The SEEP NETWORK

Social Performance Progress Brief

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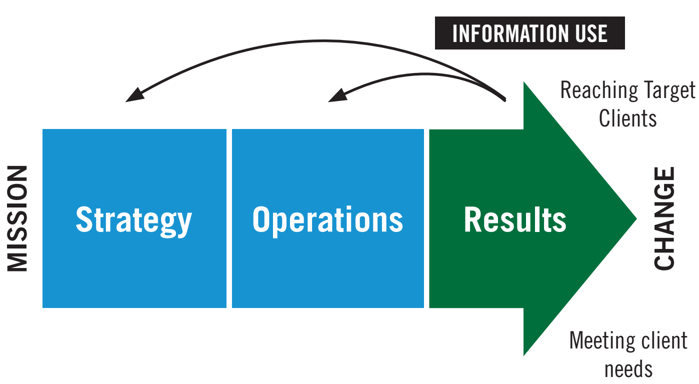
Social Performance Management

Most MFIs have an explicit social mission, but this mission is rarely pursued as part of a deliberate and managed strategy—the achievement of the social mission of microfinance is too often assumed to be an automatic process. As with financial goals, it is likely that MFIs can more successfully achieve social goals if they can assess, monitor, and manage progress towards them. Social performance needs to be managed and reported as systematically as is MFIs' financial performance.

Social performance management (SPM) is an institutionalized process of translating social mission into practice which includes setting clear social goals, monitoring progress towards these objectives and using information to improve performance and practice. Internally generated information can also be used to report to external stakeholders. For SPM to be effective, social performance information must be integrated into the MFI's work, operational routines, and value system to affect decision-making practices at both operational and strategic levels. SPM, therefore, is an institutionalized process of translating mission into practice—which includes setting social objectives and performance goals—and applying this information to improve practice. Building a social performance management system is how an MFI can ensure that this process remains effective and an inherent part of its activities.

Social Performance Pathway



Importance and Benefits of Social Performance Management

Social performance management is important for two general reasons: its principle-based commitment to transparency and mission fulfillment, and its practical benefits to industry stakeholders. Within these two broad rationales are eight specific rationales for managing social performance.

1. MFIs have an ethical responsibility to account for their social performance in a reasonably transparent manner. MFIs claim social impact and solicit funding and investment based on this. This entails a responsibility for MFIs to account realistically for their social performance to donors, investors, and other stakeholder groups.

2. Social performance management is integral to maintaining the social mission of microfinance. Performance measures profoundly shape values and behaviors within organizations. Because financial considerations tend to dominate social considerations in assessing and managing MFI performance, the danger exists that social performance will progressively diminish in importance. Social performance management is necessary to ensure that MFIs remain tethered to their historical social roots.

3. Social performance management benefits MFI clients. The process of managing social performance potentially yields numerous benefits for clients, including services more appropriate to their needs, more product choices, better customer service, and a greater voice in program operations and policies.

4. Social performance management helps MFIs create a more client-centered organization with products and services that are more demand-driven. A social performance management system will help the MFI, among other things, to accomplish these objectives:

- Segment its portfolio to identify market niches, opportunities and problems
- Monitor how clients use services to determine how well services meet clients' needs given their capacities
- Verify results of programmatic changes to determine if they make a difference
- Track intended and unintended impacts on client households and the wider community to understand the MFI's role plays in promoting these changes

5. Social performance management can facilitate better financial performance. Managing and improving social performance will potentially allow the MFI to increase program growth by making the MFI more attractive to potential clients and by increasing client retention through monitoring and responding to their clients' experiences in the program.

6. Social performance management allows MFI managers to measure and manage the tradeoffs between financial and social performance. MFIs are organizations with a double bottom-line that seek both financial and social returns. At times, financial and social objectives may conflict, requiring management of the tradeoffs that can arise. A social-performance management system will generate the information necessary for an organization to manage these tradeoffs more strategically and effectively. It will also help management identify problems in program effectiveness earlier, before they become damaging to the organization.

