

Integrating SPM into mainstream microfinance capacity building

Guidance Notes Series

About this series

This series of Guidance Notes emerges from a collaboration between the *Imp-Act* Consortium and key industry technical experts. Recognising that the ongoing support to MFIs from funders and support organisations is critical to ensuring a balanced approach to performance management, this series aims to help them integrate the missing “social lens” into existing MFI training materials. The notes provide targeted guidance on critical issues, as well as details on further resources available.

Background

As the industry grows and matures, there is an increasing need for microfinance institutions (MFIs) to be more effective in fulfilling their social mission and broader social responsibilities, alongside their financial objectives.

Historically, financial performance training has been well established: topics included financial analysis, delinquency management, interest rate policy and management information systems (MIS). Clear financial goals (covering costs, ensuring repayments) with agreed indicators and ratios, formed a standard accounting and management process.

Given this, the movement to integrate social performance management (SPM) into microfinance started as a ‘stand-alone’ effort. Using separate trainings and materials, the aim was to shift attention from the glamorous-but-concrete realm of financial management to the less well-understood “social bottom line”. To achieve this, SPM training drew on the principles of client research and applied these to the management process through which an MFI puts its ‘mission into practice’.

The social performance pathway (see **Figure one** overleaf) maps out a process that starts with

setting goals and objectives towards clear social results (reaching target markets, providing appropriate services, and achieving change). The process includes monitoring those results and using the information to align organisational systems to improve performance, and ultimately mission achievement. From a pure management perspective, the concept is not revolutionary.

More and more, however, experience shows that SPM, rather than being a separate concept, is really about overall performance management. All organisational systems and operations need to be aligned to the MFI’s social goals, including each aspect of management, governance, reporting, human resources and internal audit. In doing so, decision-making accounts for social goals (inclusive and responsible financial services) as well as more conventional financial goals (such as maximum growth, return on assets, and minimum portfolio at risk).¹

The *Integrating SPM into mainstream capacity building* project was designed to add traction to the SPM movement by increasing MFI exposure to

¹ See *Putting the ‘social’ into performance management: A practice guide for microfinance* (Campion and Linder, with Knotts, IDS 2008)

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these concepts through the training, capacity building, mentoring and technical assistance they routinely receive from external organisations.

Introducing the Notes

Figure one below presents the social performance pathway alongside common management areas where a social performance lens should be introduced. In the figure, a "✓" denotes those areas for

which the *Imp-Act* Consortium has created Guidance Notes to identify how SPM best practice can be introduced into existing mainstream capacity building materials. The remaining technical areas will be addressed the second phase of the initiative.

Table one and two (see pages 3 and 4) outline key design or management changes, which if addressed lead to improved and balanced performance. Each specific technical area is addressed in a dedicated Guidance Note.

Figure one: Social performance pathway and key management areas



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Table one: Integrating SPM into key strategic areas

Strategic Area	Action to integrate SPM	Double bottom line result
Mission	Revise mission to define what the MFI aims to achieve in terms of outreach (where, who), appropriate services (how) and change (for what). Choose a facilitated process that is reflective and inclusive of staff.	Mission reviews help update and clarify the aims and purpose of the MFI. An inclusive process helps to build awareness and buy-in from all stakeholders (Board, staff, investors; and clients especially in member-owned institutions). Makes the mission statement meaningful, and a basis for good governance and appropriate strategic planning.
Values	Define key values and policies related to social responsibility, including specifically client protection and community and environmental values. Choose a reflective and inclusive process.	Helps to build a sense of purpose and responsibility. Basis for operations alignment.
Governance	Get the Board on board for effective SPM: key role is to balance profit-seeking with social goals and values. Includes issues of structure, training, setting social objectives and monitoring achievement.	Good governance is key to upholding mission and balancing stakeholder interests. Responsible, informed and engaged board members decide the balance between financial and social performance for the MFI .
Strategic business planning	With reference to clearly defined mission, goals and values, include defining of SMART ² social objectives (or guidelines) alongside financial organisational objectives (these include as growth, efficiency and financial returns). Integrate SPM into all elements of strategic planning, including: Growth targets (by area, by target clients, by product), product development, and MIS to monitor social and financial performance targets.	Deliberate planning for social performance is essential. Positive social performance and outcomes do not happen automatically.

