory of change, in order to maximize its impact. More specifically, it allows the FSP to have:

- An assessment of its impact management systems, which may serve as inputs for the FSP to identify the main gaps in the management of its impact in order to improve its impact.
- An analysis of the results with regards to clients reached and the change generated in their lives that are plausibly associated to the services provided by the FSP, to demonstate the impact generated in its clients in line with the theory of change and the Sustainable Development Goals (SDG), ensuring accountability for its investors and other stakeholders.

Advantages of MFR's methodology

- The Impact Assessment is based on the **5 impact dimensions** of the *Impact Management Project* (IMP), considered a common logical framework in the impact investing industry to understand impact.

- The **indicators** used are aligned with the Universal Outcome Indicators defined by the *Social Performance Task Force* (SPTF) and the United Nations Sustainable Development Goals (UN SDGs), also considering the FSP's mission or theory of change.

- The measurement of impact indicators is based on the data available in the FSP's **database** and an **ad-hoc survey to clients**, ensuring the use of complete and reliable information through a longitudinal analysis methodology (observation of the same clients at several points in time) and interview techniques to improve the ability to collect information.

- The results are compared with national and international statistics, and with MFR's internal **benchmark** through the ATLAS[1] platform.

- MFR uses its **own Impact Assessment tool** to produce a comprehensive report that includes graphs, tables, and statistical analysis (impact at micro level, regressions, correlations, confidence levels, amongst others) for each impact category.

- The result of the Impact Assessment includes an **Impact Score** based on a scale from 1 (least impact) to 5 (greatest impact), representing the probability of generating a positive impact in the clients' lives, allowing for a comparison between the different FSPs. Furthermore, the impact results in terms of outreach and change are compared with an internal benchmark.

Definition of impact

According to the Impact Management Project (IMP), "Impact is a change in an outcome caused by an organisation. An impact can be positive or negative, intended or unintended." In line with the *Social Performance Task Force* (SPTF) and the *Consultative Group to Assist the Poor* (CGAP), MFR has adopted a definition of impact centered on the concept of "well-being" as the main objective sought by vulnerable populations.

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[1] ATLAS is a platform that encompasses validated financial and social performance data form more then 3,500 FSP in 138 countries

In this sense, the Impact Assessment is based on the following definition of impact: "the change generated by an FSP in the lives of its clients, whether positive or negative, voluntary or involuntary, with regards to their business, household, resilience level and Access to health."

Impact management diagnostic

The methodology used for the FSP's impact management diagnostic is based on the 5 impact dimensions of the *Impact Management Project* (IMP), considering they represent a common logic to understand impact. In this section of the report, impact management systems will be analysed based on the "what", "who", "how much", "contribution" and "risk" to identify gaps and provide the FSP with inputs to improve its impact measurement and results.

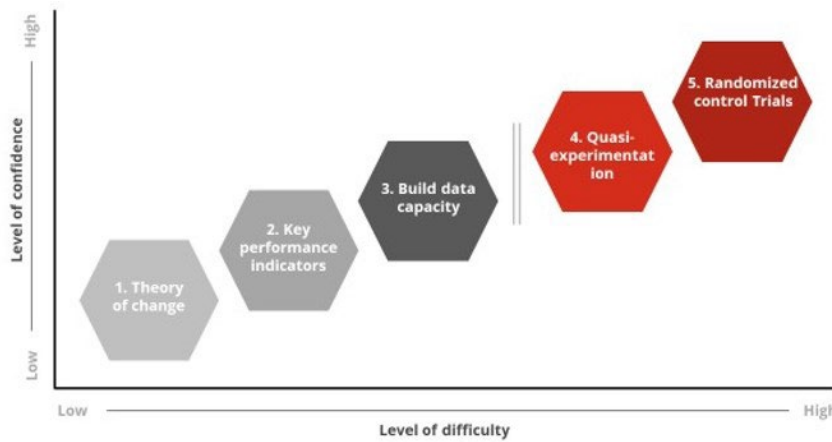| DIMENSION	RELEVANT QUESTIONS
☐ **What**	• What results or effects are expected from an intervention, whether positive or negative, and how important are they to the targeted groups.
○ **Who**	• Who are the targeted groups affected and how underserved are they with respect to the expected effect?
≣ **How much**	• How large is the effect in the targeted groups (scale, depth and duration of the effect)?
╪ **Contribution**	• How does the effect in the targeted groups compare with what would have occured anyway, without the intervention of the entity?
△ **Risk**	• What are the risks that the effect on the targeted group is different than the one expected?