7. Social performance management contributes to social performance benchmarking. Information on social performance, generated as part of a SPM system, is necessary to allow MFIs, donors, socially responsible investors, and other stakeholders to compare social performance between institutions, contexts, and countries. This in turn is necessary to establish social performance standards and benchmarks.

8. Social performance management allows socially-oriented MFIs to demonstrate their "blended returns" to donors and investors. In the absence of widely accepted social performance measures, donors and socially responsible investors typically base funding decisions on financial performance alone. Consequently, funds tend to flow to a disproportionately small percentage of high-profile MFIs. Managing social performance allows MFIs to demonstrate social performance, arguably leading donors and investors to reallocate a portion of funding toward socially-oriented MFIs offering higher or more competitive blended returns.[1]

Imp-Act Consortium: Managing Social Performance

The *Imp-Act* Consortium has seven partners: CARD Mutually Reinforcing Institutions (CARD), EDA Rural Systems (EDA), Freedom from Hunger (FFH), the Institute for Development, Evaluation, Assistance and Solutions (IDEAS), the Institute of Development Studies (IDS), the Microfinance Centre for Central and Eastern Europe and the New Independent States (MFC), and the Microfinance Council of the Philippines (MCPI).

Conceptual framework

The *Imp-Act* Consortium has developed a conceptual framework and approach to the management of social performance in collaboration with global MFI partners. *Imp-Act*'s experience shows that social benefits do result from most microfinance interventions, but that only by designing with intent can these benefits can be maximized. It believes that social performance management helps MFIs clarify their social objectives, strengthen their information systems to monitor and assess progress towards those objectives, and use this information to manage and improve overall performance.

It envisions a microfinance industry where SPM is a core element of the business of microfinance and thus is designed around the needs of the MFI and its stakeholders. *Imp-Act*'s mission—to realize the potential of microfinance—focuses on enabling MFIs to more effectively translate their social mission into practice, and on helping donors, policy makers, MFI networks, and international organizations better understand and assess social performance, both their own and others.

Use of generated information

The *Imp-Act* approach to SPM starts with the use of information generated through institutionalized internal information systems, supplemented by external studies as needed, and emphasizes the critical link between internal and external information use. To support MFIs in this endeavor, *Imp-Act* has produced a set of social performance management guidelines.

SPM systems seek to answer a set of core performance questions:

- What are your social objectives and how do you seek to achieve these?
- How do you monitor who uses, and who is excluded from using, your services?
- How do you monitor and understand the ways in which clients use your services—especially whether or not their needs are met, and why some clients leave or become inactive?
- How do you monitor and understand the effect of your services on current clients?
- How do you use social performance information to improve your services?
- How can you improve the systems and processes through which you answer these questions?

Costs

SPM can be adapted by different MFIs and can answer the core questions in different ways, ranging from analysis of existing portfolio information, to adding new indicators into the MIS, to even simple qualitative research methods, such as focus group discussions. At its simplest, SPM includes discussion about social performance in branch staff meetings. At its most complex, SPM involves integrating social indicators into the MIS, conducting detailed portfolio segmentation analysis, and following up highlighted issues with more in-depth research. The costs of setting up an SPM system ranges from $10,000 to $40,000; however, ongoing operating costs will likely to pay for themselves through performance gains.

Progress and ultimate objectives

The *Imp-Act* Consortium has launched a three-year program to scale up good practice SPM in the microfinance industry. This involves building capacity for SPM training and support for MFIs, documenting good practice and experience, and promoting an enabling environment for SPM:

- **Building capacity for training and support:** The Consortium is installing capacity to train and support MFIs in all regions. Upcoming SPM trainings (in English and Spanish) will be held in Mexico (early 2007), India (early 2007), and West Africa (early 2007). For a complete list of upcoming trainings visit the *Imp-Act* website as listed below.
- **Learning and documentation:** The Consortium is conducting an action-research project to explore the cost-effectiveness of SPM and trade-offs with financial performance. The SPM Network, still in its early stage, seeks to achieve a critical mass of organizations managing and reporting on their social performance.

