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MicroNOTE

The State of Social Audits in Microfinance Industry of Pakistan

By Saba Abbas

ACKNOWLEDGMENTS

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BACKGROUND AND OBJECTIVE

Over the past few years, the changing face of Pakistan's microfinance landscape has been characterized by increased attention to the social responsibility management of microfinance providers (MFPs). Recent industry trends show an organized effort to define social performance (SP) and address concerns about its measurement and management. This has brought about an industry-wide realization that an MFP's processes, practices and products need to be actively targeted towards achieving its social vision and social objectives. Therefore, just as financial audits are conducted to assess the financial performance of an organization, the practice of "social auditing" is being increasingly adopted as the primary diagnostic tool for assessing social performance of microfinance institutions.

This micronote documents and consolidates findings from seven social audits of Pakistan Microfinance Network's member providers, conducted over a period of two years (between 2016 - 2018).

For the participating MFPs, these audits provided them with an opportunity to gauge their internal processes against their purported social goals and in comparison, to the globally accepted standards of social performance management. Following the audits, detailed action plans were developed for each participating MFP, charting a list of actionable items to help them plug in the gaps found in their policies, procedures and practices and further strengthen their journey towards achieving the double bottom line.

INTRODUCTION

What is a Social Audit?

A social audit can broadly be defined as a process that enables anorganization to assess its performance in terms of its intended social, economic and environmental benefits. It is an instrument of social accountability, measuring the extent to which an organization lives up to the shared values and objectives it has committed itself to.[1]

As opposed to a conventional financial audit which focuses on the financial records of an organization, a social audit is more comprehensive in nature, and intends to assess the nonfinancial objectives of an organization, measuring and improving the social performance and impact on its activities.[2]

Social auditing is also distinct from a financial evaluation in that it is an internally generated process whereby the organization itself decides the scope of the audit according to its stated objectives. Usually, it aims to involve all stakeholders in the process, including employees, clients, volunteers, funders, contractors and suppliers.

History and Evolution of Social Audits

The concept of social audits was coined by Charles Medawar in 1972, when he applied the idea to the field of medicine policy, drug safety issues and on matters of corporate, governmental and professional accountability.[3] The first recorded example of a social audit methodology dates back to 1978 in the form of a social audit manual prepared at the Beechwood College (an independent worker cooperative training center in England).

Since then, the concept of social audit has evolved and taken root in public as well as the private sector. Corporate groups have taken up the social audit as a tool for monitoring and reporting their contribution to the society and communities, supplementing their market and financial performance. On the other hand, it can also be used as a tool to provide critical inputs and to correctly assess the impact of government and NGO activities on the social well-being of the citizens, assess the social costs and measure the social benefits accrued as a result of any program's implementation.

Principles of a Social Audit

Social audits around the world, while different in their methodology and the type of indicators they use, are unified and guided by **eight key principles.** [4]

[1] Social Audit Toolkit: A Guide for Performance Improvement and Outcome Measurement, Retrieved from:
http://unpan1.un.org/intradoc/groups/public/documents/cgg/unpan023752.pdf

Figure 1: Principles of Social Audits

1. **Multi-perspective:** Holistic in the sense that aims to capture voices of all stakeholders involved or affected by the organizations' activities.
2. **Comprehensive:** Comprehensive by design, taking into account all aspects/departments of organization's work and performance.
3. **Participatory:** Encourages participation of different tiers of stakeholders so as not to fall in the danger of a single story.
4. **Multidirectional:** Stakeholders are engaged on multiple facets of a single activity/project of the organization.
5. **Regular:** Social audits should not be taken as a one off activity but should be made part of regular monitoring and assessment protocols of an organization.
6. **Comparative:** Provides a means whereby the organization can compare its own performance each year and against appropriate external norms or benchmarks; and provide for comparisons.
7. **Verified:** Social audit should be done by an objective third-party with no vested interest in the organization.
8. **Disclosed:** Ensures that the audited accounts are disclosed to stakeholders and the widercommunity in the interests of accountability and transparency.

SOCIAL AUDITS IN THE WORLD OF MICROFINANCE

Although developed outside of the microfinance sector, the general concept and methodology of the social audit is equally appropriate and relevant for the microfinance industry. Considering the developmental origins of microfinance and the fact that it caters to low-income populations, characterized by low literacy and high vulnerability indices, it is pertinent that the social and environmental impact of microfinance institutions be kept in check. Additionally, most microfinance providers espouse a social mission. For example, along with providing financial services to specific target markets, they also aim to broaden access to finance, reduce poverty, empower women and/or educate youth/ adults. This calls for a need to assess and monitor an MFP's social performance in addition to its financial health.

[2] Social Performance Map, 2008 by SEEP Network Social Performance Working Group, Retrieved from: http://www.setoolbelt.org/resources/835

[3] Social Audit Toolkit: A Guide for Performance Improvement and Outcome Measurement

[4] Social Audit Toolkit: A Guide for Performance Improvement and Outcome Measurement

Over the past decade, momentum has been building for such a global movement – to make microfinance a socially and environmentally responsible sector, moving towards triple bottom line. The need for this was highlighted multiple times as evidenced by delinquency crises in many microfinance markets across the world, from Nicaragua to India, including delinquency pockets witnessed in parts of Pakistan during 2008.

The Social Performance Task Force (SPTF) defines social performance as "the effective translation of an institution's social mission into practice in line with accepted social values". In 2012, the SPTF launched the first version of the Universal Standards for Social Performance Management (USSPM), a comprehensive manual of best practices for MFPs to monitor and institutionalize social goals. The Standards enable MFPs around the globe to refocus and compare their performance on social objectives to stipulated essential practices, reinvigorating efforts to strengthen their social performance management systems.

Figure 2: Universal Standards of Social Performance Management

USSPM, a set of 6 standards, has since then become, the foundation stone of various monitoring and assessment tools (Figure 2), most common of them being the Social Rating Tool developed by USAID in collaboration with Chemonics and the Social Performance Indicators (SPI) tool developed by CERISE.

