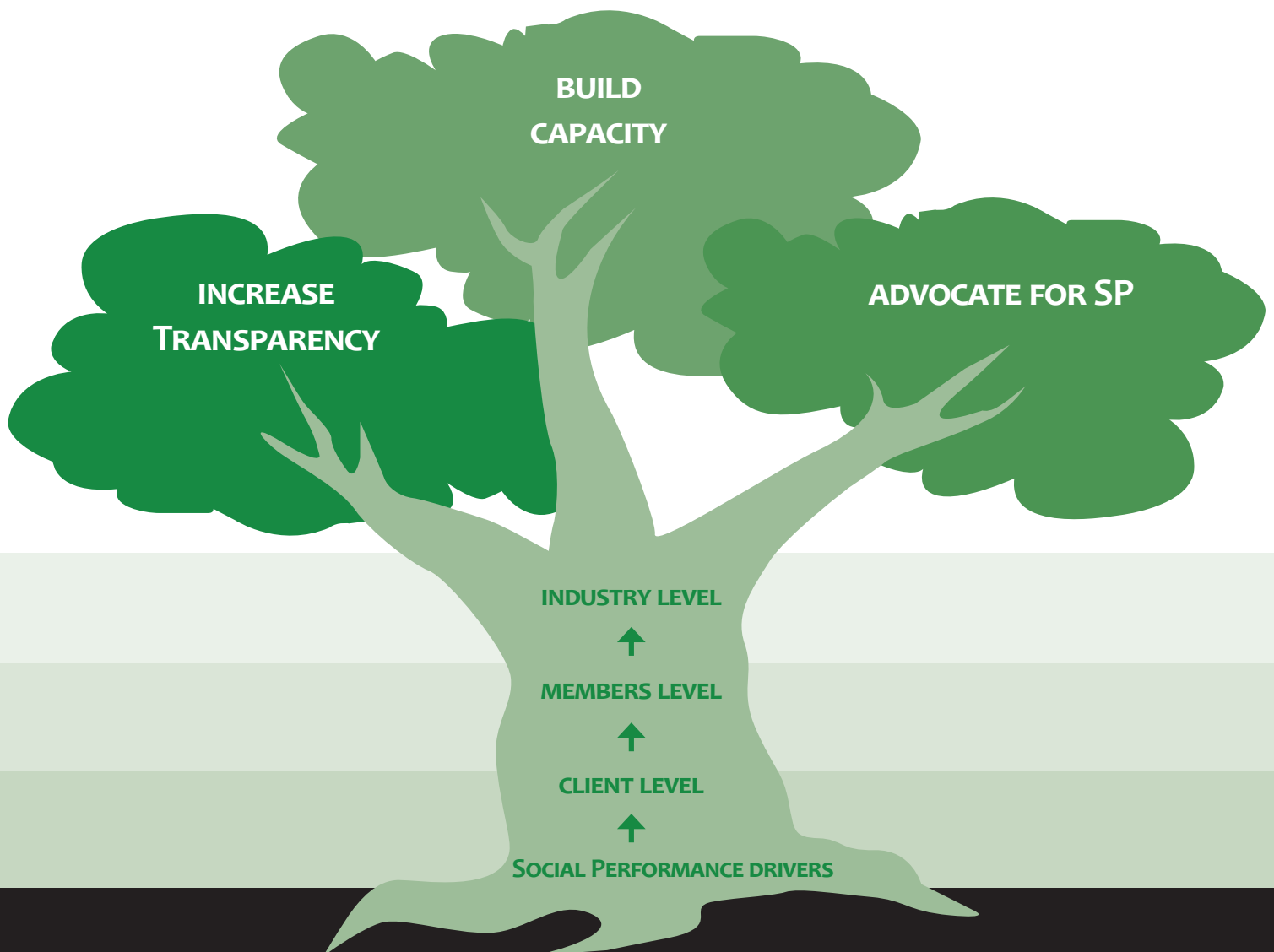


THE DECISION TREE FOR MICROFINANCE NETWORKS

Empowering Networks to Develop a Social Performance Strategy



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This project is a collaborative effort between CERISE and the IMP-ACT CONSORTIUM represented by Microfinance Centre (MFC), and funded by the Ford Foundation. The DECISION TREE has been written by Ewa Bankowska, Cécile Lapenu and Kasia Pawlak, with support by Bonnie Brusky.

Cerise

CERISE is a knowledge exchange network for microfinance practitioners founded in 1998 by five French organizations: cidr, gret, iram, cirad, and irc/supagro. CERISE works with a wide range of partners, practitioners, researchers, investors and donors from developing and developed countries to improve practices for responsible finance. CERISE'S activities focus on three main areas: impact and social performance, agriculture and rural finance, and governance.

Imp-Act Consortium

The IMP-ACT CONSORTIUM is a group of organisations active in promoting and supporting social performance management (SPM). Since October 2005, the Consortium has been working to create the conditions for the successful mainstreaming of SPM. Our vision is to see the social mission at the centre of microfinance, and we believe that SPM provides the foundation for assessing and promoting social performance in the microfinance industry. Our mission is to see a growing number of microfinance institutions actively managing, and reporting on, their social performance.

Building on members' expertise in research, training and advocacy, as well as their commitment towards the social performance agenda, the Consortium has articulated the following goals: (1) build capacity for SPM training and support, (2) document evidence and learning to advance good practice in SPM, (3) Promote an enabling environment for SPM.

Microfinance Center (MFC)

MFC is a regional network for Europe and Central Asia with its headquarters in Poland. Since 2005, it has delivered capacity building in SP management and reporting to over 10 microfinance networks and 150 MFIs. MFC is a member of Imp-Act Consortium and Social Performance Task Force. More about MFC at www.mfc.org.pl.

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We are extremely grateful to Sharon D'Onofrio for her valuable comments.

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WHY AND HOW TO DEFINE A CUSTOMIZED NETWORK STRATEGY FOR SOCIAL PERFORMANCE

The **DECISION TREE** is a effort of, the Microfinance Centre (MFC) and the imp-act Consortium. It draws on their combined experience in social performance working with nearly 400 microfinance institutions and 20 microfinance networks in Africa, Asia, Latin America and Eastern Europe. The **DECISION TREE** aims to increase the scale and effectiveness of network-led initiatives in social performance through a coherent framework for social performance management (SPM) strategy development.

The **DECISION TREE** offers step-by-step guidance to help networks develop their own strategies and select appropriate tools. The underlying premise is that network initiatives should reflect a clear strategy based on local needs and demands. The **DECISION TREE** is designed to empower national and regional networks to support their members in assessing, managing and reporting on social performance. It can also facilitate coordination among different donor initiatives and technical assistance providers working with microfinance networks.

WHY NETWORKS?

National, regional and global networks are an important resource for achieving significant and large-scale improvements in social performance. They represent an excellent entry point for social performance, thanks to their ability to raise awareness among members and key industry stakeholders. Networks are also well-positioned to advance the implementation of social performance in a way that reflects local context and members' needs, through training, capacity building, pilot-testing and peer learning.

Important insights have been derived from networks' experiences developing and implementing effective social performance strategies:

1. MAKE IT STRATEGIC.

A SPM strategy should be driven by local needs and demands. To date, much of the support to networks in social performance has been driven by technical service providers. Services to members have been primarily "tool-driven", or based on access to a particular type of expertise. The result has been insufficient focus on key social performance issues faced by clients, MFIs and the microfinance sector at the local level.

2. MAKE IT INTEGRATED.

Social performance should be integrated into the network's strategic plan — not considered a separate or stand-alone activity. The decision to promote social performance has far-reaching implications for a network and can impact transparency, advocacy work, capacity building, and even recruitment activities.

3. MONITOR QUALITY AND STAFF CAPACITY.

When planning a strategy, make sure to have sufficient and well-trained staff to carry out the SPM action plan. This includes overseeing the plan's development, organizing and coordinating activities, ensuring quality of work, and making sure members are involved.

CONTENT OF THE DECISION TREE

Networks generally pursue three strategies to improve social performance:

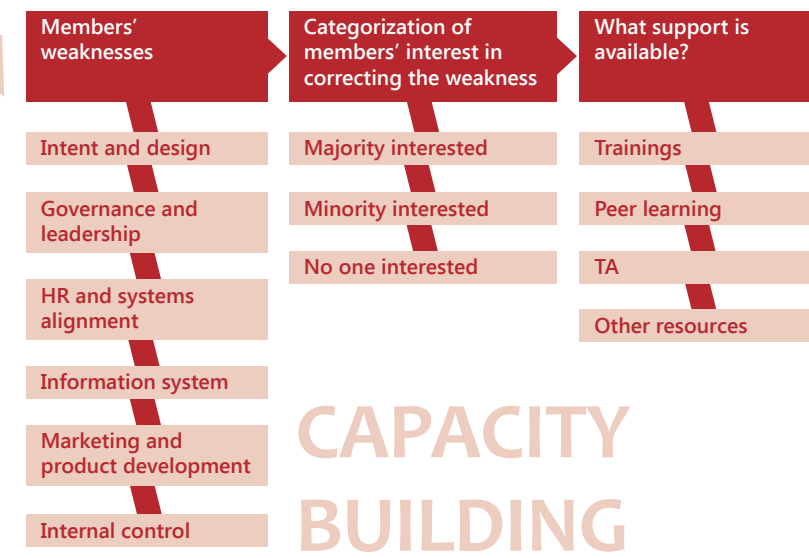
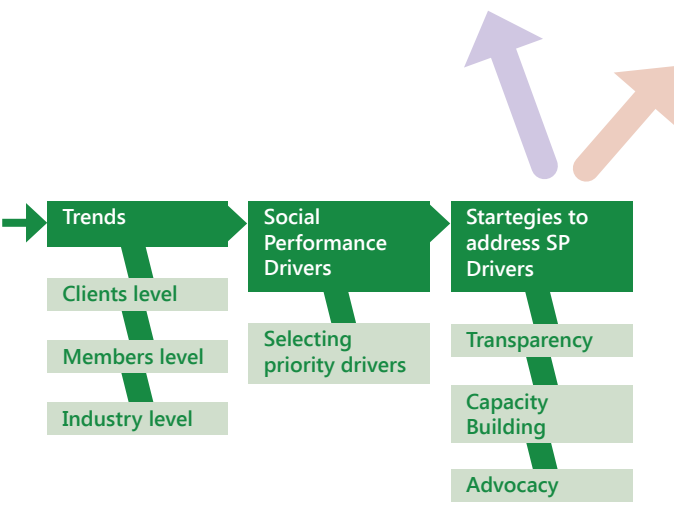
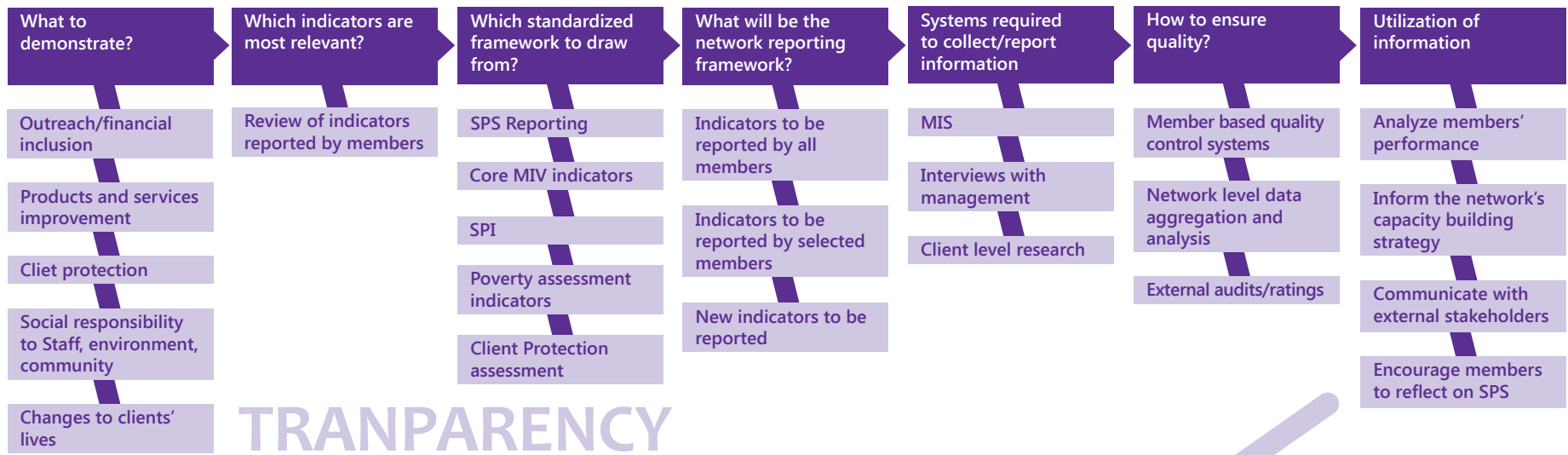
TRANSPARENCY	Increase members' ability to measure, analyze and report on social performance; compare results to benchmarks/national or international standards, and disseminate performance results.
CAPACITY BUILDING	Align systems, processes and practices of member institutions with social performance aspirations.
ADVOCACY	Encourage members to have a clear position and vision on social performance and lobby external stakeholders to create an enabling environment for networks and members to achieve their social and financial performance objectives.

In many ways, these three areas are mutually reinforcing. Increased awareness and advocacy at the industry level creates buy-in and positively impacts capacity building efforts. Similarly, increased transparency in reporting results on outreach or information related to products and services can demonstrate a need for strengthening SPM. Advocacy and a clear social performance vision create an enabling environment for MFIs to achieve better impact.

The **DECISION TREE** is composed of these three branches: Transparency, Capacity Building and Advocacy. It is a comprehensive, step-by-step process that allows networks to: Assess key social performance-related trends at the client, MFI and sector level;

1. Identify the drivers of a SPM strategy;
2. Define a customized strategy, based on different options for the three branches.
3. The **DECISION TREE** also includes good practice highlights from microfinance networks and guidance on identifying appropriate social performance resources and tools.

The final output of the **DECISION TREE** process is a complete, coherent and strategically driven action plan for networks to help members implement social performance management.



HOW TO USE THE DECISION TREE

USERS

The **DECISION TREE** is designed for networks. It is complementary to the Social Performance Management Practice Guide for MFIs published by the imp-act consortium and the Institute of Development Studies.

The **DECISION TREE** can be used to:

- Familiarize inexperienced networks with the roles a network can play to support social performance and design a first SP strategy;
- Help mature networks develop a comprehensive strategy to advance social performance among members and the industry;
- Evaluate and adjust existing social performance initiatives.

At the end of the process, the resulting SPM strategy document can be used to set an agenda and define next steps with network members; inform the government; and exchange with donors, financial partners or TA providers to negotiate support to implement the action plan.

PROCESS

The **DECISION TREE** offers step-by-step guidance to define a coherent and demand-driven social performance strategy. It is organized around three major steps:

STEP 1 Trend Analysis, Prioritization, and Identification of SP Drivers.

STEP 2 Develop a Strategy based on Transparency, Capacity Building and/or Advocacy

STEP 3 Implement the Strategy

Each step is organized around a series of questions. Each question is followed by elements to consider when answering the question, as well as the sources of information to make an informed decision. Examples are provided as further guidance.

The network can conduct this analysis alone (with Board members and management team) through a self-guided process (See Appendix – Planning Guide), or accompanied by an external facilitator with good knowledge of the **DECISION TREE** and the network.

TIMEFRAME

Depending on the objective, the **DECISION TREE** may take a few hours or a few days. For example, if the objective is to revise an existing SP strategy, a stakeholder meeting of few hours may be sufficient. If the goal is to create a SP strategy and define an action plan, the process may take 3 days for developing a draft strategy.

Networks that have pilot tested the **DECISION TREE**

MCPI in the Philippines,

RFR in Ecuador,

AEMFI in Ethiopia

Time it took for the networks to complete the process:

mcpi, light revision of strategy, 1 day; RFR, design of next steps in strategy, 2 days; aemfi: definition of sp strategy: 3 days for developing a draft strategy and 3 days over a period of few months to finalize it.

1. ENTRY POINT: SELECTING SP DRIVERS

The network must identify the social performance issues that it will address based on a trend analysis at the client, member (MFIs) and industry level (mainly funders, support organizations, regulators).

Next, the network will need to prioritize among those issues, to choose those that are of most strategic importance—these are its **social performance drivers**. The drivers chosen by the network constitute its vision for SP.

PRIORITIZING SOCIAL PERFORMANCE DRIVERS

When defining a SP vision and strategy, the *why* is important. Networks must be sure to make choices deliberately—based on sound analysis of trends—and not haphazardly, just because opportunities present themselves.

It is the role of networks, as industry representatives, to articulate the needs of the sector. For strategy development, this means identifying the principal drivers. Drivers are embedded in the local context. They define *why* a network selects particular issues. Drivers also influence *how* the network addresses these issues in a way that ensures buy-in from stakeholders and represents an appealing value proposition for members.

The process of identifying and prioritizing the main drivers ensures the network's strategy responds adequately to the key issues facing members and their clients in the local context. It also helps prioritize network activities for optimal use of resources.

Ideally, trend analysis should be conducted with inputs from network staff, board members, and external actors that may have useful insights for building a shared SP vision.

Trends can be divided into three levels:

- End clients
- Members and/or other MFIs
- Industry stakeholders (government, donors/investors, TA providers, media/general public).

QUESTION 1.1 - WHAT ARE THE TRENDS AT THE CLIENT LEVEL?

The client is at the heart of what we do. Microfinance was created as a tool to help clients improve, at the very least, their economic situation. Many microfinance institutions have broader social aspirations as well, such as contributing to women's empowerment, education, health, home improvement and more. These aspirations appear in the mission statements of MFIs. The purpose of social performance is to ensure the effective translation of social mission into practice. Identifying trends at the client level in terms of changes to behavior or living conditions is an essential step in this process. These trends may result in certain opportunities, which when addressed properly by MFIs and stakeholders, will benefit the clients. If ignored, these trends may create risks, and have negative impact on clients and their households.

OPTIONS

■ TRENDS IN OUTREACH

UNSERVED SEGMENTS Many people have no or limited access to financial services: the very poor, marginalized groups, rural populations, women, small businesses, etc. Trends in outreach can be identified by low or even decreasing rates of financial inclusion, with consequences on poverty and economic development.

Have you identified groups of people who do not have access to financial services?

■ TRENDS IN PRODUCTS AND SERVICES

UNMET NEEDS Market surveys, analysis of current products and services, and sector studies can reveal unmet demand for specific products (i.e., small and medium enterprise loans, savings, remittances, housing, insurance, products specific to rural contexts, non-financial services).

Have you observed clients with a need for products, which are not currently delivered by MFIs?

CLIENT DISSATISFACTION High/growing absenteeism in group meetings, low saving balances, use of multiple loans, high client exit rates and/or low usage of certain products may reflect client dissatisfaction. In extreme cases, dissatisfaction may take the form of willful default movements, like the *no pago* movement in Nicaragua.

Have you observed that users are not satisfied with services and products offered by MFIs?

■ PROTECTION AND BENEFITS FOR CLIENTS

OVER-INDEBTEDNESS OR MULTIPLE LOANS

Reimbursement difficulties and multiple loans can indicate over-indebtedness, with serious implications for households and MFIs. The trend can be identified through analysis of credit bureau data, information from client surveys on use of multiple loans, rising PAR and delinquency in overall and segmented portfolios, and higher than average microfinance penetration rates or cumulated growth.

LACK OF UNDERSTANDING OF COSTS, TERMS, CONDITIONS

Lack of knowledge and understanding of terms and conditions make it difficult for clients to compare between competitors and make informed decisions. Underestimation of the loan cost negatively impacts business and family budgets.

COMPLAINTS ABOUT STAFF

Unethical collection practices, overly aggressive sales tactics, or violation of privacy amount to disrespecting the basic rights of clients. Unethical treatment by staff or fraud creates a reputational risk not only for the institution but for the microfinance sector.

NEGATIVE OR LIMITED BENEFITS

Clients may report negative/limited impact on income/social cohesion and there are cases of disturbing social phenomena (i.e., increasing number of divorces among female clients; decreasing school attendance of children helping their parents' business; in some extreme cases, client suicides). The trend can be identified through impact studies, monitoring changes in client status over time, direct feedback from clients.

Have you observed a growing number of clients having problems with repaying their debts and/or taking multiple loans?

Have you observed that clients are not informed consumers and lack sufficient understanding of financial costs, terms and conditions of the products?

Have you heard about clients complaining about the staff behavior towards them?

Have you observed cases of clients who do not benefit from microfinance products and services?

RANKING THE TRENDS

After identifying the full list of trends at the client level, prioritize them according to highest, medium and lowest importance. This prioritization is useful, because networks rarely have the capacities and resources to address all the trends at once.

SOURCES OF INFORMATION

- Network staff
- Board members
- Member knowledge of clients
- Client surveys
- Media and government data on the micro and macroeconomic situation of households and MSMEs small enterprises in the country
- Industry analysis and/or market research by the network or other organizations (MIX, CGAP, social and financial raters).

