

Cost-effective Social Performance Management

Meeting the social and financial goals of microfinance

Imp-Act

is a global action research programme designed to improve the quality of microfinance services and their impact on poverty.

Imp-Act promotes the development of reliable social performance management systems, which include impact assessment. These systems reflect and respond to client needs, as well as the priorities of microfinance institutions (MFIs) and their stakeholders. The programme is a collaboration between 30 MFIs in 20 countries and a team of academics from the UK universities of Bath and Sheffield, and the Institute of Development Studies, Sussex University. The **Imp-Act** programme was initiated by the Ford Foundation, which funds all **Imp-Act** activities.

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What is social performance, and why manage it?

MANY INVESTORS in microfinance institutions (MFIs) are interested to know not only how sustainable these organisations are, but also how they are contributing to broader objectives, such as reducing poverty and reaching the Millennium Development Goals. To date, this has been assessed primarily through impact assessment studies led by external stakeholders.

Most MFIs also have their own social mission. For example, they seek to broaden access to financial services, to reduce poverty, to empower women, to build community solidarity or to promote economic development and regeneration. They also recognise that these goals can generally be better realised in the long-term by reducing their dependence on subsidies. Social performance refers to their success in meeting these goals.

This note presents a framework for assessing social performance (social performance assessment – SPA), and how this information can be used to inform decisions that affect both the social and financial performance of the microfinance institutions – this we term social performance management, SPM.

Impact assessment studies commissioned primarily to serve donor interests are often of little help to MFIs

themselves. They tend to be too complex, time-consuming and costly. They do not generate information that is sufficiently timely, regular, reliable and cost-effective to aid MFIs' own social performance management. As a result, microfinance has made less progress towards institutionalisation of social performance management than it has towards institutionalisation of financial performance management. Improvement in the way MFIs routinely define their social goals and assess progress towards them are beneficial in two ways:

- 1 Greater transparency about their success in reaching and serving target markets will assist donors and investors in making good use of microfinance resources and in funding development programmes.
- 2 Social performance information helps MFIs to understand their clients' needs and to develop more appropriate and effective services.

The development of simple, routine and self-directed methods of social performance assessment by MFIs themselves offers a way forward. By investing in this, donors can ensure both that the social return to microfinance improves and that it is seen to do so.

Social Performance Management

This note highlights four examples of good practice. These demonstrate that:

- 1** Better social performance management (SPM) of microfinance can significantly improve its effectiveness in reducing financial exclusion and poverty.
- 2** SPM need not be a financial burden; indeed, it can easily pay for itself. Savings arising from good SPM include higher client retention and faster growth.
- 3** Effective SPM is also good for microfinance in the long-run; it can enhance a financial institution's reputation, competitiveness, capacity to innovate and resilience. The success of a microfinance provider is closely linked to the success of its clients.
- 4** Social performance management can provide external stakeholders with reliable and regular information about the MFI's social performance.

The note draws on three years of action-research conducted through **Imp-Act** by 30 organisations in 20 countries. A key

finding from the work is that reliable and useful social performance assessment does not happen by accident: it needs to be systematically planned, piloted,

tested and refined. Suggestions for how to do this are set out in the guidelines and resources sections of this note.

Is SPM cost-effective?

IMP-ACT CONDUCTED research with four partners to determine the cost-effectiveness of their expenditure on social performance assessment (see *Table 1*). The first two (Prizma in Bosnia-Herzegovina, and Small Enterprise Foundation (SEF) in South Africa) concern MFIs who have integrated client monitoring and assessment into their routine operations. Simple cost calculations suggest that the income generated by reducing and holding down client exit rates comfortably covers the costs of setting up and maintaining these systems.

The other two case studies (Covelo in Honduras, and Finrural in Bolivia) are examples of how national networks took responsibility for leading client-level assessment. In Honduras, Covelo trained its members to use low-cost client assessment tools developed by USAID.¹ This resulted in quite dramatic changes to recruit new clients, cut transaction costs and lower client exit rates. The network also pooled and published its findings nationally, in order to improve wider understanding in the country of the impact of microfinance. Finrural used more orthodox impact assessment

