

Managing Social Performance

NWTF (Philippines)



Introduction

Founded in 1984, the Negro Women for Tomorrow Foundation (NWTF) works 'to provide sustainable financial

and client-responsive developmental services to the poor', operating in mainly rural and peri-urban settings, in a context of relatively strong competition – although few other MFIs target very poor people.

In 1989, the NWTF formally adopted the Grameen Bank methodology, and promoted its banner project, Project Dunganon, meaning 'dignity', which remained a relatively small project until 1997 when the organisation embarked on a phase of formal planning, expansion and establishment of key organisational systems. Massive expansion from 2000 eventually brought about concerns of mission drift, requiring the instigation of a 'Back to Basics of Grameen' strategy which attempted to redress the balance between social and financial performance, in particular through the strengthening of organisational systems – this has been a key focus since 2007, and remains work in progress.

NWTF has grown to become the eighth largest MFI in the Philippines, with more than 80,000 clients, mainly women, in ten of the country's poorest provinces, and a loan portfolio of over US\$9 million. NWTF has quite a high dropout rate at 22 per cent which affects growth, (although this is around the average dropout rate among Philippines MFIs. Table 1 gives key financial performance data.

NWTF supports enterprise development through its five types of loan (group-based, individual, microcrop farming loans, as well as asset acquisition and business capital loans) and three types of savings funds (compulsory, voluntary and the Pag-asa Fund which is used to pay for missed loan payments). NWTF also offers micro-insurance services as well as non-financial services, including training for clients (now focusing on enterprise opportunities), linkages to medical missions and scholarships for clients' children.

NWTF's strength in social performance management was recognised in an alpha minus rating by M-CRIL in 2009.

Table 1: Key financial performance data at NWTF

	Dec 04	Dec 05	Dec 06	Dec 07	Dec 08
Total clients	54,863	67,982	66,530	76,203	84,958
Total staff	437	519	539	528	578
Clients/field staff	162	239	264	310	305
Gross loan portfolio (US\$ million)	5.2	6.5	7.9	10.7	9.3
Savings (US\$ million)	1.3	1.8	2.1	3.1	2.7
Operating expense ratio (OER) %	34.4	35.9	36.4	32.1	31.9
Loan loss provisioning ratio %	2.6	2.3	1.2	2.7	5.4
Portfolio at risk (PAR >30 days) %	8.11	8.35	4.62	3.32	3.24
Operational self-sufficiency %	102.8	102.7	101.6	101.48	109

Focus on SPM

Social Performance Management (SPM) is an institutionalised process of translating an MFI's mission into practice. This involves setting clear social goals and objectives, developing a strategy to achieve these, monitoring progress, and using this information to improve performance and aligning organisational systems to the social mission.

NWTF is an innovating organisation with a strong social commitment. It sees its role as a development institution, using financial and non-financial services as a means to an end – that of lifting poor people out of poverty. It prides itself on having had a strong social focus from inception, and the commitment of the founding members is reflected in the MFI's ongoing evolution towards systematically managing its social performance.

Core aspects of social performance have from the start been part of NWTF's strategic decision-making, specifically: serving poor people; outreach in underdeveloped areas with above-average incidence of poverty; continuing product development and adaptation; and monitoring effects for client households. By 2006, NWTF had identified gaps in its social performance management. These lay in inadequate systems and implementation, including lack of attention as the organisation focused on expansion and portfolio quality. The issues were:

- the client-targeting means test was not fully designed to reflect poverty levels, and was not applied rigorously and accurately as part of operations;
- product development and adjustments were carried out in a somewhat haphazard manner, without full strategic assessment, or ensuring buy-in and feedback from staff;
- operational shortcuts had led to cutbacks in client training.

In response to these issues, key initiatives for social performance management in the past three years have been to:

- phase out the means test, replacing this with the **Progress out of Poverty Index**

(PPI), now integrated as a client-targeting tool across operations and providing data for social monitoring;

- set up an **'impact maximisation unit'** within the research department which has taken over responsibility (from the training department) for most of the client training. The department is also working to streamline product development, and work on a streamlined approach to managing default;
- set up an **SPM committee** with 18 representatives from across the organisation to help set the agenda for SPM and to build buy-in at all levels.

