

Strengthening your social arm: new thinking, new results

Social Performance Management – what is it and what purposes does it serve?

*Katarzyna Pawlak and Dorota Szubert, MFC
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Many MFIs began as NGOs that initially entered the financial business for social reasons. To achieve success MFIs first adapted financial management tools that had been already effectively used by the commercial world. This was a long process, the success of which we may observe now. Most MFIs have an excellent portfolio quality envied by colleagues from the traditional banking sector and are on their way to sustainability or have already reached it. Effective and efficient financial measurement and management systems have become the hygiene factor in microfinance.

MFIs have become more professional as businesses, however, they cannot be considered ends unto themselves. They are well-tuned “social enterprises” that exist to professionally serve a diverse range of development purposes expressed in their missions. Moreover, considering the growing competition among financial providers for clients and capital, pursuing social goals and avoiding “mission drift” is a good way for MFIs to differentiate themselves and build a sustainable strategic advantage around their social performance. Of course, pursuing social goals needs to be done in a sustainable and professional manner for continuity of action to be ensured. But for the time being, the majority of us know how to keep pace with the highest business standards, while our missions have only been translated into such declarations as “reducing poverty” or “empowering women.” There has not been much intentional effort to convert them into real action.

Test Your MFI – Imp-Act Six Social Performance Management Questions:

Commitment to social mission:

- 1) What is your MFI mission and what are your social goals? How do you plan to achieve them?

How do you know you are achieving your mission?

- 2) *Reaching target clients:* Who uses and who is excluded from using your services?
- 3) *Meeting client needs:* How do clients use your services? Are their needs met? Why do some leave/become inactive?
- 4) *Client change:* How does client status change? What changes are unexpected?

Ongoing improvement and learning:

- 5) How can you use this information to improve your services and the way you operate?
- 6) How do you improve your systems through which you answer these questions?

The question therefore becomes, how can MFIs become more deliberate in their organizational drive toward the fulfillment of social goals in a sustainable manner? This is where **Social Performance Management** (SPM) can be helpful. SPM is a practical approach that helps an MFI look at itself through a social lens. It guides us in adapting our management systems and organizational processes so that they help us achieve our missions in a sustainable manner. SPM stimulates us to translate our “lofty missions” into



specific, measurable, realistic and time-specific social-performance objectives that provide us with tangible benchmarks against and towards which we can manage our performance. SPM helps institutions adapt their information systems so that they can use existing information to monitor and assess their social performance. It functions as an early warning system to inform management whether they go out of their social-performance track and shed light on the reasons for success or failure. This helps introduce the necessary changes, communicate them across the organization and align activities to reach expected results.

To ensure practicality and cost-effectiveness, SPM was developed through an experimentation process led by MFIs themselves. It builds on existing internal systems of MFIs (management, information, HR, marketing systems, decision-making processes, etc.) and integrates available microfinance client assessment tools (*MicroSave*, SEEP/AIMS, etc.) to support MFIs' learning and decision-making with respect to their double bottom line. What does SPM result in? First of all, it stimulates MFI leaders to be visionary, social-change professionals committed to making a real difference in their societies. And by making a real difference it helps MFIs effectively differentiate themselves as valid social enterprises in the eyes of clients, competitors, investors, regulators and communities.

About Social Performance

Do you know that ...

... although a relatively recent part of the microfinance agenda, it has a long history outside the industry. Ironically, perhaps, much of the activity and progress is taking place in the private sector. Strategic management guru Michael Porter said in 1999 that "corporate social responsibility is becoming an ever-more important field for business. Today's companies ought to invest in corporate social responsibility as part of their business strategy to become more competitive"¹.... Regarding how to implement social goals into an organization's strategies, business leaders are being instructed in prestigious business schools like Harvard Business School. This interest is supported by a number of initiatives providing the corporate world with social-performance reporting standards including the Global Reporting Initiative and AccountAbility 1000. Follow these links for more: <http://www.globalreporting.org/> and <http://www.accountability.org.uk/>.

