Putting the 'social' into performance management: *State of practice*

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

Introduction

The microfinance industry – borne primarily out of a desire to help the world's vulnerable and poor – has grown from a concept that the poor could be bankable (ie, able to save and repay loans) to an integral part of the formal financial sector in many countries around the world. Microfinance has become a familiar word, thanks to media attention and news articles telling the story of how microfinance is achieving its social goals and improving clients' lives.

But with this success and higher profile comes a need for microfinance institutions (MFIs) to demonstrate that they are fulfilling their mission, as well as their broader social responsibilities. While microfinance still generally attracts positive media attention, the honeymoon phase is over, as a backlash of negative stories has begun to hit the headlines. In a context of increasing competition, commercialisation, social investment and calls for transparency, some within the industry fear that the pendulum has swung too far towards the commercial side, and that many MFIs have become detached from their social roots. As we approach the challenges ahead, clarity on the industry's fundamental identity has never been more important.

Box 1: Aims of this report

This report describes the 'state of practice' in SPM based on the broad picture that has emerged from the first round of case studies in the *Imp-Act* Consortium's Global Learning Programme (GLP), and during the development of the SPM Practice Guide. The next section highlights five key lessons learned that will shape MFIs' approaches to integrating a social lens into performance management systems. The final section pulls together the key challenges that lie ahead for practitioners, donors and networks in integrating SPM into standard business practice. It also includes our proposed 'key principles for SPM'.

As social enterprises, MFIs have a dual nature, applying commercial principles to achieve social ends. This has created an inherent tension in the industry as MFIs struggle to balance social and financial objectives. The practical steps MFIs need to take to develop their strategy, set objectives and align all of their systems to achieve these dual goals are the essence of social performance management (SPM). Today, many successful MFIs understand that strong financial performance facilitates the pursuit of social objectives, and that achieving these is good for business.

Beyond the potential financial and operational benefits, it's clear that MFIs cannot afford to take the risks associated with disregarding their social objectives. At client level, the risks range from excluding target clients to actually harming their livelihoods, either through services that don't meet their needs or through over-indebtedness. It also means that MFIs also miss the opportunity to fully understand their clients' needs and constraints and to respond with a range of services – whether additional financial products (such as micro-insurance) or non-financial ones (such as business or health training). At institutional level, whenever a client leaves, it represents a barrier to financial sustainability. At industry level, we risk losing credibility in the eyes of the global public, resulting in reduced flow of funds and resources to all MFIs.

MFIs can avoid these risks and achieve their social mission by going back to basics: by understanding who their clients are and how to work with them to overcome their vulnerability, and by managing their organisational performance in a way that balances social and financial goals.

Back to basics

Who are our clients?

How would we describe a typical client upon entry to an MFI programme? The specifics would, of course, vary by region, but generally we would find that clients have low incomes that are often insecure or irregular. These clients – usually women – live lives that are punctuated by occasional demands for relatively large amounts of money. Because of the nature of their income flows, they find it difficult to meet these demands, whether it's to respond to opportunities (eg, for investment), emergencies (eg, sickness) or life-cycle events (such as weddings or funerals). Whatever their individual situation, it is the risk of loss, and of these events happening, that makes their lives so vulnerable and unpredictable. So even when they become clients and gain access to loans that can help improve their situation, they are often vulnerable to falling back into poverty.

How do we work with vulnerable clients?

Microfinance exists to help vulnerable and poor clients, but by their nature they are a risky investment. Poor people's inability to cope with these occasional financial demands may also mean they can't meet all of their other financial commitments, such as loan repayments. MFIs respond to this "threat" in different ways. Some effectively exclude the most vulnerable clients by requiring guarantees, savings records, or payment of administrative charges to access loans. Some avoid risk by moving upmarket to serve people with stronger livelihoods – typically, those who have existing businesses or resources with which to repay loans. Others prioritise savings rather than credit – or lending to small businesses.

But there is another way. More commonly, MFIs seek to reduce their clients' vulnerability as a means of reducing the risk involved in lending to them. They focus on helping clients make small, but sustainable steps out of poverty, and helping them deal with crises when they arise. They do this by:

- facilitating growth in income and assets
- reducing risk of borrowing
- income and expenditure smoothing
- strengthening financial literacy
- empowering clients
- providing a platform for broader development.