Core elements of NWTF's approach in managing its social performance effectively now include:

- a **balanced Board**, with both financial and non-financial skills and experience;
- a **commitment to the depth of poverty outreach**, reflected both in the decision to adopt a 'back to basics' strategy in the light of mission drift, and in the adoption of a new targeting tool – the Progress Out of Poverty Index (PPI), a poverty scorecard statistically correlated to the national poverty line (both decisions are described in detail in this summary);
- a **high level of product innovation and adaptation**;
- a **strong research department** – undertaking a range of focused client level studies;
- the **recognised need to develop strong operational systems** – as a basis for sound overall performance, balancing financial and social goals.

Defining operational objectives

To manage its social performance, an MFI must be clear about what it seeks to achieve (its goals), have operational objectives to manage against, and a clear strategy to achieve these.

Since adopting the PPI, NWTF has been able to clearly define its target clients as those living below the national poverty line (primarily women, who should be between the ages of 18–60 years, and need not have an existing business), but more importantly to set a

specific, measurable, relevant and targeted objective for outreach. Based on the PPI for the Philippines, the target is for 90 per cent of all new clients, by the end of 2009, to have a PPI score below 34. This translates into a poverty likelihood of 75 per cent of new clients being below the national poverty line on entry to NWTF.

In terms of intended change, there is the broad Grameen Foundation principle that 50 per cent of poor clients at entry will after five years move above the national poverty line (based on PPI indicators). This is still to be tested as a target. However, NWTF does not yet have SMART objectives for other social goals – provision of services in relation to access to its different products and services, client retention and exit.

Results

Poverty outreach

NWTF has data on poverty outreach since it started applying the Progress out of Poverty Index in 2006, revealing substantial depth of outreach (poverty level of new clients) well above the average incidence at different household income levels. Poverty outreach at entry has significantly increased since 2006 (see Table 2), and for new clients is on track to reach the 75 per cent target below the national poverty line.

Table 2: NWTF depth of outreach (new clients) (2006–2008)

	Dec 06	Sep 08	National data
Below the national poverty line (NPL)	54%	63%	32%
Below 'US\$2/day' at PPP (= bottom half below NPL)	32%	39%	15%
Below 'US\$4/day' at PPP	63%	71%	43%

National rates from Annual Poverty Indicators Survey of the Philippines, 2004

Social Performance Management in practice

Strengthening organisational systems: the 'Back to Basics' strategy

All aspects of an MFI's operations affect whether it achieves its social goals, including marketing, recruitment, staff training, incentives, organisational culture and Board composition. Deliberately aligning business processes to achieve

both social and financial objectives is a key SPM principle.

NWTF's experience of re-instilling the basic Grameen principles provides an interesting example of how an MFI must strengthen its organisational systems as part of effectively aligning them to its social goals.

Responding to mission drift

In 2006, results from the PPI pilot test indicated that under 60% of new clients were target clients, living below the national poverty line. These results were below the expectations of the NWTF Board and management, and prompted them to reflect on their current strategies, to moderate the overriding focus on growth, and to take the decision to implement a 'Back to Basics of Grameen' strategy. This consisted of streamlining and strengthening operational systems to enhance efficiency alongside Grameen values – which included a clearer and stronger poverty focus, as well as elements of client protection and staff engagement. Overall, the strategy was designed to generate 'growth with quality', addressing operational problems to ensure both mission achievement and organisational sustainability – including staff training, monitoring, clear procedures and norms, efficiency, and accountability at branch level.

Under the new strategy, NWTF targets only poor clients, with the aim of helping half of these out of poverty within five years. The plan to achieve this vision included:

- implementing the PPI for quick and accurate client selection and poverty outreach monitoring;
- focus on field efficiency, amalgamating some centres and building centre membership to maximise loan officer capacity to increase outreach;

- decentralising organisational planning, staff recruitment and loan officer training, with an emphasis on coaching staff in the field to increase efficiency;
- transferring responsibility for client recruitment from the group to the staff;
- renewed emphasis on group development and training to strengthen group capacities and cohesion;
- setting up an 'Impact Maximisation Unit' tasked with improving client training in relation to enhancing women's business skills and addressing default (see Box 1);
- building stronger relationships with clients;
- targeting inactive, poor clients to rejoin.