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Table two: Integrating SPM into key operational areas

Operational Area	Action to integrate SPM	Double bottom line result
Products and Services	Introduce market research; pilot test products designed in response to client needs and capacities, particularly for target clients, and for retaining existing clients.	Provision of products and services beyond standard ('vanilla') microfinance will enhance client satisfaction and retention; thus good both for social impact and sustainability.
Management information systems (MIS)	Analyse portfolio data from SP perspective: analysis over time/cycle, retention/exit (requires client ID). Include client profile data (for segmentation and tracking outreach). Supplement with client research and market intelligence (satisfaction and exit surveys). Indicators for external reporting are applied for internal reporting in more detail for strategic management (e.g. analysis of data by branch, by market segments).	Balanced reporting is essential for internal monitoring and reporting; it also provides evidence for double bottom line reporting to outside stakeholders.
Human resources: Staff incentives	Weigh potential social effects of incentives for financial performance, and vice versa. Include social performance guidelines, backed up by the MIS and checked through the internal audit.	A balanced incentive package is necessary to support the achievement of social and financial objectives (in line with mission and values).
Risk Management	Build systems and procedures for keeping on mission, protecting clients, and adhering to core values (community, environmental). Issues include: using market intelligence, analysing with reference to target client group, adhering to the 6 principles of client protection.	Maintain/ensure reputation of inclusive and responsible finance.
Internal control and audit	Monitor operational compliance: quality of SP data, staff behaviour, communication and other aspects of client protection; other stated values of the MFI (e.g. health, safety and environment). Train audit team members; include client interviews as part of audit/verification process.	Internal audit plays a key role to ensure compliance with both financial and social performance procedures.

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Development process

The *Integrating social performance management into mainstream capacity building* initiative, led by the *Imp-Act Consortium*, involves a three-part strategy:

Linking SPM experts with experts in key technical areas: Consortium members and associates join forces with industry experts to apply a social lens to key technical areas.

Reviewing existing mainstream training materials: Through online workshops between project partners, gaps in training currently provided to MFIs are identified and prioritised.

Facilitating online knowledge sharing discussions: Each technical area is addressed in a facilitated discussion on the **SPM Network** in order to add to the rich experience base of these Guidance Notes.

Imp-Act Consortium: Learn, connect, share

A range of online resources are available to help you improve your SPM practice:

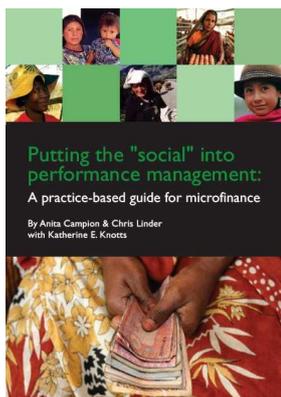
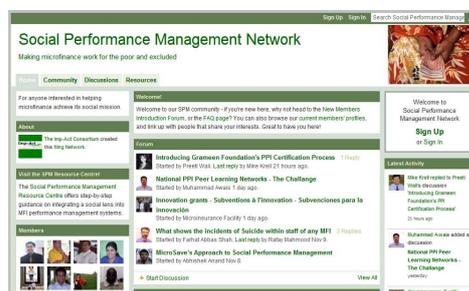
The online **SPM Resource Centre** offers step-by-step guidance on integrating a social lens into MFI performance management systems, including an interactive SPM self-assessment tool. Head to: www.spmresourcecentre.net

The **SPM Network** connects people who are committed to managing and achieving social performance in microfinance. Join today to share experience and information and debate new ideas in SPM. www.spmnetwork.net

The **SPM Practice Guide** offers step-by-step guidance on integrating SPM into your MFI alongside real MFI case studies. Download today in English, French, Spanish or Arabic.

Fulfilling the Promise is a new film by the *Imp-Act Consortium* that captures the SPM experience of two mission-driven MFIs, **SEF** (South Africa) and **AMK** (Cambodia). Short and long versions are available in English, French, Spanish and Arabic.

Learn more about the *Imp-Act Consortium* and its work by visiting www.Imp-Act.org.



Imp-Act Consortium
Making microfinance work for the poor and excluded