Recognising what makes different client groups vulnerable is also crucial to addressing their unique needs. For example, women are usually more vulnerable than men due to lack of land tenure, mobility restrictions, less diverse livelihood options, and traditionally weaker gender roles within the household. Similarly, there are many different dimensions of poverty that contribute to vulnerability (beyond a mere lack of income) such as lack of education and skills, lack of confidence, lack of political voice, or poor health. Groups that are marginalised or excluded within society also face unique vulnerabilities, including lack of access to resources, low skills bases, societal prejudice, etc. Gender status adds an extra layer of vulnerability on top of poverty and exclusion. MFIs that fail to respond to the specific risks facing different client groups limit the potential of their services to have a positive impact on clients' lives.

Box 2: Global learning programme

This report draws upon the lessons learnt emerging from the *Imp-Act* Consortium Global Learning Programme on social performance management (SPM), a two-year project which seeks to gather evidence of effective SPM and understand its organisational value. Seven microfinance institutions (MFIs) are involved: AMK (Cambodia), CRECER (Bolivia), FONKOZE (Haiti), NTWF (Philippines), PRIZMA (Bosnia), Pro Mujer (Bolivia), and SEF (South Africa). Case studies of each organisation are available at **www.Imp-Act.org.**

What is social performance management?

While the term 'SPM' is becoming more embedded in the language of MFIs, networks and donors, closer examination reveals that people and organisations are using the term in very different ways. Some use 'SPM' to refer to social performance, or 'social performance' to refer to impact assessment; others use the concepts of social performance management and social performance measurement interchangeably.

In the absence of an industry-wide consensus on terminology, there are real barriers to integrating SPM into good business practice. This consensus can be built. The **Social Performance Task Force (SPTF)**, for example, as it turns its focus to SPM in the coming year, could begin the process of building a consensus around a common definition, and agree a set of key principles for SPM in order to provide a framework for understanding and practice. We have suggested some key principles that could form the basis of this framework (see page 9).

Simply put, **SPM is about achieving your social goals and being socially responsible**. It's a process that enables MFIs to align their strategic planning and operational systems to a deeper understanding of client poverty and vulnerability. More broadly, because MFIs work with poor and vulnerable communities, they have an implicit responsibility to protect clients from harm and from over-indebtedness, as well as to treat both staff and clients with respect and dignity.

SPM has three components:

- **setting clear social objectives and creating a deliberate strategy to achieve them**
- **monitoring and assessing progress towards achieving social objectives**
- **using social performance information to improve overall organisational performance.**

State of practice: Five lessons learned in SPM

Emerging good practice – and disconnect

There is a great deal of good practice emerging among MFIs working to integrate a social lens into their performance management model, but there is also evidence of real disconnect between key elements. The issue seems to be in how MFIs integrate social performance information across their organisational systems.

For example, **Pro Mujer Bolivia (PMB)** includes its social objectives in its strategic and operational plans; however, these are not linked to the social performance information it gathers from internal and external sources. Furthermore, the social performance information collected by the management information system (MIS) is based on indicators that are not linked to PMB's social objectives.

Other MFIs have developed a holistic definition of 'poverty' at the strategic level, but at an operational level are only collecting information about income poverty. Elsewhere, we see information systems that are aligned to the MFI's social objectives, but the required information is not systematically collected and analysed, and reported to internal stakeholders. From a performance management perspective, organisational decision-making is weakened by these 'disconnects'.

At the root of the problem is that for many MFIs, their entry point into SPM was using a social performance assessment tool. Given the emphasis placed upon tools by the SPTF, donors and support organisations, this is a natural development. However, social performance information is only valuable if it is used to inform decisions that improve performance.

Linking strategy to an understanding of vulnerability

Importantly, we are starting to see the emergence of MFIs that specifically design their strategy to respond to their understanding of client vulnerability. Moving away from standardised replication of other organisations' approaches allows them to do two things differently: they make strategic decisions about what services to provide to their clients and how, and they segment their services for different groups of clients.