For more information on the *Imp-Act* Consortium and social performance management, go to www.imp-act.org

1. Blended returns refer to an organization's financial and social returns combined in some way to arrive at a more holistic picture of the organization's total return. Blended returns may also include an organization's environmental returns, which refer to the organization's impact on the natural environment.

From the Field—Interview with Mila Mercado-Bunker, President of Ahon sa Hirap, Inc (ASHI) in the Philippines

Why is ASHI interested in social performance?
ASHI is interested in social performance to retain the basic calling of the microfinance industry. We got into microfinance not just to earn money but to eradicate poverty and to reach very poor people. We are interested in total human development and societal transformation. We think social performance management is critical to keeping our mission alive.

How does ASHI manage its social performance?
We have been very deliberate in implementing social performance in our organization. We developed a social performance program department in our organization and have a Manager for Social Performance. This unit has institutionalized a social performance monitoring and auditing function.

We have incorporated social indicators into our MIS that help us gather important social information on a regular basis. We collect information from our clients at the intake of each loan cycle, via a poverty scorecard. As an example of some of the data we collect, we evaluate changes in assets, we look at the variety and number of businesses, the level of education of family members, and the number of employed family members. In the future, we also plan to incorporate the social indicators that the Social Performance Task Force[2] is currently developing with The MIX.

In addition, we have developed a Quality Membership Team in our human resources department which is made up of staff and clients. This team examines the quality of our programs and outreach to make sure that our target market clients are being reached and are satisfied. The team also conducts focus group discussions with clients to develop the curriculum for client training. Finally, this team conducts exit interviews of all clients and feeds the lessons learned from this to management and into future programming. On an annual basis we supplement this learning with additional market research to improve products and services.

What advice do you have to other organizations that are considering social performance management?
One point to make that we think is important, is that we have only gone after donors who share our mission. We have been careful not to chase funding that would take us away from our social objectives. We have seen other organizations which have been tempted by easy funding opportunities and have strayed from their original mission because of different priorities that the investor or donor had. Pick your relationships carefully so that your organization can stay true to its mission.

Second, I believe that transparency about social and financial performance is extremely important and is the way that we can be more accountable to our clients and our investors. As a member of the Microfinance Council of the Philippines (MCPI), I felt it was important to get the other organizations committed to social performance as well. We have 34 institutions who have signed on to the Social Performance Declaration of Principles[3] and who regularly report social performance information to the Council.

The Council has prioritized Social Performance Management (SPM) in its work over the coming years and with the help of CARD has planned a series of SPM initiatives aligned and integrated with the network's core areas and activities, which include: capacity building, lateral learning, advocacy, and regional networking and support. MCPI launched these activities following a one-week SPM training course at the network by the *Imp-Act* Consortium. We found this training[4] to be very helpful and will offer it again to other MFIs in the Philippines.

MCPI has been providing support to 12 trained MFIs in the development of SPM within their organizations. Technical support and/or mentoring services are offered through e-mail or telephone based exchanges and field visits. We are also promoting a lateral learning process amongst these MFIs, documenting good practice.

MCPI also plans to promote SPM, facilitate learning and provide training and mentoring services to other organizations within the Southeast Asia region, particularly in countries such as Cambodia and Vietnam where microfinance is building up. A logical approach will be to link up with counterpart national networks and collaborate on activities that will help promote SPM among MFIs in their respective countries.

New case studies on social performance management

Grameen Foundation's Progress Out of Poverty Index

Grameen Foundation is working with its partners and other stakeholders in the industry to develop and use tools to understand the likely poverty levels of their clients and how and why these poverty levels change over time. Grameen Foundation has developed the Progress Out of Poverty Index (PPI) with Mark Schreiner of Microfinance Risk Management. The PPI is accurate and easy-to-use, and is objectively linked to national income and expenditure surveys. The PPI as both a management and a measurement tool is designed to strike a balance between accuracy and practicality. It allows microfinance institutions to better respond to their clients' needs by assessing which programs are most effective, how quickly clients leave poverty, and what helps them to move out of poverty faster.