USAID Social Rating Tool

The USAID social rating tool (SRT) uses a process auditing approach, assessing six internal processes to evaluate an MFI's social performance; (1) mission statement and management leadership, (2) strategic planning, (3) customer service, (4) monitoring systems, (5) recruitment and training, and (6) incentive systems.

The process audit is based on the assumption that robustness of internal processes can be considered a reliable proxy for actual social performance on ground.

A social rating, though a standardized tool, is limited in the aspects of an organization it evaluates. Additionally, it is targeted more so for socially responsible investors and donors rather than towards other stakeholders of an MFP (employees, clients). Although the board and management may use the report findings to identify strengths and gaps in its operation, that is not primary purpose of a rating. Additionally, a social rating is not a collaborative exercise. Owing to time and scope limitations, involvement of management remains minimum, calling for a more multi-perspective and comprehensive evaluation.[5]

CERISE SPI Tool

In comparison to USAID SRT, the Social Performance Indicators (SPI) tool created by CERISE is a comprehensive instrument, assessing the social performance of microfinance providers by evaluating their intentions as well as their actions. Published for the first time in 2001, currently the 4th version of tool is available on CERISE website, for free.

The SPI tool is a simplified tool to be used by any MFP for self-assessment. However, if the findings are to be shared with external stakeholders, the audit ought to be conducted by a CERISE certified social auditor. The auditor can be someone from the MFI's affiliate network specialized in social performance and familiar with the SPI tool.

Audit Methodology

Based on the Universal Standards of Social Performance Management (USSPM), the SPI4 is a tool comprising of 160 indicators, gauging an organization's processes along 19 standards grouped under 6 dimensions laid down in USSPM (Figure 3).

Figure 3: USSPM Dimensions and Standards

DIM 1: Define and monitor social goals	DIM 2: Committment to social goals	DIM 3: Design products that meet clients' needs	DIM 4: Treat clients responsibly	DIM 5: Treat employees responsibly	DIM 6: Balance social and financial performance
• Social Strategy • Reporting of clients level data	• Board accountability • Senior management accountability • Staff accountability	• Clients needs and preferences • Benefits to clients	• Prevention of over-indebtedness • Transparency • Fair and respectful treatment of clients • Privacy of clients data • Mechanisms of complaint resolution	• HR Policy • Communication of terms of employment • Employee satisfaction	• Board accountability • Senior management accountability • Staff accountability

The audit can be conducted employing two distinct approaches;

1. Centralized approach is a narrow process with the auditor involving only the management during implementation phase.

2. Participatory approach is more comprehensive in nature as it involves various tiers of MFP stakeholders (board, senior management, branch management, various departments and even clients). The participatory approach has many advantages, as the assessment tends to be more reflective of ground realities since each aspect of the organization is analyzed from multiple focal points.

[5] USAID Micronote 36: From Social Rating to Social Audit, Retrieved from: https://www.microfinancegateway.org/sites/default/files/mfg-en-paper-from-social-rating-to-social-auditing-jan-2008.pdf

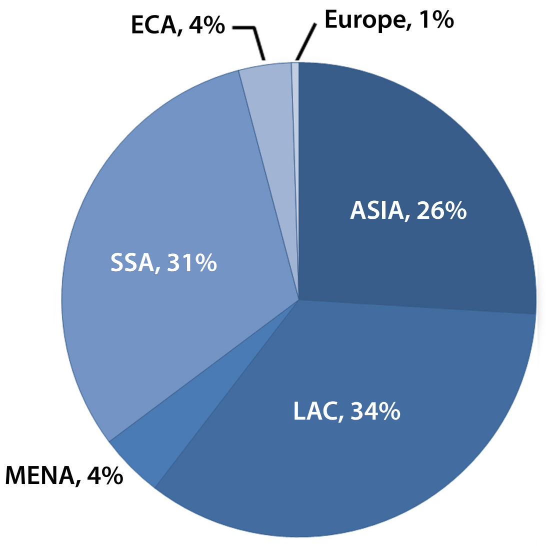
SPI4 TOOL USAGE AROUND THE WORLD [6]

The SPI4 tool is perhaps the most widely used tool for social performance assessment in the world of microfinance. As of April, 2018, 520 audits have been completed from 88 countries around the world. Of the 520 completed questionnaires, 69 percent were accompanied self-assessments.

SPI4 by Region

The SPI4 audits/assessments were found to be most common in Latin America (with 34% of the total audits) followed by Sub-Saharan Africa (with 31% of total audits). Asia was the third highest user of SPI4 with 26% of total audits conducted by April 2018.

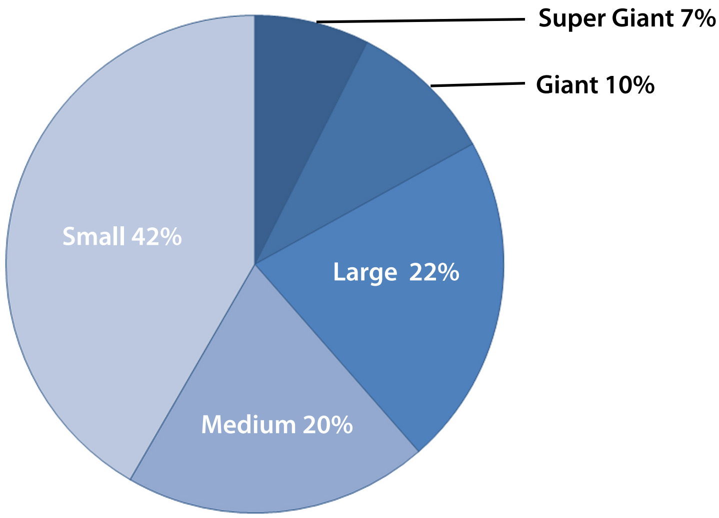
Figure 4: SPI4 usage by geographical region



SPI4 by size

An analysis of the completed assessments by size of the organization shows that the SPI tool is used the most by small and medium sized organizations.