If after prioritization few trends fall under the "lowest importance" category, review the list again and exclude some elements from the column "highest importance."

CASE STUDIES/EXAMPLES

MICROFINANCE PROTESTS IN NICARAGUA

The Movimiento No Pago (a movement for non-payment of loans) emerged in mid-2008. It started when a group, mostly of farmers from the north of Nicaragua, began by protesting in front of government offices. The President of Nicaragua responded by telling the group to protest outside the MFIs instead, which led to demonstrations (some violent) that forced some MFI branches to close. Unable to pay their debts partly due to the global economic crisis, borrowers focused their anger on interest rates being charged by MFIs. No Pago groups succeeded in pressuring the government to pass a moratorium on debt repayment in 2010, which required MFIs to negotiate overdue loans with clients. By January 2011, only 7% of clients had negotiated new terms, suggesting that the No Pago movement had started to weaken. MFIs are starting to recover, but are facing an uphill battle: the No Pago movement has seriously weakened the culture of repayment in Nicaragua.

Source: www.kiva.org; www.centerforfinancialinclusionblog.wordpress.com

QUESTION 1.2 - WHAT ARE THE TRENDS AT THE MEMBER (MFI) LEVEL?

Understanding institutional trends at the level of member MFIs helps networks provide relevant support. For example, the opportunities and challenges faced by MFIs affect their selection of target market, e.g. increasing competition in urban areas can push an MFI to find ways to serve a niche market in rural areas.

If you work with non-member MFIs, make sure to consider them in this analysis.

OPTIONS

■ FOCUS ON SOCIAL PERFORMANCE

INTEREST IN SP

Socially focused MFIs are committed to their mission, improving social performance and usually open to invest in SPM.

Those without social aspirations do not readily see the value of managing social performance, perhaps because market incentives focus on financial performance. Their products and services are not designed to meet the needs of poor and vulnerable groups or they prefer to serve better off, easy-to-reach clients, often competing with downscaling commercial banks.

Have you observed growing interest of MFIs in social performance theme or, on the contrary, an increasing number of MFIs purely focused on maximizing financial returns and with little interest in social performance?

MISSION DRIFT

In a period of fast growth and expansion, an organization may hire many new people, and old systems and procedures may need to be adapted (often formalized) to accommodate the growth. New staff may lack incentives to serve excluded groups. Standardized products may take the place of more flexible ones driven by client needs. Focus on financial performance and efficiency may absorb all the MFI's resources. MFIs may become more like banks or other mainstream financial institutions, losing their focus on development goals. A decline in poor/excluded clients, standardization of products, and less proximity to clients may indicate mission drift.

Have you observed mission drift among the MFIs?

■ WEAK SYSTEMS AND PRACTICES

INEFFICIENT INTERNAL SYSTEMS

MFIs may have underdeveloped or no internal systems. This may be the case of emerging MFIs or MFIs in post-crisis situations that struggle to survive, be sustainable, and lack resources to invest. This limits MFIs to develop products, understand clients, expand outreach and innovate. Capacity building for these MFIs can address both financial and social management.

Have you observed MFIs with inefficient internal operating systems (governance, HR, marketing, internal audit, MIS, etc.)? Are the majority of members in the early development stage or with limited capacities for improvement?

UNETHICAL BEHAVIOR

There may be reports of mistreatment of clients by staff; staff may not be trained and incentivized to behave ethically; MFIs pass operational inefficiency onto clients through costly products; improvements in efficiency are slow or non-existent.

Have you observed irresponsible practices from MFIs in terms of presenting their services and marketing their products or in terms of client service?

HIGH STAFF TURNOVER

High rate of staff turnover may be linked to better opportunities with other employers or cases of competitors 'buying' staff (especially field staff with their portfolio). But it may also reflect unsatisfactory working conditions: unethical or irresponsible behavior towards staff may be reported; staff may not be compensated adequately for their work as compared with other sectors; human resources policies may be weak.

Have you observed problems with staff management at the MFI level?

■ COMPETITION AND FUNDING

GROWING COMPETITION

Competition from mainstream financial service providers (downscaling banks, consumer lenders, pawn shops, etc.) may target the same clients as some MFIs and offer products perceived by clients as more competitive.

Strong competition in saturated contexts may incite ambitious MFIs to grow too fast (uncontrolled growth) and make loans without careful analysis of debt capacities.

Have you observed MFIs compete not only among themselves (if at all) but also with other financial institutions, which have not been involved in microfinance before?

FUNDING DIFFICULTIES

As they grow, MFIs need to diversify funding sources and attract private investment. However, they may struggle to attract funders due to inadequate reporting of performance results or because they do not have the capacity to satisfy funders' demands.

Have you observed that MFIs face difficulties to attract more diverse funding over time?

RANKING THE TRENDS

After identifying the full list of trends at the client level, prioritize them according to highest, medium and lowest importance. This prioritization is useful, because networks rarely have the capacities and resources to address all the trends at once.

If after prioritization few trends fall under the “lowest importance” category, review the list again and exclude some elements from the column “highest importance.”

SOURCES OF INFORMATION

- Information from members on strengths and weaknesses
- Performance reports
- Internal audits and ratings
- Analysis of members’ missions to identify social aspirations
- Financial and social ratings
- Market analysis

CASE STUDIES/EXAMPLES

LISTENING TO MEMBERS: RADIM, ARGENTINA

The Red Argentina de Instituciones de Microcrédito (RADIM) is constantly exploring new initiatives to strengthen the Argentinean microfinance sector. This network of 11 MFIs aims to build institutional capacity of members by pushing for transparency and by lobbying the government for a better microfinance environment in a sector that has not reached the breadth and depth of other Latin American markets.

RADIM had heard about the use of poverty assessment tools at other institutions and wanted to know more about how it could use them. However, an in-depth analysis of trends at the MFI level identified that RADIM’s members had other priorities in the short run: 1) establish a set of clear and measurable social objectives, including the definition of a target population; 2) better understand the profile and preferences of (potential) clients, which would include but not be limited to poverty level; 3) develop initiatives that focus on the human resources dimension of social performance management.

Source: Harleman, D., 2010. Next steps in social performance management in the Argentinean microfinance sector: Exploring the introduction of poverty assessment tools, European Microfinance Program Master Thesis.

QUESTION 1.3 - WHAT ARE THE TRENDS AT THE INDUSTRY LEVEL?

Microfinance networks do more than serve their members. They make active contributions to industry development. Thus, networks need to be extremely conscious of the context within which they work. Industry level trends influence both clients and the MFIs by creating an enabling or a restraining environment for social performance. A network, as a representative of its members, should react in line with market developments to proactively address opportunities and mitigate risks for members and clients.

OPTIONS

■ LEGAL AND REGULATORY CHANGES

POLICY REFORMS

Legal and regulatory conditions, or potential reforms such as interest rates caps, excessive regulation regarding collateral, or onerous reserve requirements can limit access to finance for certain groups. In some cases, however, legal or regulatory reforms can create opportunities to improve social performance e.g., authorization to collect savings enables MFIs to address a wider range of client needs; governmental programs can facilitate outreach to marginalized segments.

Do you observe legal and/or regulatory conditions, or potential reforms that impact the ability of MFIs to adequately serve clients?

■ CONTEXTUAL RISKS

SECTOR CRITICISM

Reputation risk, skyrocketing to the second position behind credit risk in the 2011 report of the Microfinance Banana Skins¹, is driven by publicized cases of microfinance failures (over-indebtedness, cases of mistreatment by staff, or even suicides), questionable interest rates and profiteering investors. When MFIs' practices are questioned, governments may insist on closer monitoring and greater transparency in both financial and social performance. Investment vehicles may witness investors' withdrawals, and donors may be reluctant to continue their support.

Do you notice increasing criticism about microfinance and MFI practices?

ECONOMIC ENVIRONMENT

Financial or economic crisis causes a vicious cycle: clients struggle to repay debts and often reduce borrowing; consequently, MFIs face delinquency problems, slowed growth and client desertion, leading to weak financial performance.

Do you observe or expect an economic downturn that may affect both clients and institutions?

¹ Lascelles, D. & Mendelson, S. (2011), Microfinance Banana Skins 2011: Losing its Fairy Dust, CSFI: New York.

■ OPPORTUNITIES FOR DEVELOPMENT

NEW STAKEHOLDERS DRIVEN BY SP

The growing interest in microfinance has brought new funders to the market, attracted by the industry's social promise. In some cases, good social performance may facilitate access to more funding opportunities, better terms, lower prices or/and technical assistance packages delivered within the funding partnerships.

Technical assistance from national or international organizations may also be developing to support SPM efforts financially and/or through direct technical assistance delivery.

TECHNOLOGICAL INNOVATION

Technology can lead to innovation in financial services and improved efficiency. Adapted by microfinance, innovation can bring new opportunities for MFIs to reach hard-to-access clients (i.e., mobile banking development) and reduce operational costs in order to provide better prices to clients.

Do you observe new stakeholders getting engaged in microfinance because of its social performance potential?

Do you observe technological innovations accessible to MFIs that would improve outreach or reduce costs for clients?

RANKING THE TRENDS

After identifying the full list of trends at the client level, prioritize them according to highest, medium and lowest importance. This prioritization is useful, because networks rarely have the capacities and resources to address all the trends at once

If after prioritization few trends fall under the "lowest importance" category, review the list again and exclude some elements from the column "highest importance."

SOURCES OF INFORMATION

- In-depth sector research by media, government, microfinance experts
- Draft laws and new regulations
- Sector analysis
- Interviews with sector stakeholders

CASE STUDIES/EXAMPLES

REVERSING THE TENDENCY TOWARDS LARGER LOANS IN ECUADOR

In Ecuador, the national professional association RFR (Red Financiera Rural) identified several sector trends: the number of small loans was decreasing, average loan size was increasing, and financial services were withdrawing from rural areas, due to regulation and interest caps. This network of 38 members opted for an advocacy strategy and lobbied the government for more favorable regulation and policy. RFR collected facts and figures, to convince the regulator to define a new segment of microcredit by size (the law fixed 3 segments with differentiated legal requirements) to make sure that small loans are still available to vulnerable clients.

Source: RFR, 2010, *Desempeño social y financiero, Balance, tendencias y pautas para regulación y políticas públicas*, Boletín Micro financiero 29 December, p. 154-169.

NEXT STEP

A network should list together all the prioritized trends at all three levels of clients, MFIs and other stakeholders. Next, another review should be done, to select the key trends.