Impact results

The analysis of the impact results focuses on the FSP's borrowers, and the assessment can be targeted specifically to a client segment (e.g. micro - borrowers). The first section analyzes the FSP's breadth of outreach and the breadth of outreach in terms of the socioeconomic profile of the clients reached; this analysis is necessary to define how many people the FSP is impacting, as well as the vulnerability of the targeted population. The second section assesses the change generated in the lives of the FSP's clients, as well as the possible contribution of the FSP in generating this change. When available,

the results are compared with the national and international statistics, and with MFR's internal benchmark throught the ATLAS platform.
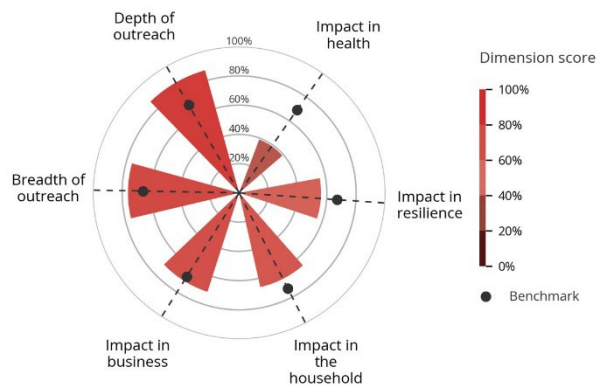
The following table presents the main indicators by impact category; the selection of indicators may vary in consideration of the specificities of the FSP and its clients. Moreover, additional indicators will be analyzed depending on the availability of relevant data in the FSP's MIS and client database.

CATEGORY	INDICATOR
Category 1 Business	• % who report ↑↓→ in business revenue in the last 3 years due to the FSP's services • % who report ↑↓→ in business assets in the last 3 years due to the FSP's services • % who report having invested in an important asset for their business due to the FSP's services • % who report ↑↓→ # of wage workers in the financed business in the last 3 years due to FSP's services • % who report ↑↓→ in their ability to succeed in their business due to the FSP's services • % of women who report having used the FSP's loan for their own economic activity • % of women who report ↑↓→ in their level of participation in decision-making regarding the use of household or business resources due to the FSP's services • % who report having had access to their first formal loan for their business thanks to the FSP
Category 2 Household	• % who report ↑↓→ in household income in the last 3 years due to the FSP's services • % who report having made a major improvement to their home thanks to the FSP's services • % who report having acquired a key asset for their household thanks to the FSP's services • % who report ↑↓→ in their ability to pay for their children's education-related expenses due to the FSP's services • % who report ↑↓→ in the frequency of their children attending school due to the FSP's services
Category 3 Resilience	• % who report ↑↓→ in their level of savings due to the FSP's services • % who report having access to insurance, remittances or emergency loan services with the FSP • % who report ↑↓→ in their ability to manage shocks due to the FSP's services • % who report ↑↓→ in the stability or number of their sources of income due to the FSP's services • % who report ↑↓→ in their perception of the future due to the FSP's services • % who report having had access to a training program with the FSP
Category 4 Health	• % who report ↑↓→ in their access to preventive health services due to the FSP's services • % who report ↑↓→ in their ability to pay for health-related expenses due to the FSP's services • % who report ↑↓→ in the quantity and quality of their food intake due to the FSP's services • % who report an improvement in their household sanitation system thanks to the FSP's services • % who report an improvement in their household's access to safe drinking water thanks to the FSP's services • % who report to be using a more efficient and cleaner source of energy for cooking thanks to the FSP's services • % who perceive ↑↓→ in their quality of life due to the FSP's services

It is important to ention that MFR's measurement methodology focuses on the first three steps of the *Sorensen Impact Center*'s Spectum of Impact Measurement.