Figure 5: SPI4 usage by MFP size

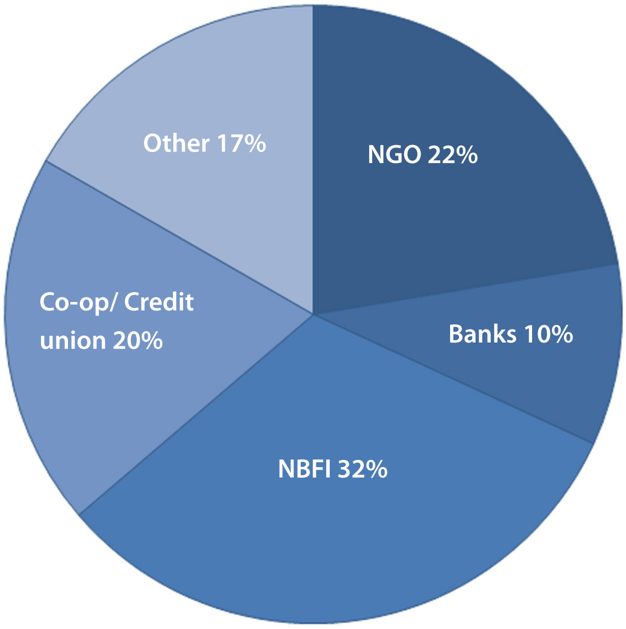


[6] CERISE Benchmarking Report, April 2018, Retrieved from: http://www.cerise-spi4.org/benchmarking/

SPI4 by legal form

While categorizing by legal forms, 54 percent of the MFPs undergoing SPI4 assessment were Non-bank MFIs and NGOs as compared to only 10 percent of the banks participating in the audits. This could be attributed to the fact that most banks are opting for the SMART Certification, as discussed in Box 1.

Figure 6: SPI4 usage by legal form



SPI4 AUDITS IN PAKISTAN

SPI audits, although, are an acknowledged assessment instrument in the microfinance industry for almost last two decades, they were formally introduced in Pakistan's industry about 3 years ago by Pakistan Microfinance Network. In a span of two years, PMN has completed 7 social audits in Pakistan.

This report documents the findings of the 7 audits conducted by PMN for MFPs in Pakistan all of which were Non-bank Microfinance Institutions (NBMFIs)*. In terms of the number of clients, these 7 MFPs constitute approximately 26 percent of the market and in terms of gross loan portfolio approximately 15 percent [7] . The data set excludes one earlier audit conducted at the beginning of the project period, as another follow-up audit of the same organization was conducted later, which has been made part of the analysis.

[7] PMN Statistics as of April, 2018

Box 1

Social Audits Vs Smart Certifications

While NBMFIs in Pakistan have opted to undergo Social Audit, Microfinance Banks are choosing to go through Smart Certification.

Smart Certification is an independent, third-party evaluation to publicly recognize the financial institutions that meet the adequate standards laid down in microfinance industry's Client Protection Principles (CPPs).

Client Protection Principles are;

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

While the Social Audits comprehensively gauges an organization's processes on all aspects of social performances including CPPs, a Smart Certification is an in-depth evaluation of just the client centricity of an MFP's processes, products and services. In other words, a Smart Certification can be considered as an incomplete subset of a Social Audit (not a complete subset, as Social Audits does not cover all the indicators employed in a Smart Certification).

So far 5 Pakistani MFPs have successfully received Smart Certification, 4 of whom are large-sized banks and one is a large sized NBMFI. MFBs and large NBMFIs' preference for Smart Certification and small and medium MFPs choosing social audits can be attributed to following differences between the two;

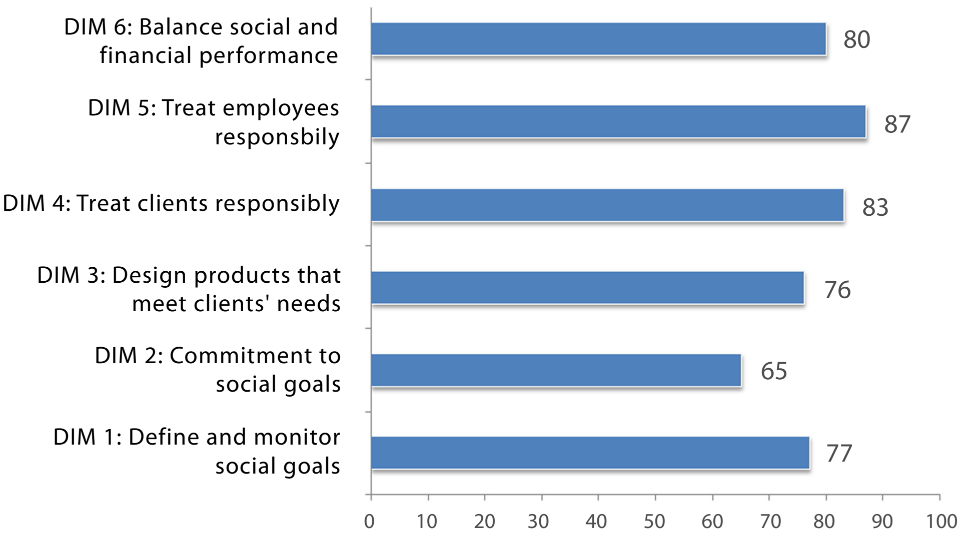
	Smart Certification	Social Audit
International Recognition	Smart Certification is an international seal of recognition, verifying that an MFP complies fully with the CPPs.	Social Audits, while conducted on a standardized methodology, remains an internal assessment whose findings may or may not be shared with the wider public. MFPs get audited to assess their strengths and weaknesses vis-à-vis USSPM and benchmark themselves against their peers.
Capacity	Smart Certification is a rigorous evaluation with a high passing score and generally larger institutions have the capacity to implement sophisticated protocols for CPPs, giving them the confidence to apply and pass the assessment leading to certification.	Social Audit is an internal assessment and does not entail a passing score, so any MFP at any level of capacity can get audited to capture their performance.
Cost	Smart Certification involves higher cost as it involves engaging international consultants owing to absence of an accredited certifier in the country.	Social Audit cost range makes it more affordable for the MFPs in Pakistan since local certified auditors are engaged.