QUESTION 1.4 - WHAT SOCIAL PERFORMANCE DRIVERS CAN ADDRESS THE TRENDS?

At this point, trends have been **identified** and **prioritized** at three levels: client, member and industry levels. Each trend brings either an opportunity or risk and thus requires an appropriate response by the network. The social performance drivers will inform this response by providing the foundation for its SP vision and strategy.

OPTIONS

A network should focus on one to three drivers to optimize available resources. The following is a list of trends that can drive social performance strategy.

TABLE 1 – EXAMPLES OF TRENDS AT CLIENT LEVEL AND RELATED SP ISSUES IN THE MICROFINANCE SECTOR

CLIENT-LEVEL TRENDS	SP DRIVER	
Underserved/unserved poor people	Financial inclusion / outreach to poor: increase the outreach of MFIs to poor people, offering products and services meeting the needs of poor people	OUTREACH
Underserved/unserved people in rural areas	Financial inclusion / outreach to rural areas Increase presence of MFIs in rural areas (rural outreach), offering products and services meeting needs for rural and agricultural development	
Underserved/unserved excluded groups (migrants, minorities, youth, SMEs, etc.)	Financial inclusion / increase outreach to excluded groups through appropriate products and services	
Underserved/unserved women	Financial inclusion / Increase outreach to female clients; developing women empowerment products and services	

Limited loan products which cannot meet the diversified needs clients	Product and service improvement - Develop innovative loan products (for agriculture and rural development, for SMEs, for housing, etc.)	PRODUCTS AND SERVICES
Large numbers of clients who receive remittances but do not manage these funds	Product and service improvement - Create opportunities for clients to better manage their remittances through savings or investments.	
Large numbers of clients who will be more resistant to shocks with insurance, but are excluded from access to this service	Product and service improvement - develop appropriate partnerships and products for access of clients to microinsurance	
Improved efficiency of financial products when linked to non financial support, but lack of supply by MFIs	Product and service improvement - develop cost-effective solutions for delivering non-financial services to their clients by MFIs or through partnerships	
High client rates and low usage of certain products	Client satisfaction: understand needs and complaint of clients to improve their level of satisfaction	
Large/growing numbers of clients who have problems repaying loans	Client protection: undertake actions preventing over indebtedness at client, MFI and industry level. Adaptation of products to clients' constraints	PROTECTION AND BENEFITS FOR CLIENTS
Large/growing numbers of clients who do not understand products and services of MFIs	Client protection: educate clients on how to understand products conditions, on their rights and obligations; financial literacy	
Unethical treatment of clients	Client protection: train staff on behavior towards clients; codes of conducts	
No/ Negative impact	Client satisfaction: understand the limits of the products to improve their adaptation to clients' needs	

TABLE 2 – EXAMPLES OF TRENDS AT MEMBER LEVEL AND RELATED SP ISSUES IN THE MICROFINANCE SECTOR

MEMBER LEVEL TRENDS	SP DRIVER	
Members have social missions and are interested in improving social performance	Alignment of internal systems: Better achieve social mission through internal systems alignment	FOCUS ON SP
Members are not interested in social performance and/or care only about financial sustainability	Outreach/financial inclusion: Create incentives for MFIs to work towards financial inclusion	
	Social Responsibility Standards: Create minimum standards for social responsibility	
Members prefer to serve better-off clients and exclude socially vulnerable groups	Outreach/financial inclusion: Create incentives for MFIs to work towards financial inclusion	
Members face difficulties to avoid mission drift in period of fast growth	Alignment of internal systems: better achieve social mission through internal systems alignment	
Members face difficulties to avoid mission drift in period of commercialization	Alignment of internal systems: better achieve social mission through internal systems alignment	
Members do not have management systems in place like HRM, marketing, internal audit, etc.	Alignment of internal systems: design management systems that account for both social and financial dimensions	WEAK SYSTEMS
Members are emerging MFIs with limited capacities to take on SP efforts	Alignment of internal systems: improve management systems that account for both social and financial dimensions	
Members offer costly products, do not or slowly improve their efficiency	Client protection: improve practices in responsible pricing	
Members lack products and solutions to reach out to excluded groups	Outreach/financial inclusion: create incentives for financial inclusion in terms of outreach, product development and delivery	

Certain management practices of members hinder and do not support SP e.g. lack of staff training on social mission, biased staff incentives etc	Alignment of internal systems: Improve management practices to take social performance dimensions into account in selected areas of operations	WEAK PRACTICES
Members practice unethical/irresponsible behavior towards clients	Client protection: Implement good practices in client protection	
Lack of members' transparency in communication with clients	Client protection: Improve practices in transparent pricing and preventing over-indebtedness	
Members practice unethical/irresponsible behavior towards staff	Social responsibility to staff: Treat staff responsibly	
Members face difficulties to compete with traditional financial institutions for clients	Differentiation from competitors - through client protection: Differentiate from traditional players as institutions that want to positively impact clients	COMPETITION AND FUNDING
	Differentiation from competitors - through client protection: Differentiate from traditional players as institutions committed to client protection	
Members face difficulties to compete for skilled human resources or staff desertion	Differentiation from competitors - through staff commitment: Differentiate from competition by appealing to staff social commitment	
	Differentiation from competitors - through SR to staff: Differentiate from competition through outstanding responsibility towards staff	
Members face difficulties to compete for convenient funding	Differentiation from competitors - through social performance transparency: Differentiate from competition on the funding market through social performance transparency	
Fierce competition between members	Outreach/financial inclusion: Search for new market niches: poverty outreach, rural outreach, outreach to excluded groups	
	Product and service improvement: Innovate in product development: product improvement, saving, rural products, non-financial services, etc.	
	Client protection: Prevent negative impacts on clients	

TABLE 3 EXAMPLES OF TRENDS AT INDUSTRY LEVEL AND RELATED SP ISSUES IN THE MICROFINANCE SECTOR

INDUSTRY LEVEL TRENDS	SP DRIVER	
Positive legal and regulatory developments for extending outreach to excluded groups	SP Advocacy: Advocate for appropriate reforms. Educate and inform government	LEGAL AND REGULATORY CHANGES
Negative legal and regulatory developments for extending outreach to excluded groups	SP Advocacy: Advocate for appropriate reforms. Educate and inform government	
Positive legal and regulatory developments for sector pricing transparency	Client protection: Promote pricing transparency	
Negative legal and regulatory developments for sector pricing transparency	Client protection: Promote pricing transparency	
There is lack of supportive regulation and/or infrastructure available to members to avoid over-indebtedness [credit bureau], regulation on multiple loans, client’s repayment capacity assessment recommendations	Client protection: Prevent over-indebtedness	
Reputation risk of MFIs	Social performance minimum standards: Demonstrate social development value added of microfinance through transparent reporting of social performance indicators, impact assessments and market studies.	CONTEXTUAL RISKS
Economic / Financial crisis	Client protection; Product and service improvement: Mitigate effects of crisis on end clients and MFIs by improving client risk analysis and adjusting collection practices to clients’ liquidity constraints, through innovations in products and services and non-financial services.	

OPPORTUNITIES

Lack of technical support for SPM	Social performance minimum standards: Build local capacity in SPM
Available support to improve social performance	Outreach/Financial inclusion: Identify new niche markets
	Product and service improvement: Improve products and services and adapt to target clients needs
	Position MFIs on funding market, using social performance results
	Alignment of internal systems: Improve internal systems to better achieve missions or improve client protection
New funders interested in social investments	Positioning: Position MFIs on funding market, using social performance results
Funding incentives for socially oriented MFIs	Positioning: Position MFIs on funding market, using social performance results
No funding incentives for MFIs with good social performance	SP Advocacy: Create incentives for funders to support socially oriented MFIs
Technology development for improved efficiency	Client protection: Promote good practice in responsible pricing and lower cost to clients
Technology development to bring financial services to excluded groups	Outreach/Financial inclusion: Increase poverty outreach and/or financial inclusion

CASE STUDIES/ EXAMPLES

The table below presents the prioritized trends identified by AEMFI from Ethiopia, and related SP issues.

TABLE 1. – EXAMPLE FROM AEMFI, ETHIOPIA

	TRENDS	SP DRIVERS
client level	Lack of clients awareness about their rights and obligations	client protection
	Lack of clients complaints' system	
	Over-indebtedness	
members level	Staff fraud	alignment of internal systems; outreach/ financial inclusion Improving own mission realization through better systems and improved poverty outreach
	MFIs committed to both financial and social goals; poverty focused MFIs	
	Limited capacity of staff and management (both related to social and general performance)	
	Very weak governance structure	alignment of internal systems Installing systems of governance with both social and financial lens
industry level	Limited access to donors and investors	context Positioning towards government and regulator: educating and informing
	Poor understanding of microfinance services/social performance by government and regulators	

QUESTION 1.5 - HOW CAN THE NETWORK ADDRESS THE SP DRIVERS?

The next step is to develop the strategy to address each of the drivers. Answering the following questions will be the starting point for identifying key strategy(ies) to follow.

- **Is it about obtaining and using information?**

If governments are suspicious or skeptical of MF activities, or if MFIs need to attract social investors, a network may want to focus on demonstrating its members' social performance.

- **Is it about improving practices of its members?**

If members are not effectively targeting low-income people, a network may want to help them improving their skills and knowledge related to outreach strategies and improvements in products and services.

- **Is it about creating a favorable environment for social performance?**

A network may want to facilitate a process that generates government support to MFIs with outreach to remote and rural areas.

OPTIONS

Network initiatives in social performance generally fall within one of three strategic areas:

TRANSPARENCY	Increase members' ability to measure, analyze and report on social performance; compare results to benchmarks/national or international standards, and disseminate performance results.
CAPACITY BUILDING	Align systems, processes and practices of member institutions with social performance aspirations.
ADVOCACY	Encourage members to have a clear position and vision on social performance and lobby external stakeholders to create an enabling environment for networks and members to achieve their social and financial performance objectives.

Although some issues may be addressed through more than one strategy, a network should seek to prioritize its activities. Networks may choose to work in all three areas, or in just one area or two areas they consider most important. They may also choose to stagger interventions, prioritizing certain areas during a first phase and then moving to a more comprehensive approach as capacities are developed.

In many ways, these three areas are mutually reinforcing. Increased awareness and advocacy at the industry level creates buy-in and positively impacts capacity building efforts. Similarly, increased transparency in reporting results on outreach or information related to products and services can demonstrate a need for strengthening SPM. Advocacy and a clear vision for SP create an enabling environment for MFIs to achieve better impact.