TABLE 1 FOUR EXAMPLES OF COST-EFFECTIVE SOCIAL PERFORMANCE ASSESSMENT²

<i>Organisation</i>	SEF³	Prizma	Covelo	Finrural
<i>Country</i>	South Africa	Bosnia-Herzegovina	Honduras	Bolivia
<i>Social performance assessment activity</i>	Poverty status and exit monitoring, focus groups	Poverty status and exit monitoring, focus groups	Exit survey and client satisfaction focus groups	Social and economic impact assessment
<i>Total clients served</i>	22,110	12,170	60,600	165,000
<i>Operational self-sufficiency (%)</i>	100%	132.92%	n/a	n/a
<i>Financial Self-sufficiency (%)</i>	94%	131.5%	n/a	n/a
<i>Portfolio at risk (>30 days)</i>	0.2 %	1.12%	n/a	n/a
<i>Total costs of SPA (US\$)</i>	42,706	42,056	60,000	153,000
<i>Clients consulted</i>	8,900	10,000	1,250	1,700
<i>Clients consulted/served (%)</i>	100	100	2.06	1.03
<i>Cost per client consulted</i>	4.80	4.21	48.00	90.00
<i>Cost per client served (\$)</i>	4.80	4.21	0.99	0.93
<i>Average loan outstanding/client (\$)</i>	133	n/a	330	556

1. The SEEP/AIMS tools for learning from clients and assessing impact

2. Data is the annual average for the years 2003/2004. It was obtained direct from the organisations. The statistics for Covelo and Finrural are for four and eight members of each network respectively.

3. SEF operates two programmes known as TCP and MCP. The client monitoring system operates only in the poverty-targeted programme, TCP. Figures for SPA therefore relate only to TCP, whilst other data is for the whole institution.

methods, but also pooled results obtained by its members for dissemination to external regulators, donors and the Bolivian public.

As these examples show, it is difficult to make generalisations about what constitutes an appropriate investment in SPA for a “typical” MFI, since there is no such thing. However, it is useful for MFIs to monitor and compare costs of SPA,

both per client interviewed and relative to the total number of clients served. The studies suggest that it should be possible for an MFI to operate a social performance system for no more than a few dollars per client per year.

While approaches and outcomes were diverse, all four organisations have been sufficiently impressed by the benefits to continue their activities. Three of the

four studies demonstrated that induced financial savings to MFIs themselves offset the costs of social performance management. The fourth (Finrural) also produced sufficient benefits to persuade previous and some new participants to repeat the exercise. Cost-effectiveness is discussed further below, in relation to each case study.

Social and financial performance management compared

THE SCOPE OF SPM can be usefully compared and contrasted with financial performance management (FPM), as shown in Table 2.

Goals?

MFIs need to have clear mechanisms for translating broad goals into realistic outcomes. Clearly defining objectives for outreach, service quality and anticipated benefits helps MFIs to devise feasible strategies for reaching them.

How assessed?

Both financial and social performance assessment (SPA) needs to be systematic. In the case of SPA there are two steps:

- 1 Routine monitoring of the profile of new, loyal and exiting clients and their changing status over time, using selected social indicators.
- 2 Periodic evaluation of why their status is changing and how they are being influenced by the services provided.

How used?

Financial and social performance assessment should serve decision-makers at different levels of the MFI. Financial performance is monitored with reference to standard financial ratios, and these often respond quickly to critical decisions, such as putting up interest rates. Choice of social performance indicators, in contrast, varies between MFIs according to

their mission and context. Indicators also respond more slowly to changes in policies, products and practices. This makes SPM more complicated – though no less important.

How validated?

Quality control measures are important to ensure performance data is sufficiently reliable. In FPM, these are

well developed through financial auditing and rating. SPM has suffered in the past because the interests, agendas and timetables of external sponsors prevailed over those of the MFI itself. Done well, SPM can be a win-win for both donor and MFI. When an MFI takes SPA seriously enough to pay for it and to act on findings then that itself is strong evidence of its reliability.

TABLE 2 SOCIAL AND FINANCIAL PERFORMANCE ASSESSMENT COMPARED AND CONTRASTED

	Social performance management (SPM)	Financial performance management (FPM)
Main goal?	Enhanced client welfare. ⁴	Solvency of the financial institution.
How assessed?	Routine monitoring of scope and outreach of services using a small number of indicators, plus periodic feedback on reasons behind patterns and trends observed.	Systematic book-keeping and accounting.
How used?	To influence decisions about prices, products, operational systems and strategies.	
How validated?	Internal quality control mechanisms, supplemented with periodic external reviews.	Internal and external audits.