MFIs see financial services as a means of addressing client vulnerability, and SPM helps them to make strategic decisions about how they can do this most effectively, given their operational context, capacities and constraints. For example, in Cambodia, **AMK** caters primarily for rural agricultural households, a market that's characterised by poor infrastructure, and frequent floods and droughts. AMK's business model reflects the seasonality and vulnerability associated with rural livelihoods, in particular by minimising the risk of borrowing for the client. For AMK, understanding client vulnerability has also enabled it to provide a *range* of financial services to meet the diverse needs of its target clients.

But as discussed above, vulnerability and poverty are more than just a lack of money: poor health and nutrition, and lack of access to education and other services play a role in clients' vulnerability. This is why non-financial services becomes necessary. SPM helps MFIs to make informed decisions about whether and how to meet their clients' needs beyond increasing their income: either by providing non-financial services themselves, or linking to other organisations that provide them.

For instance, in Haiti, **Fonkoze's** mission starts from the premise that financial services alone are not enough; poor people need to be 'accompanied out of poverty'. Fonkoze's strategy also considers not just *what* is provided, but *how* it is provided. At the heart of its methodology is the supportive culture of the solidarity groups and centres. In this kind of environment, field staff can facilitate problem solving and learning, and provide educational and development inputs to clients.

Strengthening information systems

Despite (or perhaps due to) the proliferation of social performance measurement tools, integrating social performance into information systems poses real challenges for MFIs. For example, **Pro Mujer Bolivia** was involved in the pilot for a number of social performance assessment and rating tools. Eventually, they became overwhelmed with **too much information**, because they didn't have a sense of how it all fitted together. Before rationalising their system and implementing the PPI (Progress out of Poverty Index), **NWTF** (the Philippines) found they did **not have enough information**. They used various social performance assessment tools over time, but didn't have information about all of their social objectives at the same time. In other cases, an MFI can have the right amount (and right kind) of information, but lack the skills to analyse and use it to inform decision-making.

Interestingly, we have also seen examples where organisations are collecting social performance information very effectively, but are unable to interpret the data as they lack concrete social objectives. For example, **CRECER**, in Bolivia, uses a mini-survey to track income, food security, preventative healthcare and other well-being indicators. After piloting this system, they created a baseline that would allow them to define specific objectives and targets, and to do so effectively based on a snapshot of current practice.

Passion for mission: substitute for strong systems?

When MFIs have clear social objectives and strategies, but lack strong systems to provide information about progress towards those objectives, we would expect to see organisational decision-making becoming less effective. However, one of the most interesting findings to date has been the emergence of MFIs that compensate for weak (or non-existent) information systems by relying on the strength of organisational values rather than social performance information.

This 'value-driven decision-making' has led to some notable (and possibly effective) decisions. For example, **CRECER** uses a decision-making matrix that emphasises social, financial and strategic concerns (see **Table 1** below). An important example of how this matrix works in practice can be seen in its recent decision to adjust its core 'credit with education' product. It made a range of changes in one go, including product improvements, increase in product outreach and interest rate cuts. The decision increased both profit and client satisfaction, but it also helped the organisation fulfil its social responsibility, by providing cheaper money for its poorest clients.

In practice, it appears that value-driven decision-making *can* lead to good decisions, at a strategic level, which bring the MFI closer to its social mission. However, *this is only the case* where there is a clear, consistent and widely accepted value system which is taken into account in decision-making, and which leads to a carefully designed programme, even if there is no information with which to benchmark progress or results. At an operational level, however, there is a need for specific information related to goals and objectives. This is especially true in relation to management of staff performance through incentives, the setting of objectives and targets for outreach, and the use of certain indicators as early warning triggers.

Lack of integration at an operational level

Many organisations are integrating social performance into their decision-making at a strategic level – for example, when deciding where to open new operational areas or developing new products and services to meet specific needs of their target clients. But few organisations have integrated SPM fully into their day-to-day operational decision-making. Simple mechanisms, such as including social performance as a standing item on management meeting agendas and at all levels of the organisation, can encourage all staff to think about how social performance can be integrated in day-to-day decisions.

For example, the **Small Enterprise Foundation (SEF)**, in South Africa, has a strong commitment to reach the poorest people in its operational areas. SEF regularly analyses performance data at different levels – individual loan officers, branches, and across the organisation. This allows it to monitor the performance of its poorest clients, examining indicators such as proportion of new clients amongst its poorest target group, business value of clients, exit rate, savings and attendance. Where poorer clients are not performing as well as others, action is taken to understand the reasons why so that appropriate decisions can be made to turn performance around.