The renewed emphasis on the social mission was also highlighted by the Board decision to expand into poorer provinces where branch sustainability would be more challenging, but could be cross-subsidised by more profitable branches in the short term.

Further challenges

This process of strengthening and streamlining the organisational systems has been a key focus for the last three years and remains work in progress. Making the link to operational decisions will require further integration of the PPI and social performance data as part of the MIS¹. There is also still a need to further integrate social aspects into staff appraisal and incentives. Despite the attempt to reunite with its target clients, the challenge still remains for NWTF to define the changes it seeks to create in its clients' lives, and set specific social objectives for these changes accordingly. These challenges are discussed further in the final section of this summary.

Box 1: The Impact Maximisation Unit

The idea of 'impact maximisation' emphasises both supporting client enterprise skill development and ensuring client repayment. Four priorities are defined: (1) to maximise the potential of poor clients, through focusing on and supporting existing income-generating survival skills; and (2) to tackle PAR² and non-performing loans – through a step-by-step strategy, including identifying problematic centres, providing rescheduling or bridging loans, and a more intensive assistance process for poorer clients. Plus, in future, (3) to develop products for the poorest, who lack income-generating skills; and (4) to develop different services for 'advanced' clients.

The Unit has developed materials (in cartoon form) on livelihood skills, based on documenting successful enterprise practices in 10 typical women's enterprises. These are to replace and improve on the earlier 'social development modules' and general livelihood training. As well as its responsibility for designing and delivering the training programmes for clients, the Unit designs detailed guidelines for field staff in cases of default, and also undertakes specific pieces of research – such as a current study of working conditions in financed enterprises, funded by the ILO. The Unit is also starting to look closely at reasons for exit, particularly business problems.

Implementing the Progress out of Poverty Index

Tracking, understanding and reporting on whether an MFI is achieving its social objectives is another key SPM principle. An MFI that manages its SP is more effective at reaching its target market, delivering appropriate services and creating positive changes for its clients.

NWTF's adoption of the PPI is an innovative practical step towards poverty-focused targeting and tracking poverty reduction over time. The PPI is a poverty scorecard based on a five-minute interview, which provides data on client household poverty status that is benchmarked to a poverty line (national and/or international). The PPI was found to be easier, quicker and more accurate than the NWTF's previous targeting tool, the means test.

Applying the PPI

Data is collected by loan officers at client entry and at each subsequent loan cycle. The probability score is entered into Excel together with other information about the client household such as the number, type and category of business from the loan-appraisal form, and information on repayment, savings and loan size from the portfolio MIS. Data are collated and analysed by the research department, enabling NWTF to track its depth of outreach (poverty profile of all its clients at entry) as well as tracking poverty levels over time, by different cycles.

¹ – Management Information Systems; ² – Portfolio at risk

NWTF decided to capture information from all clients in the MIS (not just a sample), for use in detailed segmentation and analysis – by number of businesses in the household, by type of business with NWTF credit and by age of client. Parameters to include in future, software permitting, are branch-level analysis and analysis of exit, as well as incorporating poverty levels into other research.

Adapting and aligning systems as the PPI is integrated across operations

NWTF's information system is being adapted with the introduction of the PPI, and work in progress includes dealing with issues around quality control, client ID, new software to bridge the gap between PPI data and the MIS, development of appropriate and concise reports, and analysis at branch level.

The application of the PPI is also leading to an alignment of systems – in terms of staff training, reporting and review of the MIS. In future too, once PPI reports are disaggregated down to branch level, there will be implications for adjusting staff incentives and appraisal. The PPI is also seen as a tool to build greater awareness around NWTF's mission and strategy across the organisation.