4. Client is not the ideal term here for three reasons. First, for user-controlled financial institutions clients are also owners and members. Second, social goals often extend beyond users to family, employees, neighbours, suppliers and so on. Third, the welfare of past and future, as well as current users can be important. The word

“welfare” can be defined in many ways. Absolute income may be less important than income security, relative income, access to specific services and aspects of wellbeing (such as being treated with dignity) that can have little to do with income at all.

Case Studies

THE CASE STUDIES of **Prizma** and **SEF** demonstrate how SPA can be designed and used to suit an individual organisation's needs. In both cases the core social mission is poverty reduction, and their systems combine continuous

poverty monitoring with periodic assessment of clients' welfare, using short surveys and focus groups. The case studies of **Covelo** and **Finrural** highlight the role of networks in improving and standardising SPA among members.

SMALL ENTERPRISE FOUNDATION (SEF), SOUTH AFRICA

Goals

SEF's strong poverty mission encouraged it to develop an explicitly poverty-targeted programme (known as TCP) alongside its more orthodox microfinance service (known as MCP). Through its social performance assessment SEF seeks to monitor its effectiveness in reaching and serving poor and very poor clients, and to feed this information directly into operational and strategic decisions at client, field officer, branch management, senior management and Board level.

How assessed?

SEF uses a participatory poverty assessment tool both to select potential clients, and to establish the poverty status of all new clients. A monitoring system which is part of the loan application process then tracks the progress of all clients on a regular basis, collecting information about the profile of the clients, their use of financial services, and progress in terms of a small number of social indicators.⁵ In-depth research helped SEF to understand the nature of poverty of its target clients, and the dynamics of their use of the services that SEF provides. The monitoring system allows SEF to see patterns and trends in client performance and to relate this to both the inputs of the MFI and to social indicators at the client level. The monitoring acts as a signal, and periodic focus groups and other research are used to understand the reasons for observed changes.

How used?

The social performance management system allows SEF to understand and respond to the needs of its clients, as well as to financial indicators. For

example, client exit monitoring gives SEF a better understanding of reasons for business failure, livelihood stress and group conflict. This enables SEF to respond by improving staff support, strengthening the business appraisal prior to loan approval, improving facilitation of groups and centre meetings, and seeking ways to respond to client emergencies. TCP tends to be less profitable than MCP, given the lower borrowing capacity of the poorer market the programme serves. However, routine monitoring of poverty status and financial performance allows SEF to decide how to allocate resources in a way that balances costs and social benefits.

How validated?

Internal consistency in the quality of the poverty assessment and monitoring is ensured through systematic training and careful documentation of procedures, while the internal audit department conducts spot checks into the operation of these systems.⁶ By far the most important validation of the system, however, is the extent to which management bases decision-making on the information generated through SPA, and the performance improvements that have resulted from decisions taken on

the basis of this information.

Cost effectiveness?

The use of the social performance assessment system goes far beyond the strategic level. Poverty status and exit rates both feed into staff incentive systems and branch reporting, ensuring that social and financial performance is also routinely weighed up at field level. By requiring swift action in response even to the threat of a rise in drop-out rates the programme ensures that interest income per client rises more rapidly than would be the case with a higher rate of client turnover. Between May and November 2002, TCP annual drop-out rates fell from around 26 per cent to 18 per cent. The financial effect of this through to the end of December 2003 was increased revenue of \$360,000. This reflects not just the effect of having more clients, but also the fact that clients successfully retained go on to take larger loans, whereas new clients would start small, as well as being costly to recruit. This revenue dwarfed the estimated annual costs of \$21,353⁷ of running the social performance system, which permitted swift analysis and response to the drop-out problem.

PRIZMA, BOSNIA AND HERZEGOVINA

Goals?

Prizma has, since its inception, embraced social performance and financial sustainability as core values. Prizma's social performance management system has been tailored to achieve its internal goals of deeper outreach, improving service quality, greater client impact and financial self-sufficiency. Consistent with its

commitment to social performance, it has strategically positioned itself in the low-end of the highly competitive and complex post-war Bosnian microfinance market. Whereas most Bosnian MFIs tend to serve clientele near or above the poverty line, Prizma explicitly targets poor microentrepreneurs, particularly women. Consistent with its commitment to financial sustainability, Prizma

5. These include client exit as a proxy for impact; client attendance and savings rates as proxies for client level financial stress; business growth, informal savings, children's education level, and client perception about food, housing and income as proxies for other dimensions of impact.