CONSOLIDATED INDUSTRY RESULTS ON SOCIAL PERFORMANCE

This in-depth look at the consolidated results of social audits in Pakistan is reflective of a growing focus towards social performance management among the MFPs in Pakistan.

Overall, a tremendously positive trend of socially responsible processes was witnessed across the assessed MFPs. However, a need for greater level of awareness and advocacy on certain dimensions of USSPM was also felt. The overall compliance levels on SPI indicators for the sector are given in Figure 7

Figure 7: Overall compliance to USSPM by Pakistan's Microfinance Sector

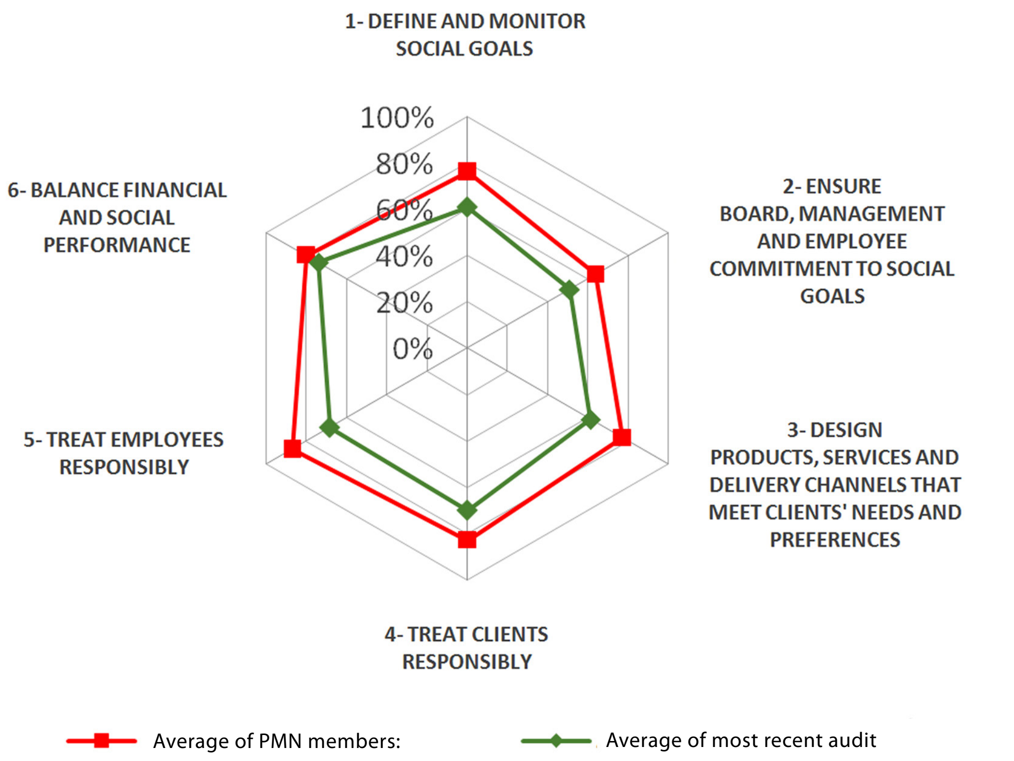


As depicted in the figure above, Pakistan's MFPs performed well in Dimension 4, 5 and 6, showcasing robust mechanisms for client protection, good human resource management and overall balancing of financial and social goals (with a score of 83, 87 and 80 percent compliance respectively). However, compliance score of 77 and 76 percent on Dimension 1 (Define and Monitor Social Goals) and Dimension 3 (Design products that meet clients' needs) points towards greater need to work on institutionalizing the meaning of social performance across various levels of an organization. Average compliance score on Dimension 2 i.e. commitment to social goals was found out to be the weakest at 65 percent, highlighting the need for the majority of MFPs to improve practices in this regard.

When benchmarked against the social audits results from around the world, Pakistani MFPs' performance on USSPM was found out to be very strong (Figure 8) [8] , surpassing global averages on each dimension by a margin of 10 percent or more.

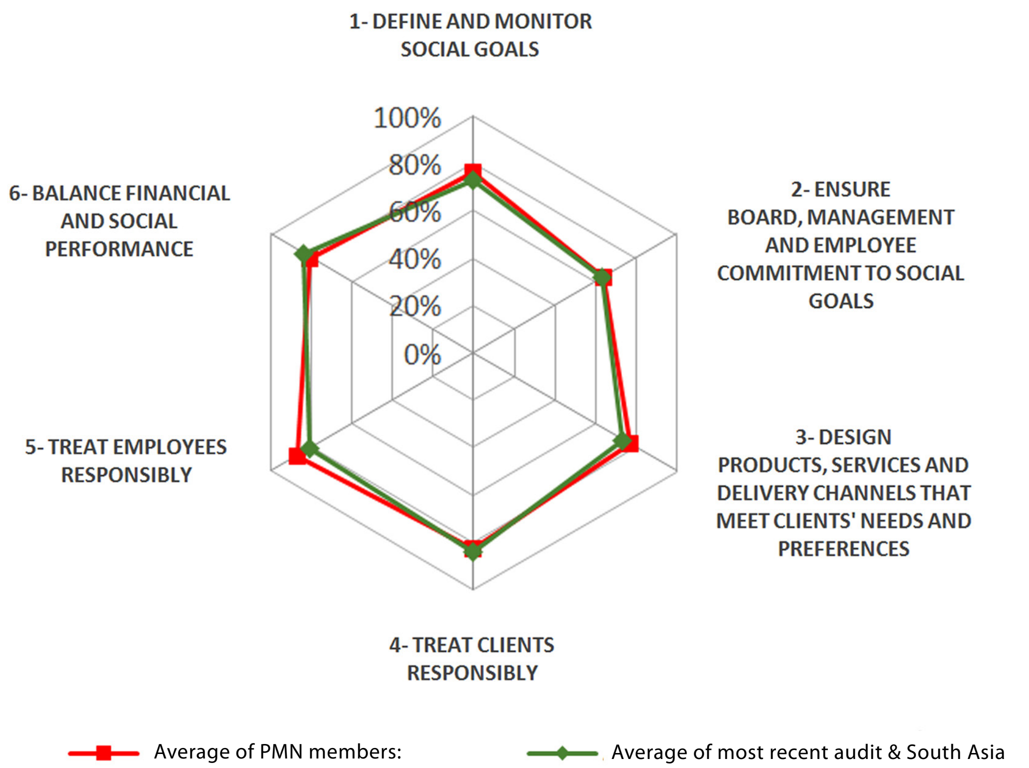
[8] CERISE benchmarking report – CERISE database N= 269

Figure 8: PMN Members benchmarked against global averages



When benchmarked against South Asian counterparts, audit scores from Pakistani MFPs fell on average line for most of the dimensions (Figure 9). Results for Dimension 4 and Dimension 6, however, were found to be slightly lower than the regional averages.