... microfinance is no longer a topic interesting to microfinance practitioners only. **It has recently gained importance and prominence in the wider microfinance industry.** Only recently, a coalition of MFIs, donors, investors, rating agencies, and microfinance networks circulated and signed a statement committing themselves or their organizations to promoting social performance in microfinance. The Microfinance Centre joined a group of more than 35 microfinance practitioners, donors, raters and investors to endorse a common statement of principles in support of social performance. Follow this link to read and/or sign on to the initiative: <http://www.triasngo.be/>.

¹ Source: Michael Porter, <http://www.ebfonline.com/debate/debate.asp>



... in March 2005, the International Task Force on Social Performance (ITFSP) was launched in Paris. The Argidius Foundation, the Ford Foundation and CGAP brought together leaders from various social performance initiatives in the microfinance industry to come to an agreement on a common social-performance framework and to develop an action plan to move social performance forward (the Microfinance Centre was also invited to take part in the meeting). A nine-point action plan promises to see increased coordination and collaboration of action to ensure greater social focus and transparency in performance management and reporting in microfinance. The meeting articulated the view that the internal management of social performance by MFIs needs to be the starting point. Industry standards for the definition, assessment, comparable reporting, auditing and rating of social performance will build on this. The meeting emphasized that social performance is both a process – by which an institution translates its social goals into practice – and the benefits that result. These benefits are broadly defined in five areas: Serving increasing numbers of poor people sustainably;

- Improving the quality and appropriateness of financial services available to poor people;
- Improving the lives of poor people and their families;
- Widening the range of opportunities for communities; and,
- Socially responsible operations.

The next ITFSP meeting will take place in Washington in October 2005 to inform the industry on the progress and achievements in social-performance agenda as well as to develop a strategy for promoting a stronger social-performance focus in the microfinance industry.

... rating agencies have been experimenting with various tools for external social performance assessment. PlaNet Rating tested out the CERISE SPII framework during its last rating mission to Prizma in April 2005. McCrill has tried out a social development audit during its rating mission to Bullock Cart Worker's Development Association in India. In parallel, there has been work under way on a social-performance scorecard and audit by AMAP and Accion. Together they are working on common social reporting and rating standards within a ratings and reporting subcommittee of the ITFSP.

Social Performance Management: Do you want to learn more?

Social Performance Management Training. MFC in cooperation with *Imp-Act* Program and different practitioners around the world have developed a training course on Social Performance Management. The course was pilot tested last October and delivered at World Vision Summer Academy in London this year. The first regional course delivery will be held in January 2006. The course will be co-financed by the "Advancing Social Performance in CEE and the NIS" Program.

Social Performance Management Guidelines. Now you can develop your own SPM with *Imp-Act*/MFC Social Performance Management Guidelines. This step-by-step practical guide for developing a social-performance management system is available for a free download from www.mfc.org.pl/research or www.imp-act.org.



Social Performance Resource Centre with access to various documents, information on social performance-related events and progress on initiatives will be launched soon at the CGAP Microfinance Gateway.

Advancing Social Performance in the region of CEE and the NIS. The Microfinance Centre will launch a regional program on advancing social performance in the region. The program will invite all regional practitioners committed to their social mission that would like to develop SPM systems and experiment with effective SP strategies. The program will consist of three tier activities:

A regional working group of committed MFIs willing to experiment with social-performance enhancing solutions and share their lessons learned with other like-minded MFIs;

Capacity-building program to assist regional MFIs in developing their SPM systems will include:

- Social-performance management training;
- Tailored, follow-up assistance to selected MFIs;
- Action research to develop new management tools and approaches to support SPM including strategic planning for social goals and social auditing.

The program is supported by the ICCO, Ford Foundation and IFAD. More information on the program as well as a program application will be circulated within a few weeks.

Developing Poverty Assessment Tools. The USAID research sponsored project, which is implemented worldwide by the IRIS Center at the University of Maryland (September 2003-September 2006) has entered into its second phase: Poverty Assessment Tools Practicality Test. KLF (Kazakhstan), Demos - Loan and Savings Cooperative (Croatia), EKI and Prizma (Bosnia and Herzegovina) as well as the Microfinance Centre were selected to test the tools in CEE and the NIS. The objective is to test poverty assessment tools so that they can be used in a cost-effective way by practitioners to collect, use and report the information on the proportion of very poor clients receiving their services.