6. Independent research also confirmed that TCP reaches a high proportion of very poor clients, and validated the targeting methodology used by SEF.

7. Including an amortised share of set-up costs.

achieved full financial self-sufficiency in 2001, and today it generates an annual surplus in excess of \$100,000.

How assessed?

Prizma's SPA has three core components:

- **Focus group discussions** were used to provide information on reaching, serving, and impacts on its target market as well as to follow-up on issues highlighted by Prizma's monitoring systems. These centre on:

- 1 Who is poor in the Bosnian context?
- 2 Which groups are targeted by Prizma? Which groups are excluded?
- 3 How can these issues be monitored and be incorporated in day-to-day management?
- 4 What kind of products and services should be developed to reach and serve Prizma's target clientele?

- **Poverty status monitoring** is conducted for all clients on entry and at the beginning of each loan cycle using a poverty score card developed by Prizma specifically for this end.⁸

- **Exit monitoring** using semi-structured interview is conducted by field staff twice per year.

How used?

The combination of monitoring plus focus

group discussions allows Prizma to explain reasons for patterns and trends in client status. Data collection and reporting is integrated into normal operations providing information about poverty outreach and impact disaggregated by branch, product, drop-out, gender, and portfolio quality. This allows Prizma to actively manage social performance.

Information from the scorecard assists in ensuring the correct design of products and services for the target clientele and is used to ensure both poverty focus and to compliment the range of the institution's ongoing market research activities. Meanwhile, the exit monitoring system provides timely answers to questions such as:

- Who leaves and in what numbers?
- What are characteristics of drop-outs?
- What homogenous groups leave the most?
- Why do they leave?

In addition to improving retention rates, poverty and exit monitoring data are used for market segmentation, or to identify those most likely to drop-out or exhibit poor performance. This information also helps to inform many other activities, including segmented product development; promotion and marketing; monitoring competition; the

design of staff incentive schemes; delinquency management; assessing the comparative performance of branches; and making realistic projections in the business plan.

How validated?

The development of the poverty scorecard was supported by an externally-conducted poverty assessment. This validated the reliability of the data produced by the scorecard, and assisted in drawing conclusions about absolute levels of poverty. In day-to-day operations, quality control includes checks on manipulation of answers by staff and clients. Effective training in data collection is particularly important. Prizma also uses its internal auditor to check client service and data collection.

Cost-effectiveness?

To cover the cost of developing these tools it was estimated that Prizma would need to retain an extra 152 (2.2 per cent) of its group enterprise loan clients for one additional loan cycle – each additional client retained being worth \$278. At the start of the implementation of monitoring Prizma had a high exit rate of over 40 per cent, and provisional data suggests that at least this level of reduction will be achieved.

THE COVELO NETWORK, HONDURAS

Goals?

The Covelo network set out to encourage core members to be more responsive to clients' needs and improve impact, by following the lead of one member (ODEF) in developing in-house capacity to use the 'SEEP-AIMS' tools, developed by USAID. In addition, it was able to produce and disseminate aggregate findings across the network in order to meet the demand by policy-makers for information on the performance of its members. The loan-use and empowerment studies, for example, provided Covelo with information with which to explain to regulators and politicians the sharp contrast between their own clients

and those of regulated banks. A subsidiary goal was to encourage organisations to remain committed to social performance goals at a time when many of them were having to make major changes to their financial performance management systems in order to comply with a new regulatory framework.

How assessed?

The mechanism for capacity-building was a series of five training workshops over three years. Each workshop was immediately followed by coordinated use of each tool by workshop participants. Covelo insisted that senior staff of each organisation should participate directly in

interviewing and focus group discussions during this testing stage. Although this raised the opportunity cost of the studies, it helped to ensure the information was valued, understood and promptly acted upon. The cost, including the value of internal staff time, per MFI study varied considerably around an average of \$6,000.

How used?