■ TRANSPARENCY IN SOCIAL PERFORMANCE

This strategy is appropriate when the network has identified the need for more and better information on social performance, either for internal purposes, such as increasing awareness/advocating for a social performance issue among their members, and/or external purposes such as communicating to government, donors, investors, media.

Improving transparency requires solid data collection formats and processes at the MFI and network level and necessitates buy-in from the majority of the MFIs if scale is to be reached. The network must be trusted by its members and have the capacity to manage data and produce relevant reports for members and the industry.

Transparency initiatives usually address member and industry-level trends.

■ CAPACITY BUILDING FOR SPM

This strategy is appropriate when members show a desire to reinforce their SPM and change their practices to increase outreach and/or improve impact on end clients.

A capacity building strategy requires stronger involvement from both the network and members in terms of resources (time, funding), and buy-in, as compared to improving transparency. It requires strong systems in training delivery, access to technical experts, and access to organizational assessment tools.

The capacity-building option may be chosen:

- Up-front, *as an entry point* to raise awareness on social performance-related issues among members, to build their buy-in and empower them to support the network in identifying key trends and drivers, and develop a social performance vision,
- To help members clarify social goals and develop measures to start reporting social performance as *complementary effort* to the transparency-related activities,
- *As a second step* of the SPM strategy of a network, when SP data is already available and a common understanding and trust has been established between the network and its members to initiate more direct intervention in changing management practices and processes.

Capacity building initiatives are mainly a response to client and member-level trends.

See question 2.5 for more on processes.

See question 2.6 for more on reporting.

■ ADVOCACY FOR SPM

This strategy is appropriate when the network identifies the need to engage with members or/and external stakeholders in order to promote a vision on SP and induce changes in the environment.

To build a strong advocacy strategy, the network needs inputs to feed its argumentation: either good case studies, or data from members that show strong commitment and benefits to end clients.

Advocacy initiatives generally address industry-level trends.

Table 2 relates for each social performance driver the different objectives the three strategies can help achieve. Context will influence which strategies are most effective at addressing the priority drivers.

TABLE 2. POTENTIAL OBJECTIVES FOR EACH SP DRIVER AND RELATED STRATEGIES

SP DRIVER	TRANSPARENCY STRATEGY	CAPACITY BUILDING STRATEGY	ADVOCACY STRATEGY
OUTREACH/FINANCIAL INCLUSION	Demonstrate there are groups of people excluded from the financial sector (poor, rural, minorities, women); demonstrate MFIs' contribution to increasing financial access to those groups and meeting their needs	Improve the capacity of MFIs to use poverty targeting strategies and develop of products and services suited to the needs of poor clients.	Encourage MFIs to work towards financial inclusion and increase outreach; encourage investors to support MFIs working towards this goal. Advocate for better policies/regulations that facilitate (or at least do not limit) access for excluded groups. Involve donors/investors in women empowerment initiatives, better rural outreach, etc.
PRODUCT AND SERVICE IMPROVEMENT	Present range of products and services offered by MFIs to various types of clients; demonstrate the level of adaptation of products and services for identified clients' needs; identify gaps	Help MFIs innovate in products and services based on clients needs (SMEs, rural, housing, savings/ remittances, insurances, etc.)	Change/reform regulations to enable greater diversity of products/ services, i.e., regulations for savings. Encourage donors and other stakeholders to support MFIs in innovation in products and services.
CLIENT SATISFACTION	Demonstrate level of clients' satisfaction with products and service. Demonstrate level of MFIs' efforts to monitor satisfaction and satisfy clients' needs.	Support MFIs to effectively monitor clients' satisfaction and use results for improving products and services.	Demonstrate the positive opinion of microfinance clients to government to advocate for appropriate political or regulatory reforms.
CLIENT PROTECTION	Demonstrate MFIs' alignment with the Client Protection Principles and best practices. Measure the extent of over-indebtedness. Promote transparent pricing. Inform the media and general public. Demonstrate MFIs' involvement in client literacy efforts; demonstrate level of clients' literacy.	Improve client protection practices in MFIs: analysis of repayment capacity and adaptation of services; adequate risk management processes; transparent pricing and communication with clients. Help MFIs develop services for improving client literacy and incorporate client education into operations.	Convince members of the need to adopt client protection as a minimum standard for microfinance. Convince donors and investors to prioritize MFIs with strong client protection practices. Advocate for solutions supporting client protection in MFIs (i.e., credit bureau, development, codes of conducts, standardization in interest rate disclosure.)





SUSTAINING SOCIAL MISSION IN PERIOD OF COMMERCIALIZATION	Demonstrate MFIs' commitment to social goals and mission. Report on different social objectives and results.	Support MFIs to adept their systems and operations to current market conditions in a way that respect their social mission.	Build awareness of members and their stakeholders (investors, donors) about risks of commercialization (over-indebtedness, focusing on well-off clients and competition with well established banks) Advocate for focus on mission fulfillment by MFIs (to improve financial performance, mitigate reputation risks, and address demand from external stakeholders).
ALIGNMENT OF INTERNAL SYSTEMS WITH SOCIAL AND FINANCIAL OBJECTIVES	Share practices and performance of MFIs that have improved their systems.	Equip MFIs to evaluate their internal systems' and align them to their social mission.	
SOCIAL RESPONSIBILITY TO STAFF/STAFF COMMITMENT TO IMPROVEMENT	Demonstrate strong social responsibility to staff.	Help MFIs improve their social responsibility to staff by analyzing and addressing staff needs.	Raise awareness of linkages between staff satisfaction, good performance (both social and financial) and client satisfaction.
DIFFERENTIATION FROM COMPETITORS	Demonstrate social performance and how well different MFIs fulfill their social goals.	Enable MFIs to assess their social performance. Encourage MFIs to utilize SP data to improve their practices.	Change/reform regulations to privilege socially oriented MFIs Convince investors and donors to give priority to MFIs with strong social performance.
LEGAL ISSUES	Show the state of the practice under the current legal framework. Demonstrate the impact of changes to the legal framework.	Help MFIs adapt their systems to a changing regulatory framework while maintaining focus on the social mission.	Inform and educate policy makers and regulatory authorities of how changes to the legal framework can impact the sector. Educate policy makers on the preferred options to create an enabling environment for socially oriented MFIs.
CONTEXT	Reputation: Demonstrate fair practices and positive contribution on life of clients. Analyze the impact of financial/economic crisis.	Encourage MFIs to develop risk mitigation strategies.	Increase awareness of the positive aspects of MF to external stakeholders to defend the sector and engage committed stakeholders
OPPORTUNITIES (TA, FUNDING, TECHNOLOGIES)		Inform MFIs of opportunities, increase technical capacity to increase their ability to access support.	

CASE STUDIES/ EXAMPLES

APIM MALI: FOCUS ON TRANSPARENCY

The national microfinance network of Mali, APIM has been working on social performance since 2008, particularly on issues relating to transparency. The focus on transparency comes from a need to communicate more with local and international partners. In December 2008, APIM Mali organized a workshop with support from BMS and SIDI, for member MFIs to prioritize the social performance indicators to monitor. The MFIs selected a list of indicators from the CERISE SPI. APIM then worked with CERISE and TERRAFINA to create a Social Performance Dashboard that was relevant, easily interpretable, and could provide an overview of the social performance of Malian MFIs. This transparency initiative is aimed at positioning Malian MFIs in terms of social performance and strengthening their efforts to improve client services.

MCPI, THE PHILIPPINES: FOCUS ON CAPACITY BUILDING

The Microfinance Council of the Philippines, kicked off its work on Social Performance in 2006 in response to several important drivers identified in the local market:

- Increasingly commercial approach to microfinance
- Pressure to become viable and sustainable: focus on low-risk loans
- Saturation of certain markets
- Unmet segments: not reaching the poorer and marginalized
- Client protection issues
- Questionable impact on poverty reduction

The key strategy was to build capacity of MFIs to manage their social performance in particular towards the poor, followed by promoting transparency in line with the launch of the Social Performance Standards Reporting format of the MIX in 2009.