Figure 9: PMN Members benchmarked against regional averages



Results by Dimension

In this section, we take a deeper look into each of the dimensions in turn to highlight common areas of strength and gaps in the MFPs' practices.

Areas of strength

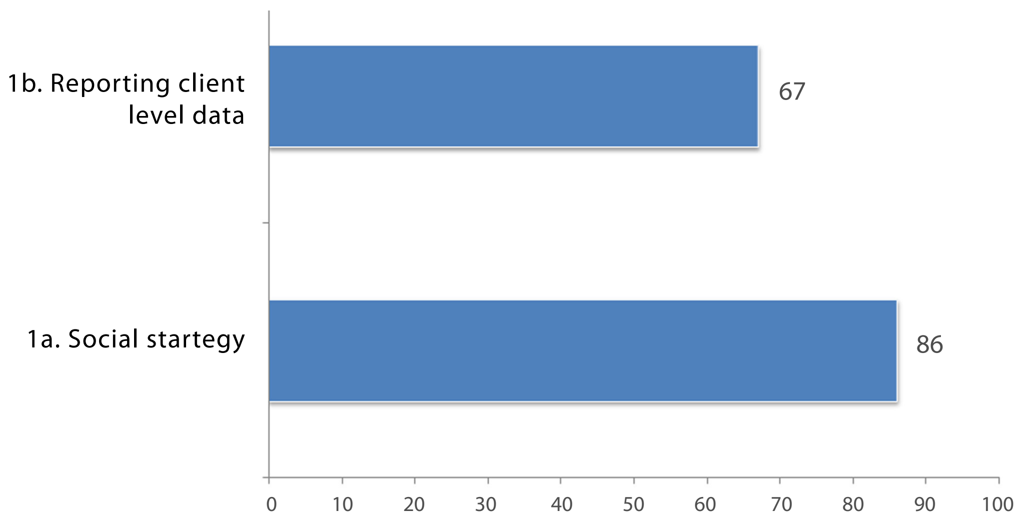
The MFPs in our dataset exhibit relatively strong practices for Dimension 1 (Define and monitor social goals), Dimension 4 (Treat clients responsibly), Dimension 5 (Treat employees responsibly) and Dimension 6 (Balance financial and social performance). Looking at each of these in detail:

Dimension 1: Define and Monitor Social Goals

The MFPs in our dataset demonstrate relatively robust practices for the Dimension 1 – Define and monitor social goals by scoring an average of 75 percent on compliance scale. Dimension 1 is further categorized into two standards;

- 1a. The provider has a strategy to achieve its social goals.
- 1b. The provider collects and discloses accurate client data specific to its social goals.

Figure 10: MFPs' overall compliance to Dimension 1 - Define and Monitor Social Goals



The participating MFPs showcased strong performance in Standard 1a, meaning that they have their strategy streamlined as far their social objectives are concerned, with their social mission, target clients and measurable outcomes charted out in the business strategy documents (compliance score of 86 percent). However, when measuring and reporting data on client specific indicators is concerned, the performance lags behind as depicted by a low score in Standard 1b(67 percent). This can be attributed to a lack of properly defined indicators and formal data collection systems at the MFPs. It was found that since social performance data is not institutionalized as part of the data collection mechanisms, often it gets omitted from formal reporting line to senior management, board and external stakeholders as well.

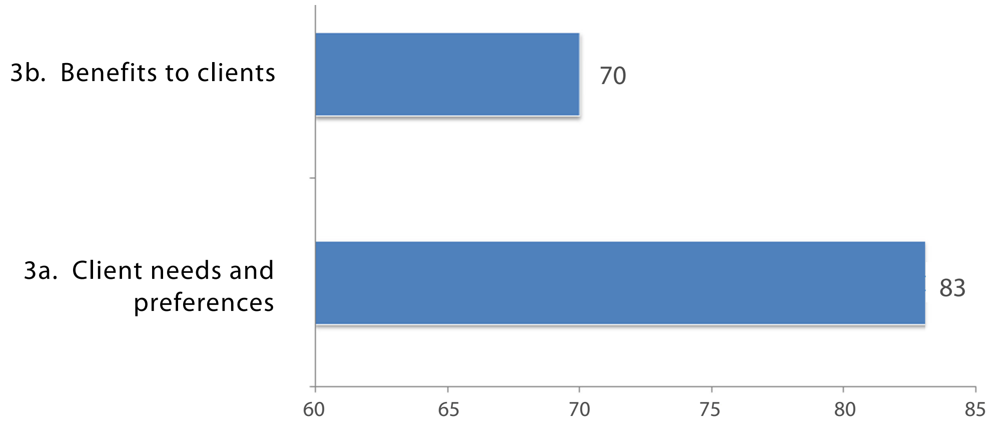
Dimension 3 – Design products that meet clients' needs

The audited MFPs depicted moderately well performance on dimension 3, with a score of 76 percent.

Dimension 3 is categorized into following standards;

- 3a. The provider understand the needs and preferences of different types of clients.
- 3b. The provider's products, services and delivery channels are designed to benefit clients, in line with the provider's social goal.