Follow-up visits to four Covelo members revealed that the studies prompted a wide range of operational changes, benefiting both clients and organisational performance (listed in Table 4). These generated quantifiable savings more than sufficient to justify both training

8. This monitors six indicators shown to be strongly correlated to poverty. Three (education level of female partner or household head; residence; employment status; family size) were already captured in existing portfolio data. Four additional

indicators (frequency of consuming luxury foods, such as sweets and meat; ownership of assets like a television, stereo or motor vehicle) were added to loan application processes.

Case Studies

and the recurrent cost of the studies. The data was disseminated through reports, national workshops and the media. This helped to raise the profile of microfinance in the country, and to explain the challenges they faced in balancing financial sustainability, growth and social goals

How validated?

The information was produced by the MFIs, principally for their own use. But peer review under the umbrella of the network, as well as use of extensively piloted assessment tools, helped to raise the quality of the work. Interviews were conducted by MFI staff outside of their own areas of operation, prompting discussions among staff that acted as a further check on interview bias. Possibly the strongest validation of the findings is the influence they had on the decisions of Covelo and other MFIs in their network to incorporate the cost of further studies into their annual operating budgets.

Cost-effectiveness?

To cover costs of these studies over two years the four MFIs would have needed

TABLE 3 OPERATIONAL CHANGES BY COVELO PARTNERS LINKED TO SPM WORK

	<i>Number (out of four) of MFIs mentioning each change without prompting</i>			
New management practices				
Training, supervision or incentive structures of field staff	2			
Relocation, and/ or improvement of branch premises	4			
Simplification of approval procedures to reduce time lags	4			
Decentralisation of functions to branches – e.g. for disbursement	2			
Increase branch opening hours by appointing full-time administrator	2			
Budget to use at least two AIMS tools annually	4			
Product changes				
Changes in terms, loan ceilings and interest rates on existing products	4			
New savings products or scheme linked to loan payments	3			
Collateralise household goods as an additional guarantee	1			
Diversification into solidarity group and individual loans (from Village Banks)	3			
Permit new loans to some clients even in groups with some arrears	3			
Introduction of loans specifically for agriculture	1			
Introduction of loans to cover cost of school fees and related expenses	2			
Introduction of loans for improvement of business premises	2			
Cost effectiveness over the first two years?				
	ODEF	FAMA	Finca	Covelo
Increase in net income needed to cover the cost of the studies (%)	13	2	6	9
Increase in net income actually quantified (%)	24	21	26	1

to raise income by 13 per cent, 2 per cent, 6 per cent and 9 per cent respectively. Three of the organisations had no difficulty in quantifying savings that more than met this break-even

requirement. The fourth only quantified savings from reduced paperwork and photocopying in the loan approval process, but also cited similar benefits to the other three.

FINRURAL, BOLIVIA

Goals?

Finrural is also a network, formed in 1997, to provide technical support, to strengthen financial performance management and to coordinate information sharing among its members, who are mostly unregulated financial institutions. The Bolivian market, particularly in urban areas, is highly competitive, and it has attracted public criticism among its members for fostering over-indebtedness. In extending its services to cover social performance Finrural hoped to help its members avoid mission drift, as well as to reveal the benefits of their services to external audiences.

How assessed?

Finrural provides an external impact assessment service to its members at cost, and this service is also open to other organisations. With a view to the external audience, the emphasis is on fairly rigorous survey-based social and

economic impact assessment methods. An initial round of surveys, using a standard methodology, covered eight members: Promujer, Crecer, Fades, Diaconia, Fie, Ecofuturo, and the cooperatives Trinidad and Comarapa. Coordinated follow-up studies have also been carried out on specific issues: client loyalty and exit; poverty dynamics; and the macro-economic impact of microfinance.

How used?

Data from the studies have been widely disseminated within Bolivia and beyond, and have had a significant influence on the sector. In particular, they helped to clarify the distinct market segments of MFIs providing minimalist financial services and those providing a broader range of services, in rural as well as urban areas. This has helped to refine debate over the social risks and returns to microfinance not only with donors and social investors, but also with

government regulators and the wider public. The impact of the studies was enhanced by the ability of Finrural to provide a standard product for each MFI, but also to pool the data and present aggregate findings. The MFIs themselves identified three main benefits:

- Independent feedback on quality of services, encouraging them to persist with a range of products to meet client needs;
- Identification of deficiencies in services and expected impact;
- Material for publicity purposes, and evidence of impact for external sponsors.

How validated?