Based on the four impact categories mentioned previously and the FSP's theory of change, MFR defines indicators of change and generates data for their analysis, in line with SPTF's Harmonized Social Outcome Indicators. The generation of data is based on primary data (surveys carried out to a representative sample of the FSP's clients) as well as secondary data (information from the FSP's MIS and database at the cut-off date and 3 years prior to measure the change). On the other hand, due to the complexity and costs involved in the last two steps of the Spectrum of Impact Measurement, quasi-experimental evaluations or ramdomized control trials are carried out as part of the Impact Assessment.

Sampling and survey impementation methodology

The survey is carried out to a representative sample of 180 active borrowers that have been clients of the FSP for at least 3 years.

Definition of the sample size
MFR uses the Cochran formula, based on the binomial theorem, to calculate the sample size:

$$n_0 = \frac{z^2 p(1-p)}{e^2}$$

Where the sample (n_0) is determined using a 95% confidence level (z=1.96), ±7.3% margin of error (e=0.05), and a conservative estimate for the population variability (p=0.5), yielding a sample of 180 clients. **n**= sample size; **z**= the desidered level of confidence; **p**= expected degree of variability; **e** = margin of error.

Selection of the sample

MFR uses a two-stage cluster sampling methodology to obtain a sample of clients for the implementation of the survey. The first stage of the sampling process involves the definition and selection of clusters that are representative of the borrower population. In the second stage of sampling, clients are randomly selected to reach the required sample size (n=180) using a random stratified approach.

Implementation of the survey

The survey can be implemented by the FSP's staff or by an external survey services provider through telephone or face-to-face interviews. In order to reduce the risk of bias, the FSP's staff in charge of implementing the survey cannot have had a direct relationship with the selected clients prior to this process. To guarantee the quality of the process, MFR trains the interviewers with respect to the process and the survey to be implemented and monitors the implementation of the survey daily, including a review of each completed survey.

Impact Assessment scale

The impact grade resulting from the Impact Assessment is based on the following scale:

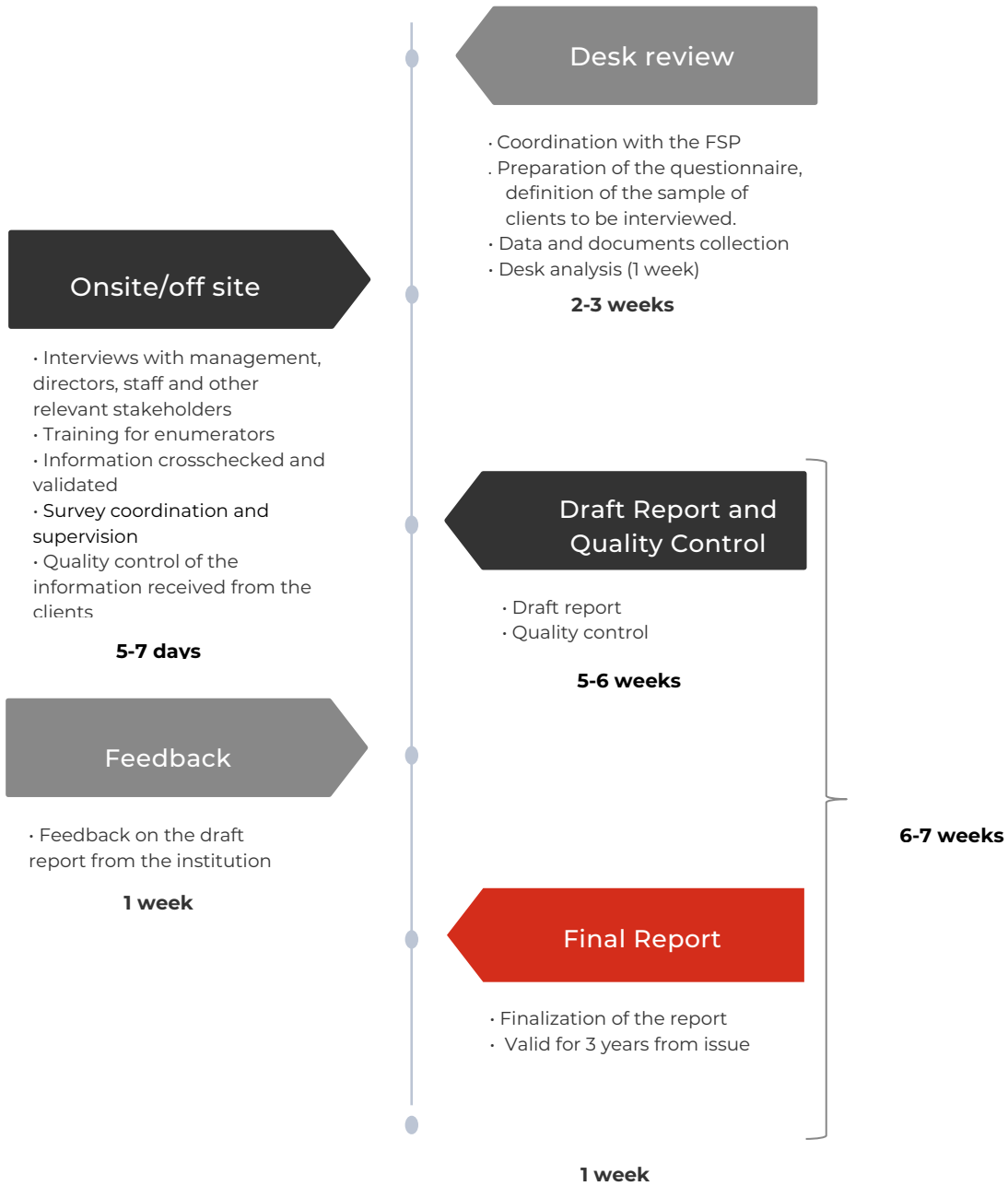| Impact Assessment Scale	
5	Very high probability of making a positive impact on the lives of the clients. Excellent alignment of impact results with the mission and theory of change.
4	High probability of making a positive impact on the lives of the clients. Good alignment of impact results with the mission and theory of change.
3	Probability to generate a positive impact on the lives of the clients. Adequate alignment of impact results with the mission and theory of change.
2	Limited probability of making a positive impact on the lives of the clients. Moderate alignment of impact results with the mission and theory of change.
1	Low probability of making a positive impact on the lives of the clients. Impact results not aligned with the mission and theory of change.

Add on: Road Map to build an Impact Measurement System

Based on the impact assessment results and identification of priority areas for improvement, the Impact Assessment Roadmap provides FSPs with guidance remarks on how to define impact indicators and improve their impact measurement system.

The guidelines to improve can be added as an optional module of the Impact Assessment.

- The **guidelines to improve** provides **tailored recommendations** and features: a participatory elaboration of the plan, interaction with the institution to identify the priority areas to improve and the actions to implement to achieve the preferred solutions.

- The guidelines to improve will mainly focus on: i) identification of gaps in terms of implementation of impact measurement and monitoring systems, ii) support to define, as needed, social goals/terms/indicators/targets and iii) reporting on Impact.

vi. Implementation timeline and work plan

Desk review

· Coordination with the FSP
. Preparation of the questionnaire,
  definition of the sample of
  clients to be interviewed.
· Data and documents collection
· Desk analysis (1 week)

2-3 weeks

Onsite/off site

· Interviews with management,
directors, staff and other
relevant stakeholders
· Training for enumerators
· Information crosschecked and
validated
· Survey coordination and
supervision
· Quality control of the
information received from the
clients

5-7 days

**Draft Report and
Quality Control**

· Draft report
· Quality control

5-6 weeks

6-7 weeks

Feedback

· Feedback on the draft
report from the institution

1 week

Final Report

· Finalization of the report
· Valid for 3 years from issue

1 week