Figure 11: MFPs' overall compliance to Dimension 3 - Design products that meet clients' needs



Audited MFPs showed strong performance on standard 3a, meaning that MFPs are conducting research regarding clients' needs and preferences pertaining to products as well as the delivery channels. In addition to market research, client satisfaction surveys were found out to be a regular occurrence at most of the MFPs, entailing that the providers are attuned to clients' voices.

Low scores for Standard 3b can be attributed to lack of diversity in the products currently being offered in the market. Most of the MFPs are only offering simple credit products with basic credit life insurance to the target market. Majority of the credit products are also limited to income generating activities only. While NBMFIs, as per regulations, cannot extend savings products, there is much to be done in terms of designing and offering various kinds of loan products (emergency loans, education loans, health loans) as well as insurance products, catering to the complete set of client needs.

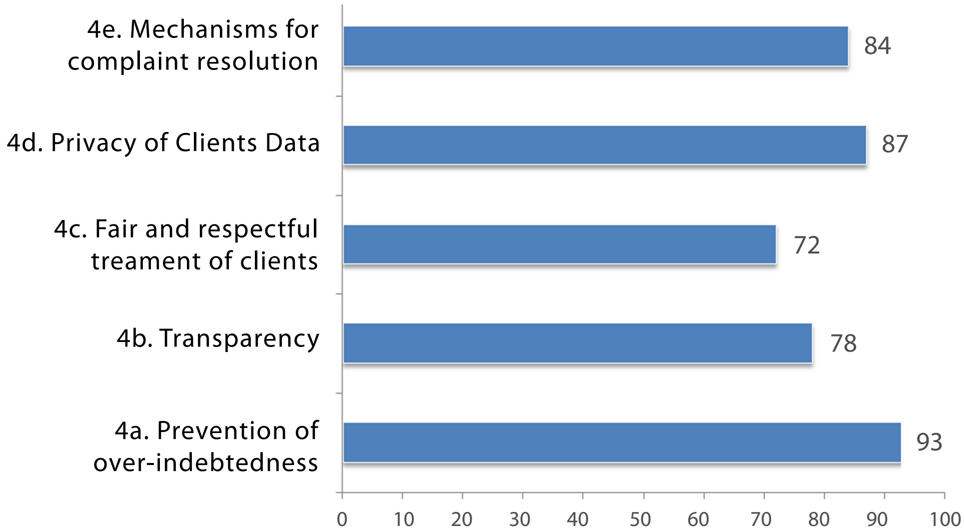
Dimension 4: Treat clients responsibly

Adherence to Dimension 4 was found out to be second strongest among the participating MFPs with an average compliance score of 81 percent.

Dimension 4 is further subcategorized into 5 standards;

- 4a. Prevention of over-indebtedness.
- 4b. Transparency.
- 4c. Fair and respectful treatment of clients.
- 4d. Privacy of Clients Data.
- 4e. Mechanisms for complaint resolution.

Figure 12: MFP's overall compliance to Dimension 4 - Treat clients responsibly



The audited MFPS performed well in 3 out of 5 standards, depicting robust mechanisms in place for prevention of over-indebtedness (compliance score of 93 percent), privacy of client data (compliance score of 87 percent) and complaint resolution (compliance score of 84 percent). Most of the MFPs had proper protocols in place for loan approval system and documentation handling to ensure that clients' data is well-protected and they are given loans as per their need and within their capacity. Majority of NBMFIs are consulting Microfinance Credit Information Bureau (MF-CIB) to do credit checks on potential clients, ensuring that they do not borrow beyond their financial capacity.

For Standard 4b, which necessitates providers to communicate terms and conditions of the product to clients in a transparent manner, the average compliance score came out to be 78 percent. The relatively lower score can be attributed to the fact that in the Pakistani context, copies of loan contracts are not given to the clients in order to keep the cost at its minimum. This leads to local MFPs falling short of international best practices.

Standard 4c, which calls for fair and respectful treatment of clients, had the lowest score (72 percent) in dimension 4. While most of the MFPs had formal training regimens with modules on fair treatment for their branch staff in place, the reports of misconduct are not formally tied to performance appraisal of branch staff for most of the MFPs, leading to lower score in this regard.

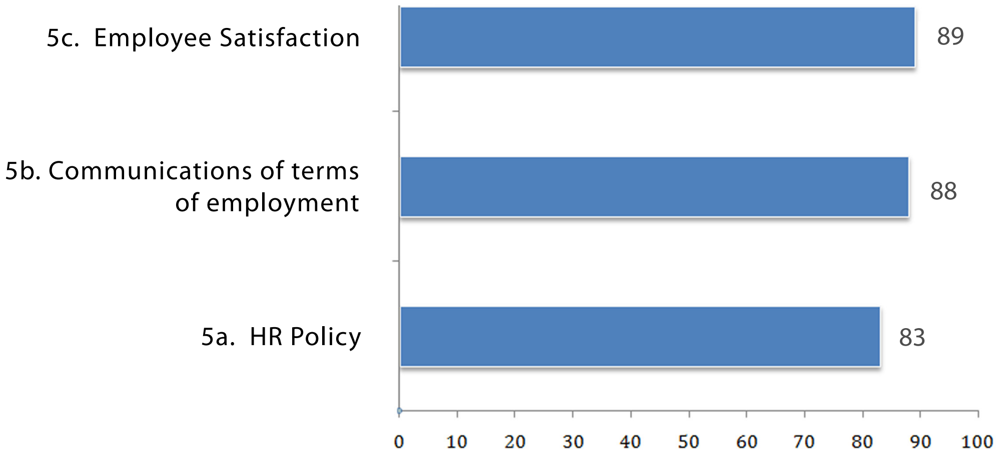
Dimension 5 – Treating employees responsibly

Dimension 5 came out to be the strongest among the USSPM with an average compliance score of 85 percent.

Dimension 5 is categorized into following 3 Standards;

- 5a. The provider follows a written Human Resource policy that protects employees and creates a supportive working environment.
- 5b. The provider communicates to all employees the terms of their employment and provides training for essential jobs functions.
- 5c. The provider monitors employee satisfaction and turnover.