Reliability of findings to an external audience was critical for Finrural, and this led it to emphasise two factors in particular. First, collection and analysis of the data was completely independent of the MFIs themselves. Second, Finrural adopted a fairly rigorous econometric

approach to impact assessment. Quality was also enhanced by the scope for cross-checking findings between studies, review by a technical committee, and public scrutiny of the final outputs.

Cost-effectiveness?

Finrural and participating members did not anticipate that these studies would

cover their costs in commercial terms. The first round of studies was also subsidised through *Imp-Act*. However, by conducting the studies together at the network level Finrural was able both to raise quality and substantially reduce the cost per study. An important incentive to enhance cost-effectiveness was that Finrural's ultimate goal from the outset

was to develop a sustainable assessment service that members and non-members would in future be willing to pay for at cost. More commercially oriented MFIs (including BancoSol and PRODEM) have indeed joined in planning of the second round of studies, which will not this time be subsidised.

Guidelines for social performance management – 6 questions

AN IMPORTANT GOAL of *Imp-Act* has been to draw on the experience of partner MFIs to develop general guidelines for SPM of microfinance. The central argument behind these guidelines can be summed up in two sentences.

- Organisations that are serious about their mission or social performance must also be serious about assessing it; they should be systematic in monitoring who their clients are, why some leave while others remain loyal, how their market niche is evolving and how their clients are benefiting.
- Useful and cost-effective social performance assessment must be part of systematic social performance management; findings should help to improve products, services, organisational systems and strategies.

We have not found one approach to suit every organisation. But we do believe that any MFI embarking on the SPM road should be able to address **SIX CORE QUESTIONS**. These are set out below.

1 What are the MFI's social performance goals and how does it seek to achieve these?

Both social and financial performance is enhanced by tailoring products closely to the needs of clients. By clearly defining intended clients, the scope of services, and the intended benefits to clients and non-clients, MFIs are better able to design strategies to achieve these goals. MFIs should review their social goals as a routine part of annual planning and budgeting. This helps to ensure that goals guide strategic decision-making and resource allocation.

2 How does the MFI monitor who uses and who is excluded from using its services?

Breadth and depth of outreach are important goals in themselves. By monitoring who current clients are – for example, through use of a simple proxy indicator of poverty – it is easier for MFIs to identify scope for further expansion. Such monitoring also makes it far easier to answer the next two questions. Understanding why some people do not use an MFI's services further helps in the development of more appropriate and competitive services and to expand market share. This area of data analysis should be done as a routine and integral part of an MFI's management information system. To ensure cost-effective reporting and use of data, MFIs need to be realistic about how much information is collected, how often and for what sample size.

3 How does the MFI monitor and understand the reasons why some clients leave?

Some turnover is natural, and client exit may be a positive indicator of graduation of successful clients. However, a high or growing rate of client exit is often the single most important lead indicator of deeper problems. Exit rates should be monitored routinely, to enable MFIs to see patterns and trends. Focus groups or quick surveys can then be used to understand the reasons behind monitoring observations.

4 How does the MFI monitor and understand the effect of its services on current clients?

Regular information about changes in

client status can provide management with timely information about the performance of different products, branches and members of staff. Quick follow-up research into reasons for changes in client status can also help MFIs make appropriate and timely changes to their products and services. Dialogue with existing clients can be mutually empowering, reinforce loyalty, stimulate product diversification and deepen impact. In-depth interviews and focus groups are often more cost-effective and just as reliable as large surveys.

5 How does the MFI use social performance information to improve its services?

It is important to ensure both that information is generated effectively and that it feeds back into improvements in programme design and products. A consolidated practical framework for the collection and use of information can be found in the *Imp-Act* feedback loop (see Resources).

6 How does an MFI improve the systems through which it answers these questions?

Social performance assessment systems need to adapt and grow over time. Both social and financial goals can be enhanced if MFI managers are willing to put time and effort into learning about their organisations and their clients. Systems can be reviewed as a routine part of annual planning and budgeting. External reviews, missions and audits can enhance this internal review process. Networks can also play a crucial role in enhancing quality and cost-effectiveness of SPM.

Conclusions: what can donors do?

FOR MICROFINANCE to realise its potential to contribute positively to the lives of poor and excluded people, social performance needs to be taken seriously both operationally, and as part of the overall performance assessment of microfinance. Financial portfolio data is not sufficient either for managers in taking operational and strategic decisions, or for donors assessing the social value of different investment choices. Social performance assessment can be simple and cost-effective, assisting MFIs in better serving their clients, improving overall operational performance, and reporting to external stakeholders.