Use of PPI information for informed decision-making

Prior to the PPI, NWTF did not have the capacity for generating formal statistical results from its monitoring activities. As a result, decision-making has often been driven by organisational values rather than an effective performance management system. In the face of increasing pressure towards expansion, this resulted in decision-making that failed to account for both social and financial performance. The PPI enables NWTF to take informed decisions related to targeting, tracking mission, loans, savings, repayment and types and category of business.

The success of the PPI experience has involved a key lesson, that collection of too much information at the field level (the old means test) is a deterrent to accurate collection and therefore later relevance and use, and consequently tends to be skipped as a waste of time. The PPI helps to focus on relevant and meaningful social information. The collection of selected additional information needs to be

done in a systematic way for effective later analysis. A focus on quality and understanding key indicators is as important in management of social information as it is for financial information.

Issues around quality control

Some quality control issues have emerged at loan officer level – in interpreting some of the questions and manipulating the scores downward to below the cut-off to allow non-qualifying women to join. PPI data collected by loan officers are partially checked for accuracy through spot checks made by the branch manager as part of routine loan appraisal or during the newly developed 'central supervisory visits', a new mechanism for monitoring field-level activities and integrating social performance issues. However, findings from the Social Rating suggest that additional spot-checking and explanations are required.

Cost of PPI

NWTF estimates that the annual cost of using the PPI for the whole organisation comes to approximately US\$0.50 per client per year. This includes allocation of all costs described below. At the field level, currently, each loan officer is spending around 15 hours a month (two working days) in collecting PPI. This is around a quarter of the time previously spent in collecting means test information. There are also the costs of supervision, data entry and time spent by the research department in analysis and reporting. The research department estimates it spends 20 per cent of total time on the PPI (or 16 person-days a month on average), plus the time spent by loan officers and branch encoders.

Box 2: Micro-Crop Loan – a challenging programme for more rural outreach

The Micro-Crop Loan (MCL) programme was started as a pilot during 2005, to provide seasonal credit, with additional training support, to the agrarian reform beneficiaries (ARB) of the government redistribution of the large sugar plantations – families who had previously been labourers on these plantations. The MCL represented a new initiative for NWTF to enter into the agricultural sector, serving these new 'farmer-beneficiaries' and contributing to the sugar economy of Negroes. But this was a high risk area for microfinance for a number of reasons related to the sugar economy, the characteristics of the ARBs, a climate of handouts and the logistics of serving more remote rural areas.

The research department has been fully involved from the start, to research the context and design an appropriate product, with linkages for agricultural training, and subsequently to research into reasons for default.

The Board and management supported the programme to develop a new financial product in line with their mission while recognising that the MCL would involve considerable commitment of time, personnel and funds to implement. However, despite expecting losses during the first three to four years, the very high levels of default three years on, (due primarily to the decline in sugar prices coupled with the rise in input prices) and the extent of funds tied up, has led the Board to put a cap on expansion of the programme, as from 2008, and to focus efforts on recoveries.

NWTF has retained a number of lessons from this experience, namely the need for (1) a more intensive pilot test before rollout; (2) careful product design with industry analysis; (3) facing the challenges of agricultural lending, such as dismantled government guarantee prices, and trade liberalisation increasing the costs of inputs; (4) effective delinquency measures and controls; (5) sufficiently strong institutional capacity to undertake agricultural lending (better credit management and appraisal skills are needed); and (6) offering other services to agricultural borrowers – such as savings and extension services

Future

NWTF is now well on track to putting its mission into practice. The key concern to ensure that its services reach poor people has motivated NWTF to adopt the PPI for client targeting and to integrate this within its systems. A commitment to client-responsive services is reflected in the range of products and pilots undertaken. The organisation has developed or strengthened its systems to track its social performance quite extensively through routine monitoring and research, including client satisfaction and exit surveys – though these have received less attention in the past three years as the organisation has focused on implementing the PPI, but are being resumed now that PPI data collection is becoming routine.

Further elements of NWTF's work in progress and priorities for the future are detailed below.