Figure 13: MFPs' overall compliance to Dimension 5 - Treat employees responsibly



As depicted by Figure 10, performance of the audited MFPs was considerably strong on all three standards, showcasing robust human resource management mechanism protocols, taking care of employee satisfaction and turnover.

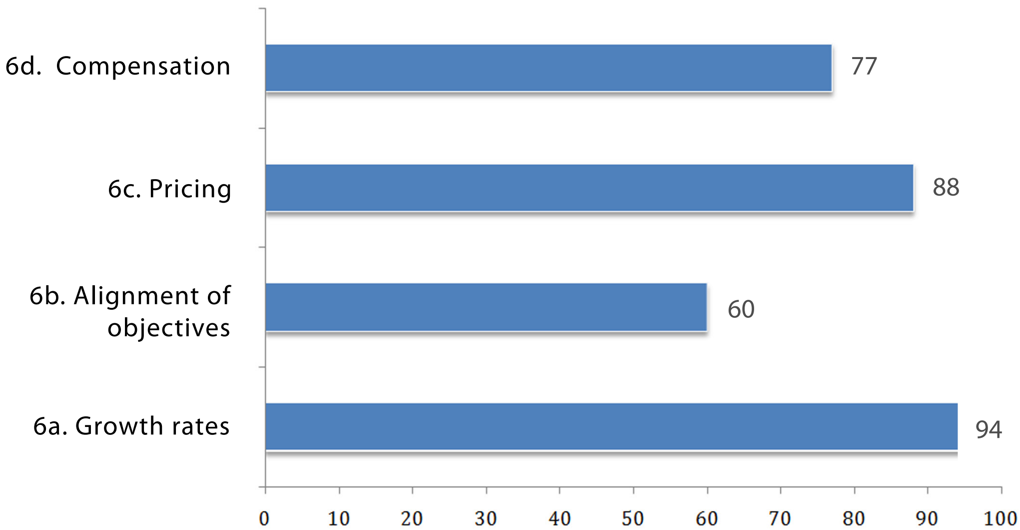
Dimension 6 – Balance social and financial performance

Audited MFPs performed moderately well on Dimension 6 – Balancing social and financial performance with a compliance score of 77 percent, showcasing growing commitment towards attaining double bottom line among MFPs in Pakistan.

Dimension 6 is divided into following standards;

- 6a. The provider sets and monitors growth rates that promote both institutional sustainability and social goals.
- 6b. Equity investors, board and management are aligned on the provider's social goals and implement an appropriate financial structure in its mix of sources, terms and desired returns.
- 6c. The provider sets prices responsibly.
- 6d. The provider compensates senior managers in a way that is appropriate to a provider with stated social goals.

Figure 14: MFPs' overall compliance to Dimension 6 - Balance social and financial performance



As depicted in Figure 11, majority of the MFPs audited had decided upon well-planned and sufficiently researched growth rates, in line with their ground realities keeping external and internal factors in mind. Pricing of products for most of the audited MFPs was also found to be responsible and within the affordable range of their target clientele.

While compensation of the top management was found out to be reflective of the social nature of the MFPs, the performance appraisal of senior management for most of the MFPs did not take social performance indicators into consideration, lowering the overall score for standard 6d.

Majority of the audited MFPs did not have a formal written policy stating the terms of engagement with equity investors/funders, explaining the low score in standard 6b. However, since attracting foreign investment vehicles is relatively a newer phenomenon for most of NBMFIs (since they were not regulated until recently), it is expected that with time, protocols vis-à-vis equity investors shall be institutionalized at NBMFIs as well.

Areas of improvement

Next, we turn to the dimensions where areas of improvement and gaps were identified for the MFPs in our dataset. These include Dimension 2 (Commitment to social goals) and Dimension 3 (Design products that meet clients' needs).

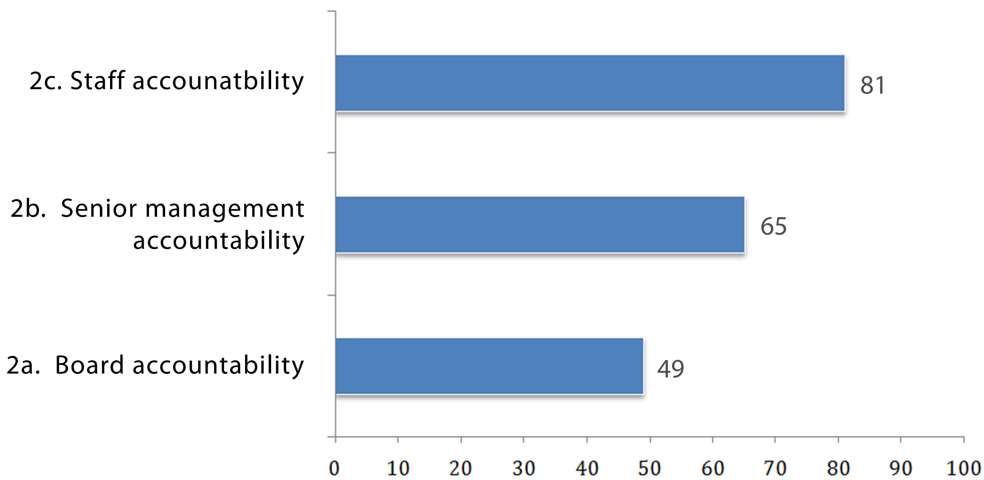
Dimension 2 – Commitment to social goals

Performance on dimension 2 was found out to be weakest among the 6 dimensions, with an average compliance score of 60 percent.

Dimension 2 is further divided into following standards;

- 2a. Members of the board of directors hold the provider accountable to its mission and social goals.
- 2b. Senior management oversees implementation of the provider's strategy to achieving its social goals.
- 2c. Employee recruitment and evaluation is based on both social and financial performance criteria.

Figure 15: MFPs' overall compliance to Dimension 2- Commitment to social goals



The low score in this dimension can be attributed to a lack of data collection on social performance indicators. Since most of the providers do not have measurable indicators monitoring progress towards social goals, these data points are omitted from the formal reporting lines and as a result are not shared with the Board of Directors (BoD) and senior management to ensure compliance.