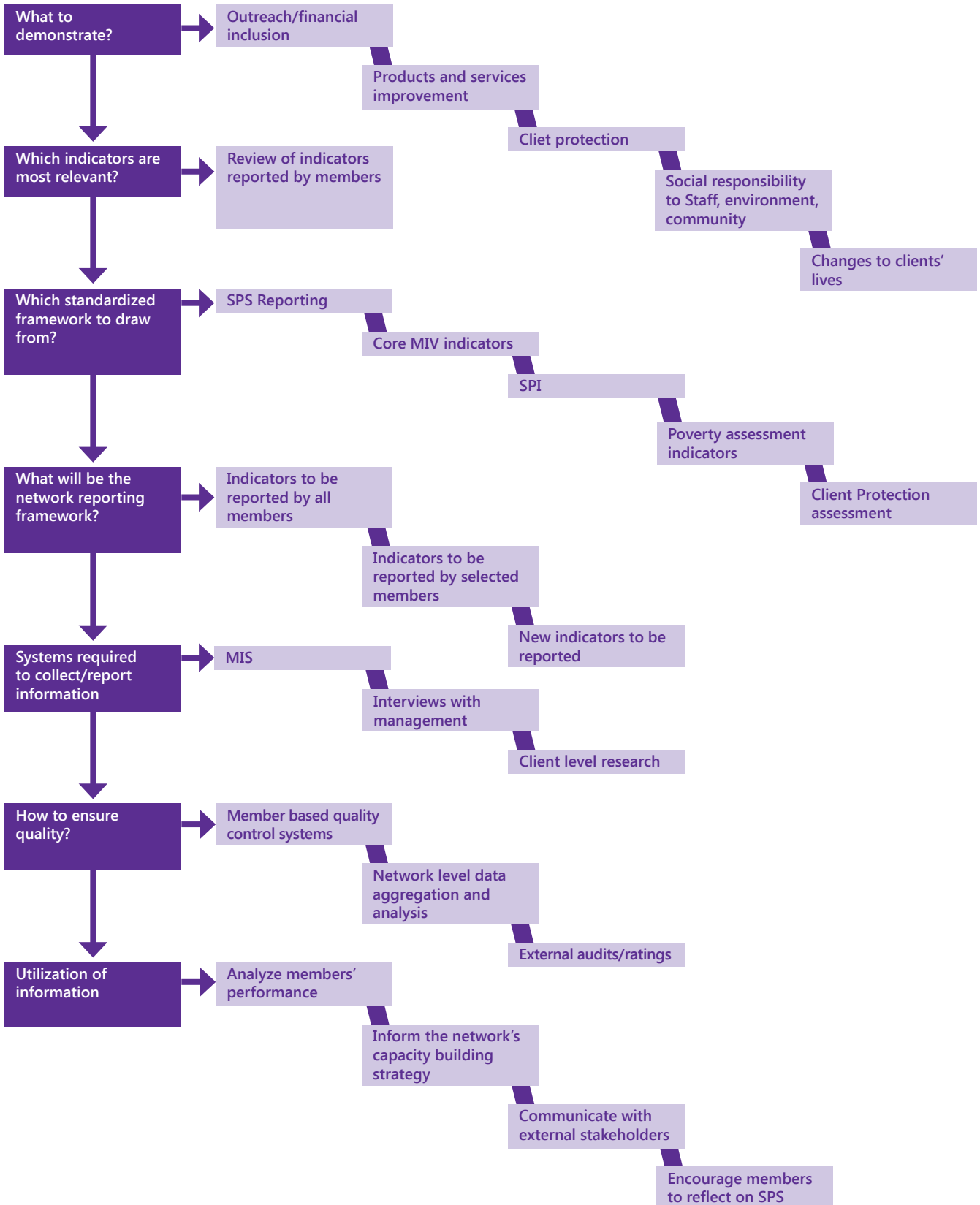
NCU BULGARIA: FOCUS ON ADVOCACY

The National Cooperative Union of credit cooperatives Evrostart (NCU) federates 16 rural credit cooperatives in Bulgaria. Agricultural credit cooperatives constitute the only formal credit source for farmers and small rural enterprises. Initially, these cooperatives' reporting was limited to outreach and financial performance indicators. NCU, with the support of the Swiss Agency for Development and Cooperation, Oikocredit and CERISE, conducted social audits with its members using the SPI tool. One of the main objectives was to use results for lobbying national authorities on the importance of the cooperatives and negotiate a more appropriate regulatory framework, identified as a major constraint, hence a key SP driver for SP assessment. NCU defined a communication and advocacy strategy: dissemination of audit results via international fora (e.g. Microfinance Gateway), reporting to the MIX Market, and direct contact with key resource persons able to influence the regulatory framework and propose amendments.

NEXT STEP

As a result of this analysis, a network may decide that all three strategies are important for a specific driver. However, it is usually necessary to make choices with respect to the timing of initiatives in order to ensure each receives adequate support of management.

2. TRANSPARENCY



QUESTION 2.1 - WHAT DOES THE NETWORK NEED TO DEMONSTRATE?

Data collection and analysis should focus on useful and accurate information. Therefore, it is important the network identifies:

- **what** it wants to demonstrate, and
- **for whom**, in order to identify
- **what information** is needed.

The audience for this information may include MFIs, regulators, donors, investors, general public, media, end clients or communities.

This analysis should be based on the drivers identified in Chapter One to avoid collecting a long list of indicators or reports with little value added. Information will focus on systems and processes and/or results (i.e. changes for clients).

OPTIONS

TABLE 3. GUIDANCE TO DETERMINE BASIC INDICATORS

IF THE NETWORK WANTS TO DEMONSTRATE...	IN ORDER TO...
OUTREACH/FINANCIAL INCLUSION	Verify whether clientele matches targeting objectives; get an overview of national coverage of the microfinance sector. Example: Dashboard of CIF in West Africa
PRODUCTS AND SERVICES IMPROVEMENT	Verify to what extent MFI fulfills the needs of the clients and identify gaps in product and service offerings.
CLIENT PROTECTION	Verify if MFIs are responsible to their clients and apply the Client Protection Principles .
SOCIAL RESPONSIBILITY TO STAFF, COMMUNITY AND ENVIRONMENT	Help networks define a better HR policy and ensure that MFIs meet acceptable standards and/or make special efforts to be socially responsible.
CHANGES TO CLIENTS' LIVES	To illustrate changes in clients' lives, networks can engage members at three levels: Level 1: Outputs of MFI Level 2: Outcomes (changes in clients' lives) Level 3: Impact ²

IT MUST PROVIDE ...

Basic indicators on the number of poor and excluded people served, linked to the number and profile of clients reached

Information on various products and services offered by members

Information on MFI compliance with 6 Client Protection Principles

Information on HR policies and work conditions of MFIs

Level 1: number of clients reached, clients outreach by methodology, outreach by products.
Level 2: number of jobs created, children attendance to school, changes in the poverty levels
Level 3: Periodic, more in-depth surveys with a valid control group

SOURCES OF INFORMATION

An informed decision should be based on the **needs of the MFIs and other stakeholders**, and their willingness to share at the network level. MFI members can provide information, for instance at workshops organized by networks.

CASE STUDIES/EXAMPLES

THE 6 CLIENT PROTECTION PRINCIPLES

1. Avoidance of over-indebtedness
2. Transparent and responsible pricing
3. Appropriate collections practices
4. Ethical staff behavior
5. Complaints handling and resolution
6. Privacy of client data

NEXT STEP

The network can now decide what data to collect from its members.

² Impact differs from outcomes in that outcomes are changes that can be observed.

QUESTION 2.2 - WHICH LOCAL INDICATORS ARE MOST RELEVANT?

Networks should first try to **select measures from existing information systems**. Ideally, networks should seek to align their own reporting systems with those already used by MFIs, government and regulatory agencies, and others when appropriate. This should be done in order to:

- Ensure buy-in from the MFIs, and other local stakeholders by relying on the information they already use and value, and that is considered relevant in the local context;
- Avoid overburdening MFIs with additional reporting (using current MIS, current procedures of data collection);
- Access data that has been collected over time and analyze trends.

The second step is to consider **what measures network members and local stakeholders consider most relevant**. Ideally network data collection should address the information needs of members as well as that of external stakeholders, such as government and local funders. This will ensure greater utilization of the information collected. For example, some MFIs use their own poverty scorecard. At the network level, key local indicators of poverty and/ or exclusion can be taken into account.

OPTIONS

Network can start by identifying which SP indicators are currently utilized by members, commonly collected and regularly reported as well as SP indicators required by government/local stakeholders.

Each selected indicator should be crosschecked for its relevancy. A network should ensure the chosen indicators are:

- **Meaningful**
- **Comparable** with the application of standards
- **Easy to collect**, i.e., easily obtainable with systems in place to collect and verify information.

SOURCES OF INFORMATION

Surveys/visits MFIs and direct verification of their MIS and data collection procedures.

Overview of legal requirements in terms of social performance-related data, information needs of government, investors, and other key stakeholders.

In ECA region literacy is 100%, and primary education is obligatory, thus children at school is not very meaningful indicator.

If everyone measures poverty in a different way then results cannot be compared across institutions.

Health indicators are sometimes sensitive and subject to relative interpretation when not collected by health specialists and are then considered as hard to collect

Remember to consider the information needs of all government bodies. Regulatory agencies are less likely to consider social performance. However, Ministry of Finance, Rural Development Ministries, or programs on women or youth development may have relevant needs.

CASE STUDIES/ EXAMPLES

DEFINING LOCAL INDICATORS

When RFR began to work with members on social performance assessment, it first identified the dimensions it wanted to report on and then verified the data available at the members' level. Today, RFR reports on the number of clients and volume of loans by

- region
- type of activities (agriculture, trade, building, education, retirement, etc.)
- geographic outreach (rural/urban)
- loan methodology (individual, solidarity group, village banks, association)
- client profile (family status, age)
- client satisfaction.

RFR also verifies whether the end clients are living in rural areas, based on the national definitions.

Other networks such as CIF in West Africa, have defined local indicators that were relevant for them such as the number of youth (under 30) or the number of persons with disabilities who had access to loans. However, since the MIS of some members are not tracking this information yet, the networks may face difficulties in aggregating relevant data.

INTEREST RATE REGULATIONS IN ECUADOR

In Ecuador, MFIs have interest rates standards calculated using a formula defined by the Central Bank of Ecuador for the effective annual interest rate (EIR). The calculation of the EIR takes into account mandatory savings at disbursement and during the loan term, but does not include mandatory fees. The Central Bank has set three different maximum rates for microcredit based on loan size ranges. In its quarterly *Microfinance Newsletter* (the financial, social and market report of RFR members), rfr includes data on EIR based on the definition of the Central Bank.

NEXT STEP

The network can now decide which indicators from international standardized frameworks it wants to use to ensure data collected is compatible with demand from external stakeholders.

QUESTION 2.3 - WHICH STANDARDIZED FRAMEWORK TO DRAW FROM TO DEFINE RELEVANT INDICATORS ?

International standards on social performance indicators have been defined and are now frequently used by MFIs and their partners.

It is important for a network to align its reporting systems with international standards as much as possible in order to avoid overburdening MFIs that may already be reporting to international bodies, as well as to demonstrate industry results at the global level.

OPTIONS

■ CORE SOCIAL PERFORMANCE INDICATORS

SOCIAL PERFORMANCE STANDARDS (SPS)

Since 2008, MIX and the Social Performance Task Force have developed indicators to measure the social performance of MFIs. These are the basic indicators MFIs should report to the MIX. The MIX-SPS indicators focus on data that are clearly and directly linked to results, have quality that can be tested and benchmarked, and can be easily validated by third parties. The MIX objective is to increase transparency in the microfinance industry through data collection and analysis.

CORE MICROFINANCE INVESTMENT VEHICLES (MIV) INDICATORS

In 2010, some of the largest MIVs agreed to report on a minimum set of social performance indicators for their MFI investees. These ten core indicators are derived from the MIX-SPS and MIX financial framework, thus are fully compatible.

■ OTHER SOCIAL PERFORMANCE INDICATORS

SOCIAL PERFORMANCE INDICATORS (SPI)

Created in 2001 by CERISE, the SPI tool is a comprehensive set of about 70 indicators organized around four dimensions of social performance: outreach, products and services, benefits to clients and social responsibility. Widely used by MFIs, networks and investors, the SPI is fully compatible with the social performance standards (SPS) of the mix Market, but proposes also other indicators on processes.

POVERTY ASSESSMENT INDICATORS

The PPI (Progress Out of Poverty Index) and the PAT (Poverty Assessment Tool) are tools designed, based on national households surveys, to predict poverty including household assets, education, family structure, main occupations, etc. Composed of 10 to 15 indicators collected at clients' level, these tools can be used to estimate the likelihood of a client having income below national or international poverty lines.

CLIENT ASSESSMENT INDICATORS

The SMART CAMPAIGN has indicators for assessing compliance with Client Protection Principles. The aims/seep Learning from Clients toolkit also has tools with indicators for assessing client satisfaction and women's empowerment.

SOURCES OF INFORMATION

Surveys/visits to MFIs, to determine which indicators from standardized frameworks are currently collected.

Social Performance Task Force website to have an updated version of the international standardized frameworks.