Table 1: CRECER's strategic decision-making matrix

Social concerns	Financial concerns	Strategic concerns
Giving back benefits to the client Meeting client needs Servicing more clients in less-serviced locations Measuring changes generated in clients' lives Caring for our human resources	Maintaining competitive financial performance Generating economies of scale Improving efficiency and productivity Cheaper money for the poorest	Leading the microfinance market Compliance with the vision and mission Mandate of the Assembly and Board Complementing social and financial performance

The challenges ahead

To date, the social performance agenda has largely focused on the development and application of tools and indicators. But as more MFIs assess and rate their social performance, and report on the results, we're seeing an increasing demand for social performance *improvement*. In this way, social performance management speaks to a real and current need, and we are starting to see more MFIs taking steps to link up their strategy, information and decision-making.

Since June 2008, the *Imp-Act* Consortium has engaged with more than 60 MFI practitioners and support agencies to discuss what is needed to promote wider take-up of SPM throughout the industry. At the broadest level, respondents gave a clear message that SPM needs to be a practitioner-led initiative rather than a donor-led one. They also identified five other priorities:

- demonstrating the value of SPM
- scaling up SPM in Africa
- engagement and communication
- tailoring resources to different contexts
- building capacity.

Demonstrating the value of SPM

Many MFIs struggle with the idea that financial and social performance are not 'either/or' options. Management teams need to make the case to their Board and staff that SPM can improve (or at the very least not jeopardise) institutional sustainability. This is especially critical as MFIs move to access commercial sources of funding.

There is also an assumption that many MFIs remain unconvinced about social performance, or would not be interested in the social potential of microfinance. Discussions during the development of the SPM Practice Guide have shown that social performance is starting to appear on the agenda of a broad range of institutions – including a few large, commercialised MFIs. In both of these instances, there is a clear need to make the *business* case for SPM. To date, we have been successful in costing out social performance information systems. But the greater challenge lies in assessing the value of applying a social lens to MFI performance management as a whole. This is a central focus of the *Imp-Act* Consortium's work.

Scaling up SPM in Africa

While regional and national networks in Latin America, Asia, Eastern Europe and the Middle East are taking SPM forward, there is less capacity to do this in sub-Saharan Africa. There is, therefore, a real need to scale up SPM on the continent. This includes putting SPM into practice at the MFI level, as well as support networks working directly with partners. There are some initiatives starting up, such as with **Terrafina** in Ethiopia, but these efforts would benefit from greater coordination and sharing of information.

Engagement and communication

To scale up SPM effectively, we need to build on current advocacy efforts and ensure consistency in understanding and messaging. This will facilitate the ability to raise awareness with investors and MFIs, build buy-in within MFIs, and facilitate linkages between practitioners so that good practice can be shared. For effective communication, SPM publications (practical tools and guidelines, and more promotional materials) should be translated into Spanish, French, Arabic, and possibly other languages. Other engagement challenges are the following:

Investors and donors play a key role in setting the agenda for MFIs. WE need to ensure effective outreach to these stakeholders to convince them to take social performance into account in their engagement with MFIs – and will be important for creating increased funding and technical support for SPM.

Convincing MFIs to take up SPM will be more effective if we have a clear and universally agreed message about what SPM is (and is not), how it responds to current industry challenges and how it fits in with broader efforts around social performance. See the draft key principles at the end of this document, which will be finalised in November 2008 at the 'Next steps in SPM' meeting in Washington. Once we have an agreed set of SPM principles – then close coordination is needed among key industry stakeholders (especially donors and support organisations) so that their SPM outreach efforts are consistent with the accepted principles.

Getting internal buy-in is an important step for MFIs that want to move forward with SPM. Consolidating existing resources and adapting them to local contexts and languages will be key to this process.

Facilitating learning linkages between MFIs will allow practitioners to share experiences, challenges and lessons learned. Regional and national networks have an important role to play. For example, members of the **Promuc** network, in Peru, were able to bring SPM to the fore as they applied constructive 'peer' pressure to encourage and challenge each other. Elsewhere, networks have formed SPM working groups that meet on a quarterly basis – focusing on a combination of technical input and sharing of experience between practitioners.