2. For more information on the Social Performance Task Force go to http://www.microfinancegateway.org/resource_centers/socialperformance/article/28257/
3. For a copy of the Declaration of Principles go to http://www.microfinancegateway.org/resource_centers/socialperformance/article/28256
4. For more information on the *Imp-Act* training go to http://www.imp-act.org

A number of Grameen Foundation partners have integrated the PPI into operations. This is described in two published case studies of Alternativa Solidaria (AlSol) Chiapas, a Mexican MFI operating in the highlands of Chiapas, and Negros Women for Tomorrow Foundation (NWTF), a microfinance institution in the Visayas region of the Philippines. The case studies contain basic information on how the PPI is developed to help the reader understand what the tool is and how it works. Specific examples are cited addressing 1) integration costs; 2) procedures to ensure buy-in at all levels of the institution; 3) staff (field staff, management and executive) response to the tool; and 4) methods of integrating PPI results into information systems.

The data generated by the PPI on the likely poverty levels of incoming clients have enabled these two MFIs to understand more clearly the type of clients they serve and to evaluate whether these clients fall within their target market. By also looking at likely poverty levels of clients that have been with them for several years, AlSol and NWTF are developing the capacity to understand how poverty levels vary:

- over time;
- according to loan cycle;
- according to income generating activity;
- according to whether they live in rural or urban settings;
- according to repayment rates and
- by age of client.

Both NWTF and AlSol are integrating the PPI into their client exit survey forms. This data is expected to help them to understand which clients are leaving their program. This will further help the MFIs refine their products and services to meet their clients' needs better.

It is Grameen Foundation's belief that MFIs will be able to adapt their strategies and operations in response to the social performance information generated with the PPI. In addition the PPI will meet the reporting needs of donors, investors and regulators.

All PPIs are built on the same design methodology but each one is country specific. Once a PPI is built for a country, it is made available for free to any organization that wishes to use it.

For more about these case studies, the Progress Out of Poverty Index and Grameen Foundation's Social Performance Management initiatives, please contact Nigel Biggar, manager of social performance, at nbiggar@grameenfoundation.org.

Partner's Staff Incentive Scheme: Aligning Strategy and Operations

An MFI, Partner, in Bosnia and Herzegovina has a primary social goal to reach women. In the past, this goal was embedded in the staff performance and incentive system. In January 2006, Partner's management identified a large decline in their active portfolio size, resulting from an increasingly competitive environment with some fifty MFIs serving a population of around 4 million. In response the incentive scheme was revised to emphasize growth in portfolio, rather than outreach to women.

Throughout 2006, growth and financial performance accelerated, leading to expansion into new areas and a dramatic increase in number of clients, portfolio, offices and employees. However, this rapid growth also coincided with a reduction in social performance - management information reports showed that new clients were predominantly men.

Investigating the reasons for this mission drift, Partner realized that with the influx of new employees, its social goals were not being emphasized, and the lack of focus on outreach to women meant that this had ceased to become a priority for staff.

To achieve a balance between social and financial performance, management agreed to redesign the staff incentive scheme in a way that includes both financial and social elements. The redesign is currently in process and will be implemented later this year. Partner is confident that this strategic move will significantly increase outreach to their target group in 2007, as well as provide them a competitive advantage over other MFIs in the Bosnian market.

Social Performance Briefing Series

This briefing series is a SEEP Network initiative to introduce the concepts of social performance to the microenterprise field. The briefing series is funded by the Argidius Foundation.

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Argidius Foundation was founded in 1956 and focuses on international support of market-driven business development initiatives to alleviate poverty. The key areas of support are microfinance, business development services, and entrepreneurial education.

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The SEEP Network is a membership association of more than 61 international organizations that support micro- and small enterprise development programs around the world. SEEP's mission is to advance the knowledge base and practice of microenterprise development.

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