CASE STUDIES/ EXAMPLES

MFC AND MIX-SPS

The Europe and Central Asia region is a highly commercialized and credit-focused region. MFC conducts a market overview for the region each year. The study, called MFC Mapping, covers statistics on financial and social performance of MFIs, funding sources and the state of the industry as a whole. Besides encouraging its members to report on their social performance to MIX, MFC collects the following indicators to demonstrate the level of financial inclusion in the region:

- depth of outreach
- number of rural borrowers
- number of female borrowers
- over-indebtedness and client protection practices.

The self-reported data is verified by MFC with MFI's audited statements and annual reports, as well as other regional studies.

CARD, MCPI AND POVERTY DATA

In integrating SPM, mcpi and its members, such as card, looked at the data they were already collecting and built on them. For instance, card had been using the Means Test as a targeting tool. When the Poverty Scorecard—now known as the Progress out of Poverty Index—became available it was adopted by card and mcpi as it was touted to be more accurate than the Means Test in classifying clients based on their poverty status.

Source: Mission First mcpi 2010

NEXT STEP

Now the network is ready to define its reporting framework.

QUESTION 2.4 - WHAT WILL BE THE NETWORK'S REPORTING FRAMEWORK?

In the previous steps, the network has identified locally relevant indicators and those derived from international standards. The next step is to define the network's reporting framework.

To build the reporting framework, it is important to determine:

- What is necessary to align local indicators with the international ones?
- Which new data collection measures are needed provide the information needed to demonstrate the issues identified in Question 2.1?

OPTIONS

■ INDICATORS TO BE REPORTED BY ALL MEMBERS

Core indicators for global reporting: some indicators need to be reported by all MFIs, either to demonstrate issues identified in Question 2.1, or because all MFIs need to share the same level of information. For example, the *effective interest rate* should be disclosed by all the MFIs.

■ INDICATORS TO BE REPORTED BY SELECTED MEMBERS

Selective indicators (for specific group of members): some indicators are linked to specificities of MFIs. For example, *poverty profile* of clients for should be disclosed by MFIs specifically targeting very poor clients

■ NEW INDICATORS TO BE REPORTED

New indicators (for all or specific group): a network may feel a new indicator needs to be reported and may need to support the development of the data collection system at the MFI level.

If the new indicator is complex or sophisticated, a pilot testing phase may be necessary to ensure data quality.

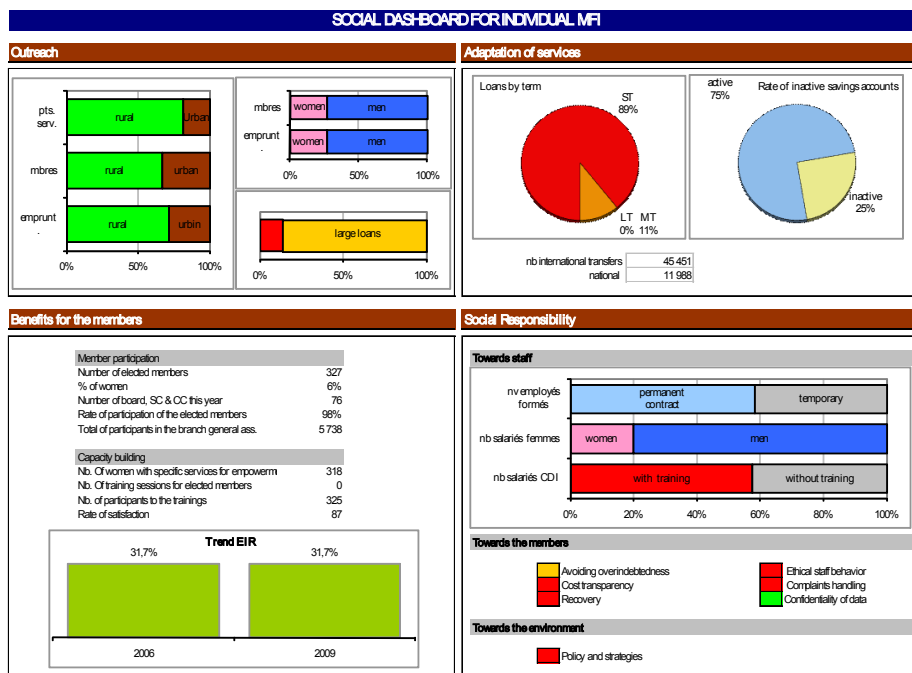
SOURCES OF INFORMATION

Meetings with members to identify indicators used, indicators required and "nice to have" indicators. The network should have a good understanding of the level of development of MIS systems.

Meetings with individual MFIs' IT teams to assess quality and accuracy of the MIS and data collected; understanding of changes needed in the event of new indicators.

CASE STUDIES/ EXAMPLES

CIF, Confédération des Institutions Financières, groups 6 large cooperative networks in West Africa. Based on a SPI audit conducted with each member, a set of indicators has been defined and presented with a dashboard, including “local indicators” such as members’ participation, and “international standards”, linked for example to the 6 principles of client protection. Those dashboards are shared at the local level during the General Assemblies of members, at the MFI level with the Board of Directors, and are aggregated at the network level. They help the members share the same language in terms of social performance and identify key issues for defining SP strategy



NEXT STEP

Now that the network has a final set of indicators with definitions and status (core, selective, new), it is ready to identify the systems it needs to collect information for this reporting framework and define how to fill it in.

QUESTION 2.5 - WHAT SYSTEMS ARE REQUIRED TO COLLECT/REPORT THIS INFORMATION?

Depending on the set of indicators identified by the network, information will either come from internal systems and processes within the MFIs, or from the client level.

Client-level data collection processes are much more demanding; a network needs to identify at early on in the data collection process how this will be managed.

OPTIONS

Some information may already be available in the MIS. Other data may require interviews at the MFI level or client surveys. The network needs to identify which information can be collected from the MFI's MIS and aggregated at the network level, information which will come from regular interviews with key resource persons from the MFIs, and how **client surveys** will be conducted.

MFIs face a number a questions when it comes to client surveys. MFIs must choose whether they will draw a sample or survey all clients. They must decide on how often they will survey clients (annually? biannually?) and determine who will administer the survey (external evaluators or field staff?).

TABLE 4. REQUIRED SYSTEMS FOR MOST COMMON SP INDICATORS

COMMON SP INDICATORS	SYSTEMS
number of clients number of women number of rural/urban Volumes of activities (loans, savings) Distribution by type of products	MIS
Preventing over-indebtedness Human resources policies Governance practices	Interviews with managers
Clients profile Clients' needs Level of satisfaction Level of awareness Level of over-indebtedness	Client level research

SOURCES OF INFORMATION

IT Teams and feedback from members on data collection and management process.

CASE STUDIES/EXAMPLES

NETWORKS AND COLLECTION OF CLIENT DATA

CIF in West Africa: the definition of rural and urban areas often remains quite challenging. Moreover, the MIS of the MFIs may not differentiate clients by place of location. In some cases, manual verification is necessary.

MCPi in the Philippines: The MFIs from the Microfinance Council of the Philippines use the Progress out of Poverty Index to collect information at the client level. The PPI data is then integrated into their MIS. They are currently moving towards the use of this data in making management and operational decisions. However, key technical issues such as having a unique identifier by clients to follow results over time can become strong constraints with unadapted MIS.

Networks can verify which data is available on MIS and in which conditions these data can be exploited.

NEXT STEP

The network is now ready to address the quality control of data collection.

QUESTION 2.6 - WHAT CAN THE NETWORK DO TO ENSURE QUALITY REPORTING?

Social performance reporting needs to be based on credible, valuable and accurate information. The **data collection process** is key to ensure quality of data. It should be thought through and designed up-front.

OPTIONS

Networks can play three roles to ensure quality reporting. The choice depends largely on the relationship it has with members, on members' expectations, and on the network's capacity.

■ PROMOTION OF MEMBER-BASED QUALITY CONTROL SYSTEMS

When: At a minimum, a network needs to **promote internal control processes** within MFIs that are collecting and reporting data. This is a central role of the network and usually its first priority with respect to transparency. It involves:

- Building commitment to quality reporting;
- Development and adoption of standard measures and collection processes among members;
- Strengthening internal processes, particularly the role of internal audit within member institutions;
- Support for the development of adequate management information systems.

How:

- Offer incentives for quality reporting, such as technical feedback and performance analysis with respect to peer groups;
- Clearly define indicators;
- Provide guidance in data collection processes;
- Support development or revision of operating manuals and information systems;
- Facilitate training of key MFI staff.

The data collection process involves identification of sources of information, the nature of data to be sent to the network, capacity building of staff in charge of data collection at MFI and network levels, quality control, aggregation and analysis of data.

■ NETWORK-LEVEL DATA AGGREGATION AND ANALYSIS

When: In addition to supporting members' to report on social performance, many networks assume the role of aggregating member data and performing institutional-level and sector analysis. The information processed by the network is often used in country reports to global entities and/or sector reports for local stakeholders. By assuming this role, networks can also take an active part in ensuring quality through internal crosschecking of data, checking consistency of reported trends, and when necessary, seeking evidence to confirm information reported.

How:

- Set up systems for collecting, aggregating and analyzing data of member institutions;
- Clearly define reporting guidelines;
- Clearly define internal control processes that can help detect inconsistencies;
- Create procedures for review and analysis of reported data.

■ EXTERNAL AUDITS/RATINGS

When: Networks may want to promote the use of external audits and ratings that incorporate social performance data. These third-party analyses verify accuracy of reported data and quality of internal control systems of the MFIs.

How:

- Guide members on how to incorporate data verification processes into the scope of work of external auditors;
- Facilitate access to external rating agencies through subsidies to members and by negotiating terms with rating agencies on a group basis.

SOURCES OF INFORMATION

IT teams, MIS, MFIs' procedures manual (that will need to be updated), MFIs' internal control systems.

CASE STUDIES/EXAMPLES

AMFOT AND TRAINING OF TRAINERS FOR DATA QUALITY

In order to help its members report on social performance to MIX, AMFOT (Association of Microfinance Organizations of Tajikistan) organized training sessions to help members understand social performance and fill in the MIX-SPS report. AMFOT partnered with MFC and sent its staff to a Training of Trainers organized by MFC. Staff was trained to deliver the SPM and Reporting Training Course, during which the SPM concept was introduced and participants practiced filling in the SPS Report. A few months later, AMFOT staff delivered its first training to members in the capital and others were planned for more remote areas.