Tailoring resources to different contexts

There are many social audit/assessment tools and poverty assessment tools. But many MFIs are confused or overwhelmed by the different choices, unsure about when to use one over another, which ones are complementary and which ones overlap. In 2009, the SPTF will begin to provide 'consumer reports' on the range of assessment and rating tools available that should help MFIs choose the most appropriate assessment or rating tool for their needs. More generally, though, there is a need to adapt these tools to reflect the diversity of MFIs, in terms of the type and size of the organisation and the country or region they operate in, among other factors. Finally, our engagement with MFIs has identified a number of training gaps, including applying an SPM lens to governance, communications, internal control and human resources (especially gender awareness).

Building capacity

Building capacity is the key to scaling up SPM effectively. There are two options: design completely new training programmes for MFI staff, or integrate SPM into existing management training programmes, ensuring that a social lens is applied throughout. If SPM is to be an integral part of the way an MFI functions, the latter approach may be more effective in the long term.

Support organisations, mentors, regional networks and consultants will need to develop their SPM knowledge so that their training content is updated. Many MFI practitioners have expressed the need to develop consulting capacity at the local level due to the cost of external trainers, not least because SPM is an ongoing process that can take several months or even years to fully integrate into operations. Also, it is likely that consultants with expertise in certain areas, such as human resources or management information systems, will need to be trained on how to incorporate SPM into their own services. Whatever the approach, it is clear is that MFIs need further training and support to help them address ongoing challenges as they implement SPM in all their operations.

Box 3: The SPM Network

The Social Performance Management (SPM) Network connects people committed to managing and achieving the social mission of microfinance.

The SPM Network links members into the latest:

- **News:** Through blogs, videos, events listings, discussion groups, & weekly news round-ups
- **Debates:** Through monthly exclusive interviews with key industry stakeholders & guest bloggers on burning issues in SPM

Log on to link in: **www.spmconsortium.ning.com**

Proposed key principles of SPM

1. Clients are at the centre of SPM

- **You must understand and respond to clients' needs.** MFIs work in different contexts with clients of different ages, gender, economic status and livelihoods. You need to understand the full range of your clients' needs and adapt your services appropriately, in line with your mission.
- **Poor people are vulnerable, which creates risk for MFIs.** By understanding your clients' situation, you can design a strategy to improve their lives. In doing so, you will not only reduce the risk for clients but also reduce the financial risk for your own organisation.
- **Client protection is fundamental to SPM.** The more vulnerable your clients, the greater the need to protect them through effective communication, fair pricing, ethical guidelines for staff, and systems to monitor compliance.

2. Balanced performance management responds to clients' vulnerability

- **Clarity of purpose is the key.** SPM begins with an understanding of which clients you want to reach, what changes you want to bring about in their lives, what products and services you offer them, and how you can treat them with respect and dignity.
- **Measure what you value.** Information is the touchstone of SPM. The key is to identify what information is relevant, then analyse and use it systematically both to report on and improve practice. This does not always mean lots of extra work – data is often already available within your existing systems.
- **Operationalising SPM means aligning your systems.** Applying a social lens to performance management means looking at all aspects of your operations, including marketing, recruitment, training, incentives, organisational culture and Board composition.

3. Using information is at the heart of performance management

- **Balanced decision-making achieves a double bottom line.** Successful MFIs recognise the need to manage both social *and* financial performance, aware that impact and sustainability are not automatic outcomes.
- **SPM is about making strategic choices.** By clearly defining your social objectives and getting the information you need to understand what's happening in your clients' lives, your Board and management can make informed, strategic choices to balance social and financial concerns.
- **SPM is about day-to-day operational decisions.** Every day, managers make decisions that affect clients. Make sure that you keep clients' interests and concerns at the heart of all decisions.
- **The foundation of external reporting is an information system that facilitates routine internal decision-making.** External reporting and ratings now include social performance processes and outcomes, as well as financial performance.

Box 4: About the *Imp-Act* Consortium

The *Imp-Act* Consortium is a global collaboration between organisations that believe that microfinance must work for the poor and excluded – good intentions are not enough. As practitioners, we understand that there is a deliberate process for managing microfinance to achieve its social goals. We are a catalyst for change in understanding and practice, and by connecting practitioners around the world we demonstrate practical action and support each other in managing towards our social goals. For more information, visit **www.Imp-Act.org**.