The social performance of micro-finance can be assessed in terms of its **design** (defining social objectives and strategies to realise these), its **outputs** (who is served and with what services), and its **impact** (on clients and the wider community).

Social performance management, as summarised by the six questions outlined above, provides a practical framework to enhance both the financial and social performance of microfinance. It can be applied to financial institutions with a wide range of social and financial priorities.

Key points for donors:

1 Systems need to be kept simple, and should be tailored to the goals, needs and capacities of each MFI. *Imp-Act* experience shows that MFIs are able to develop systems that are fully integrated into operations, and a long-term feature of the organisation. Although donor support is likely to be required for the initial investment, the recurrent expenditure can be easily borne by the organisation; in many cases the system can even pay for these start-up costs.

2 Social performance management opens up new avenues for improving transparency and accountability of microfinance to clients themselves, as well as to investors, regulators and the general public. By generating data on social performance to meet their own needs, MFIs can also make it easier for donors and governments to monitor progress towards shared development goals. However, donors should take care to ensure that their interest in this does not distract MFIs from designing systems that they can manage for themselves to meet their own needs.

3 Donors can usefully provide funding for systems development, training and capacity and awareness-building, both at the MFI level and through networks. They should do so cautiously and in the expectation that such support can leverage additional resources and need not be long-term.

4 Donors will often be able to support social performance management through MFI networks as well as through MFIs themselves. Where these have sufficient capacity and are clearly accountable to members, they can help to raise quality and to reduce costs. They can also help to promote agreement on standard indicators and data collection methodologies.

5 Finally, donors can help to build norms for social performance reporting at the industry level – to the MiX market, for example. To this end they should ensure that their own, as well as government and central bank regulators' reporting requirements for MFIs, are sufficiently simple and flexible to promote cost-effective institutionalisation of SPM within MFIs themselves.

Resources

General information

www.Imp-Act.org
IDS Bulletin, Vol.34, No.4, Brody *et al.*, October 2003, 'Microfinance, Poverty and Social Performance', Brighton: Institute of Development Studies

Cost-effectiveness

Small Enterprise Development Journal, Vol.15, No.3, September 2004, 'Assessing the impact of microfinance on clients – is it worth it?', Rugby: ITDG

Case-studies

See *MFC Spotlight Notes* – Numbers 2, 4 and 10, available at www.mfc.org.pl/research/
Read Finrural case studies at www.Finrural-bo.org

Social performance management

The *Imp-Act Guidelines*

(forthcoming) will provide an overview of the issues surrounding SPM and its design. It will also include a set of *Practice Notes* (see below) on various technical aspects of SPM, which can be implemented by practitioners.

MicroSave website: Microsave aims to move microfinance from a product-driven to a market-led basis. Its website at www.microsave.org offers practical guidance in the form of resource papers, briefing notes, training tool kits and other resources.

Imp-Act Practice Notes: The Practice Notes are six-page resources covering technical aspects of SPM, such as data collection and client exit studies, in a clear, concise format. The

notes are available in hard copy from the *Imp-Act* secretariat or to download from www.imp-act.org. The *Practice Notes* currently available are:

'The Feedback Loop: Responding to client needs', *Imp-Act Practice Notes 1*

'QUIP: Understanding clients through in-depth interviews', *Imp-Act Practice Notes 2*

'Learning from Client Exit', *Imp-Act Practice Notes 3*

Low cost impact assessment

SEEP/AIMS tools: AIMS (Assessing the Impact of Microenterprise Services) is a USAID-sponsored research project in microfinance assessment. A manual of five tools used for practitioners was produced by the project in collaboration with the US Microenterprise Network,

SEEP.

Imp-Act Practice Notes (see above)

The Impact Assessment Centre, housed at www.microfinancegateway.org, is a joint project of CGAP (The Consultative Group to Assist the Poor) and *Imp-Act*. It is the most comprehensive resource available on microfinance impact assessment, guiding practitioners through the impact assessment process.

Role of networks

Copestake, J.G., 2004, 'Horizontal networks and microfinance impact assessment', *Journal of Development Practice*, Vol.13, No.5: 537–41