Moreover, for most of the audited MFPs, BoD structure was found to be not well developed from social monitoring perspective, with no discussion on social performance issues at board meetings, a trend that then trickles down to all levels of management at MFPs.

CONCLUSION AND WAY FORWARD

Over the past couple of years, the microfinance sector has not only grown at a steady rate, it is becoming an increasingly complex industry. Ensuring that this complex industry remains socially responsible and client centric, concentrated efforts need to be made at the sectoral level. Pakistan Microfinance Network is committed to assist its members in achieving the triple bottom line. Institutionalizing social audits among MFPs is an embodiment of this commitment. This MicroNote documents data findings from 7 social audits conducted over a period 2 years. This report should be treated as a baseline survey to evaluate USSPM practices on-ground. On the whole, the consolidated results show positive trends depicting that most of the MFP in the sector are making conscious efforts to institutionalize USSPM within their respective organizations. The gaps identified primarily have to do with insufficient capacity and lack of formalization of USSPM processes rather than the lack of will.

Social audits are a starting point for any MFP working towards becoming a socially and ethically responsible entity. Adoption and compliance to USSPM standards will result in a series of benefits for the MFP;

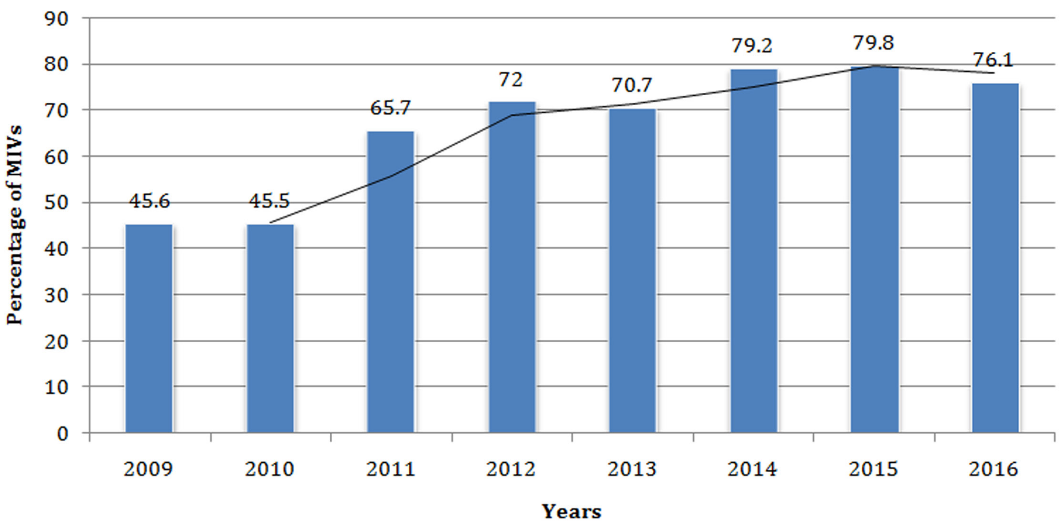
1. **Helps with organizational improvement:** Social audits assess the social, ethical and environmental performance of organization and its impact on stakeholders, gauging how well the organization is living up to its social goals. The gaps identified build the foundation for a social strategy, identifying organizational improvement goals, monitoring their progress, attuning the management to stakeholders concerns and issues in an effective manner.

2. **Enhances reputation:** The information generated from a Social Audit can provide crucial knowledge about the organizations' ethical performance and how stakeholders perceive the services offered by the entity. Efforts to improve social performance of its activities means that an organization keeps its clients and other stakeholders at the center of its operations and is ethical and responsible in its strategies. This can contribute towards enhancing the organization's reputation among the industry stakeholders.

According to the Symbiotic MIV Survey Reports [9], numbers of MIVs considering Social and Environmental performance of MFPs in their investment decisions has been increasing over the years (Figure 14). Microfinance Investment Vehicles (MIV) Surveys provide a detailed overview of key market trends about microfinance offshore investments.

In a world where clients are becoming more aware of their rights and choices available to them and donors/funders are beginning to scrutinize the social performance of an organization, social audits provide the organizations to get ahead in the competition.

Figure 16: Number of MIVs considering Social and Environmental Performance of MFPs in their investment decisions



3. **Increases accountability:** An externally verified audit can add credibility to the MFPs' efforts, promoting a culture of accountability.

4. **Provides increased confidence in social areas:** Social Audit can enable MFPs to act with greater confidence in social areas that have been neglected in the past or have been given a lower priority. In case of MFPs, the emphasis may be on balancing financial viability with its impact on the community and environment and can be used as an effective advocacy tool to argue for an intervention with the management.

5. **Improves financial performance:** Social and financial objectives, in contrast with a common misconception, are not necessarily in tension but are frequently mutually supportive. The social audit process and the resulting information develop the MFPs's capacity to manage diverse stakeholder needs and identify threats and opportunities, while equipping the organization with the knowledgeto identify and tap into the synergies between financial and social considerations.

[9] Symbiotic Annual MIV Survey Report, 2017

It is also important to understand that social audits should not be considered a one-off exercise. On the contrary, it is recommended to make social audits a regular part of MFP's monitoring and evaluation mechanism. Much like financial audits are conducted on an annual basis, social audits should also be conducted on annual periodic intervals to assess an MFP's journey towards double bottom line.

This MicroNote, focused particularly, on the usage of Social Audits as an accountability tool for the microfinance sector in Pakistan. However, as highlighted in the first segment of this note, the principles of social audit can be applied to any other sector; be it government, corporate or NGO sector. In fact, around the world, social audits are being employed for assessing a wide array of projects and programs from monitoring good governance initiatives to corporate social responsibility projects. Rich and comprehensive literature including customizable toolkits and process manuals are available for stakeholders of all these sectors to benefit from. Pakistan's microfinance sector can, perhaps, be credited with introducing social audits in the country, in a systematic manner and as the sector works to institutionalize the practice among its members;other industries, from national conglomerates to MSMEs can learn a lot from the microfinance's experience in this regard.

Pakistan Microfinance Network

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