The Social Performance Management Committee

Ensuring that decision-making considers both social and financial outcomes is a key SPM principle. Awareness of the social and financial consequences of decisions leads to better overall performance management.

Effective social performance management requires effective systems for communication and consultation throughout the organisation. The idea of an SPM committee with representatives from all levels and geographical areas of the organisation is an interesting step towards achieving this.

As a key initiative for social performance management, the SPM Committee has 18 representatives from all levels (from loan officers to Board) and regions of the organisation, elected through a systematic nomination and election process involving all staff at different levels.

The SPM Committee helps set the agenda for SPM, review policies and build buy-in at all levels. Members are expected to individually report to and back from staff meetings of the regions that they represent (building a process of regional consultation).

Interestingly, the representatives of the Committee have initially focused on what affected them, namely communication and addressing staff issues. Perhaps because of this, it has been received with growing engagement and enthusiasm by staff – indeed it promises to be a good mechanism to build staff engagement in the future, especially around balancing social performance and financial issues. In general, the HR systems at NWTF have focused more on growth, efficiency and repayment, with some reference to client protection issues and centre management as part of staff appraisal. The formation of the SPM Committee is an important initiative that promises to enhance understanding of social goals and social performance at different levels across the organisation, and perhaps lead to a re-examination of how to integrate these more closely within HR systems.

The SPM Committee is currently moving to

client-focused issues, such as poverty targeting and client protection; it has been the main forum for PPI reporting so far. A priority is now to carry forward the role of the SPM Committee, especially in terms of committee members engaging with other regional staff through structured meetings.

Streamlining product development

Continuing product development and adjustment to be client-responsive has always been a core aspect of NWTF's approach to social performance; however, these have in the past been carried out in a somewhat haphazard manner, without full strategic assessment, or ensuring buy-in and feedback from staff.

NWTF is now developing a more systematic approach to pilot testing (involving one or two cycles), taking decisions with market feedback, including sufficient communication and involvement of field staff, evaluating pilot tests, and modifying policies and procedures after pilot testing. This work is aimed at streamlining the product development process and ensuring that NWTF and its clients can derive the maximum benefit from this core element of its SPM.

Linking the PPI to the MIS, and clear reporting

The full adoption of the PPI within NWTF has been a key initiative for the MFI. Nonetheless, there are still challenges in managing the amount of data, linking into the existing management information system (MIS), and generating quick and clear reports. These challenges represent a significant part of current work in progress.

Linking to existing MIS

The research department has made initial correlations of MIS information with the PPI, particularly on number, types, category of business, savings, repayment, loan size, loan cycle and age of clients. However, currently the M2 (the organisation's MIS) does not have scope for additional fields to include PPI data. PPI data are maintained in a separate Excel file, but a separate programme is required to build linkages between the two. NWTF also faces the challenge of a difference in client ID numbers which needs to be resolved.

Developing appropriate reports

The challenge here is in how to translate the new types of SP data available from the PPI and research department findings into substantive implications and how to present these new types of data most effectively. Reports on PPI information are presented by the research department. Earlier, reports were made to top and middle management (department heads and area managers). Since 2008, the main forum for PPI reporting, including detailed tables based on the data, has been the newly established SPM Committee. In future it will be important to have branch-level information to guide operations in monitoring operations and reaching poverty outreach targets – enabling this is work-in-progress.

Further strengthening of organisational systems: human resources

The process of re-instilling the basic Grameen principles and a thorough review and adjustment of policies and procedures, with more focus on systematic supervision and monitoring, as well as accountability at branch level, is proving very effective in the organisational renewal and the alignment of management systems and operations.

A number of social aspects still need to be integrated by further strengthening of systems, in particular those relating to human resources appraisal and incentives. NWTF needs to develop indicators for staff incentives that include social aspects, and is considering, for example, indicators such as working in more remote areas, systematic collection of quality PPI data, and quality of client relations. Another challenge is to develop appraisal and incentive systems for head office staff.



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This summary is based upon a longer case study of NWTF written by Frances Sinha, Noni S. Ayo, Gilbert Maramba and Raymond Serios

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