

Why Social Performance Management? A Note for Microfinance NGO Networks



Microfinance NGO networks stand to benefit in several important ways from encouraging sound social performance management (SPM) practices and reporting among partner MFIs. Networks recognize that microfinance does not automatically produce social returns. Many want to know how to systematically improve and demonstrate social outcomes among their MFI partners. The microfinance industry has identified SPM as an approach that speaks to this need. Networks engaged with the social performance of their partners benefit from:

- 1. Understanding the local context:** Networks must base their support to MFIs on each institution's specific capacity and their local context. Without information on clients, staff, social and gender dynamics, non-financial services, and mission, networks are unprepared to respond to MFIs with individualized strategies and assistance.
- 2. Aligning activities to a social mission:** Networks that espouse a social mission must support the social performance (SP) of their partner MFIs. Furthermore, data collected from MFIs can help networks gauge their own progress towards stated social objectives.
- 3. Providing relevant services:** Investors and donors value transparency and accountability, and increasingly require social performance reporting. To gain a competitive fundraising advantage, MFIs need networks that provide them with technical assistance and other services for social performance.

Social Performance in Action:

ACCION International's Center for Financial Inclusion promotes the double-bottom line among MFI partners through the Smart Campaign for Client Protection. The Center educates industry stakeholders on six principles for client protection, promoting standards for the appropriate treatment of low-income clients.

- 4. Improving partnerships with MFIs:** A network can strengthen its relationship with a partner MFI by gaining a comprehensive understanding of its mission, social objectives, and outreach. An MFI whose social purpose is valued is more likely to discuss problems openly and maintain loyalty to a network.
- 5. Supporting pro-microfinance policy:** Networks that advocate for pro-microfinance regulation and policy must demonstrate the sector's contribution to the common good. Anecdotal evidence of poverty alleviation is not an accepted substitute for systematic measurement and reporting. Networks that encourage partners to track, report, and discuss social performance outcomes can arm themselves with these data to support their advocacy work.
- 6. Supporting balanced growth:** Networks will support healthy growth among partners by promoting social, as well as financial performance. MFIs that are only

CERISE offers MFIs the Social Performance Indicators (SPI) tool and social investors the SPI Investor tool, both of which allow stakeholders to self-audit. These tools also allow MFIs and investors to make decisions based on SP data, and to engage with other institutions who are similarly committed to improving social performance outcomes.

Catholic Relief Services (CRS) with funding from MasterCard and Ford Foundations has launched MISION II to expand SPM in Latin America and Africa using microfinance associations to promote SPM principles and tools among their MFI members. It provides training and capacity building to facilitate knowledge-sharing between Latin America and Africa and promotes the long-term ownership of SPM by national associations.

Grameen Foundation developed the Progress out of Poverty Index™ (PPI™) as a country-specific assessment tool for MFIs to measure outreach to the poor, monitor changes in clients' well-being, and capture data for the improvement of products and services. Grameen also supports MFI staff in learning the tool.

required to manage and report financial performance may suffer from mission drift: the pursuit of wealthier clients or lack of focus on client protection.

7. Reducing reputational risk: The microfinance industry has come under increased scrutiny. Stakeholders from microfinance clients to funders to governments demand greater transparency and measurable results that demonstrate the effects of microfinance on the poor. This rising wave of concern will likely grow stronger; it is essential that NGO networks and their partner MFIs are able to legitimately demonstrate their commitment to the social outcomes of their work.

Why NGO Networks?

NGO networks may question why *they* should be the actors exerting pressure on MFIs to adopt social performance management. Networks offer a global perspective that is difficult for individual MFIs to achieve. They are able to share industry experience and best practices, offer informed technical support and assistance, and provide the resources to develop new approaches to SPM. Additionally, pressure and support from networks may allow MFIs to justify the cost of implementing social performance management. **Networks may consider the following:**

- Considering social performance during the new partnership process
- Delivering training to partner MFIs and investors to raise awareness about SPM, and to increase MFI capacity to implement SPM initiatives
- Providing technical assistance and/or financial support specifically for SPM
- Publishing SP data from MFIs to publicize their successes
- Creating opportunities for MFIs to share experiences and best practices in SPM
- Incentivizing strong SPM among members

The Social Performance Task Force consists of over 600 leaders from all over the world from every microfinance stakeholder group: practitioners, donors and investors (multilateral, bilateral, and private), national and regional networks, technical assistance providers, rating agencies, academics and researchers, and others. Created in March 2005, the Task Force has been charged with clearly defining social performance and addressing questions about measuring and managing social performance.

For more information, visit the Social Performance Task Force website at www.sptf.info or contact Social Performance Task Force Coordinator Laura Foose at lfoose@alternative-credit.com