MFC'S QAT: ENSURING QUALITY THROUGH TRAINING AND DATA VALIDATION

MFC is committed to strengthening transparency in social performance in ECA region. For this purpose, MFC intensively promotes and encourages its members and other MFIs to report on social performance to MIX. For members who are interested, MFC offers to apply its Quality Audit Tool (QAT), an in-depth process to assess SPM. The QAT allows MFC to i) explain to an MFI how to report to MIX and ii) validates information reported to MIX (all data besides numbers).

NEXT STEP

After the network decides on its role(s), it must determine the implications in terms of network activities and services such as the development of trainings, awareness raising workshops, and work with IT teams to update management information systems.

QUESTION 2.7 - HOW WILL THE NETWORK UTILIZE THE INFORMATION?

Once the network has defined its reporting framework and its role with respect to data collection and quality assurance, it must consider how the information will be utilized to address the social performance drivers.

OPTIONS

■ ANALYZE MEMBERS' PERFORMANCE

Networks can offer aggregated data and analysis on members, peer group comparisons, and identify collective strength and weaknesses.

■ INFORM THE NETWORK'S CAPACITY BUILDING STRATEGY

A transversal analysis of strengths and weaknesses allows the network to define members' capacity building needs and opportunities for improvement.

■ COMMUNICATE WITH EXTERNAL STAKEHOLDERS

Social performance data can be used to report collectively on key messages that can then be communicated to the media/general public (awareness raising, simple messages on the results of microfinance), regulators (advocacy of the role of MF), and donors/investors (sector-wide information).

■ ENCOURAGE MEMBERS TO REFLECT ON UNIVERSAL STANDARDS OF SOCIAL PERFORMANCE

Initiatives such as the Social Performance Task Force, the Microcredit Summit, the smart campaign, networks within the sptf (see the appendix for a list of initiatives), are working to set standards for acceptable practices in microfinance, including delivery of certifications or seals for good practices. This work is still in progress, but networks can play a role by reporting information from their members, to help create benchmarks, and by raising awareness on acceptable social performance practices and responsible financial performance.

SOURCES OF INFORMATION

Review drivers of social performance strategy. Ensure that new social performance data to be collected effectively addresses the risk and opportunities identified. Utilize reporting formats that are most accessible to the target audience.

CASE STUDIES/ EXAMPLES

NETWORKS AND TRANSPARENCY ON SP

cif in West Africa produces an annual social report for its 6 cooperative members, both to inform its network capacity building strategy and to communicate with external stakeholders. Results are also shared during General Assemblies of members to present the achievement of the social mission of each members and the network.

www.cerise-microfinance.org/IMG/pdf/Consolide_WEB_PP-2-2.pdf

rfr in Ecuador produces quarterly reports including social and financial data for different peer groups of its 35 members (NGO, cooperatives, banks), as well as synthesis and analysis of the results. These reports are shared with the government and external stakeholders. They are accessible on RFR's website.

www.rfr.org.ec/index.php?do=information&action=information&sec=2&infocat=2

In Bulgaria, some of the audits reports were shared with the Microfinance Gateway, giving visibility and legitimacy to the members and improving the position of the network in the negotiations with the government

www.microfinancegateway.org/p/site/m/template.rc/1.9.47950/

RFR's quarterly report



NEXT STEP

Once the network determines how it will use the data, it should identify the outputs: annual social report, regular newsletters, technical briefs, articles for media, updates on network's website, etc.

QUESTION 2.8 - HOW WILL THE NETWORK MEASURE SUCCESS OF ITS TRANSPARENCY STRATEGY?

A successful transparency strategy depends on member buy-in and commitment to report data regularly. Networks therefore make sure they are meeting members' and stakeholders' expectations. To do so, they must monitor their own performance.

OPTIONS

The following indicators may be used to measure its success in transparency. The choice of indicators depends on who will use the information.

TABLE 5. INDICATORS TO MONITOR TRANSPARENCY STRATEGY

QUANTITY OF DATA	NUMBER OF MEMBERS REPORTING BY GROUP/ STRATIFICATION OF MEMBERS
QUALITY	<ul style="list-style-type: none"> • Demand for reports by external stakeholders • Dissemination of the reports • Consistency between network data and results of social audits/ratings • References to reports/data produced by the network in other documents • User satisfaction
INTERNAL USE OF DATA	<ul style="list-style-type: none"> • Use of data/analyses at the MFI board level, by management team, branch staff, local general assemblies (
EXTERNAL USE OF DATA	<ul style="list-style-type: none"> • New regulation as a result of use of data/analyses by government authorities • New investors • Increased donor subsidies • New clients • Greater international visibility in media, academic sector publications, etc.
ATTITUDINAL CHANGES	<ul style="list-style-type: none"> • Changes in practices or changes in attitudes due to use of information: more reference to social mission in business planning, integration of social data in government regulation

To measure the dissemination of reports, track the number of hits on its website, or number of requests for the report.

To measure how data is used internally, monitor the use of presentations, record discussions of results, and track the number of references to reports used to justify decisions.

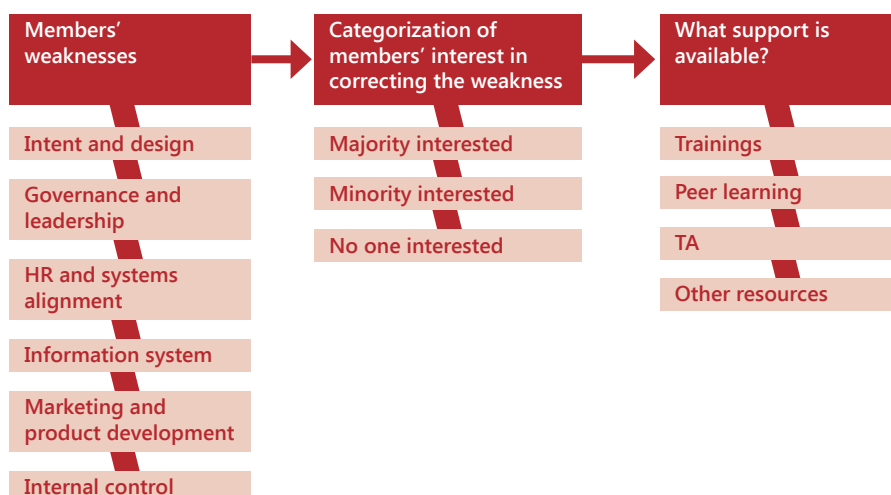
CASE STUDIES/EXAMPLES

RFR TO INFLUENCE THE FRAMEWORK OF EVALUATION FOR PUBLIC POLICIES

Thanks to the efforts of RFR, the Ecuadorian government, through the Ministry of Social and Economic Inclusion, has integrated SP indicators in the law for a “popular and solidarity-based economy” (*Ley de economía popular y solidaria*). The indicators assess the contribution of microfinance institutions and determine which will benefit from governmental support. The indicators deal in particular with the type of products offered and the poverty profile of beneficiaries.

Source: rfr and their quarterly report December 2010 (*Boletín Microfinanciero Trimestral 29, December 2010*).

3. CAPACITY BUILDING



INTRODUCTION

The goal of institutionalizing SPM is to help MFIs change their practices in order to achieve social goals.

Building MFI capacity in SPM requires buy-in from the MFI—from the Board down to field staff—as implementing an SPM action plan can cover various internal systems and areas.

To secure buy-in, capacity building should respond to MFIs needs and balance social performance with financial performance. A network will have to determine what capacity building can be facilitated at the network's level given the priorities of its members.

QUESTION 3.1 - WHAT ARE MEMBERS' AREAS OF WEAKNESSES?

The previous steps identified the social performance drivers. At this stage, the network has determined that to address them, members must improve their practices. Effective capacity building requires the network to understand not only what is needed to address the social performance drivers but what has impeded members from dealing with these issues thus far.

For example, a network may identify that members have limited outreach to excluded or underserved markets. This may be a result of many factors, including lack of a target market definition, insufficient understanding of client needs, and/or a lack of capacity with respect to product development. Understanding these factors is necessary to design effective capacity building services.

OPTIONS

■ INTENT AND DESIGN: MISSION, STRATEGY AND OBJECTIVES

Social performance is about effective translation of the mission into operations. The translation starts with developing social goals based on the mission. Goals dictate the strategy, which is translated into operations through more detailed objectives

MFIs may have weaknesses with respect to intent and design when the following can be observed:

- MFIs are not aware or do not address the fact that some target clients are excluded from their services through product design or outreach strategy (i.e. very poor clients, or those from remote areas, or female clients).
- MFIs are not aware or do not address the fact that some of their products have negative impact on clients, causing delinquency or business failure, or negative social consequences. They neither monitor nor manage these impacts.
- Social performance reporting to external stakeholders does not reflect MFIs' missions and social goals, thus is not reliable and convincing.
- Social performance messages used for positioning against competitors and banks are not effective.
- Strategies do not include social components: goals and targets
- Staff do not believe in their mission and do not see the social utility of MFIs.
- Board oversees only financial performance.

■ GOVERNANCE AND LEADERSHIP

The commitment to social objectives starts with Board and top management. Their competencies as well as scope of work should cover social performance.

MFIs may have weaknesses with respect to governance and leadership when the following can be observed:

- Governance is weak and there is limited understanding of the role of board members.
- Board members and/or top management are interested in financial performance only; they aspire to become a successful for-profit financial institution.
- Clients and their needs are not discussed during the Board/top management meetings.

intent and design is often a weakness in contexts marked by

- High financial exclusion
- Untapped markets
- Fast growth
- Commercialization
- Competition
- Reputation risk
- Client desertion
- Over-indebtedness
- High levels of client dissatisfaction.

If members are weak on intent and design, the network's role is to help them clarify and identify their own social goals and the links with financial performance through a balanced strategy and monitoring.

GOVERNANCE AND LEADERSHIP IS OFTEN A WEAKNESS IN CONTEXTS MARKED BY

- Commercialization
- Mission drift
- Reputation risk
- Competition
- Funding challenges
- Threats to regulation

- When looking for new funding opportunities, leaders want to attract more funders with a purely commercial mission.
- Social performance is used as marketing ploy to promote a better public image and access to funding; it is not reflected in daily operations.
- Board members/top management are committed to the MFI's social vision, but current market circumstances (crisis, stiff competition) force them to focus more on financial and operational issues.
- Board members/top management are committed to the MFI's social vision, but they do not know how to translate this into strategy and operations.

■ HUMAN RESOURCES AND SYSTEMS ALIGNMENT

MFI's have weak human resources and system alignment when the following can be observed:

- No staff commitment to MFI's social values or the MFI itself; no consideration for social objectives and staff consider the MFI as an entry point to the commercial banking sector.
- High staff turnover decreases the quality of client service.
- Recruitment does not take into account candidate's social commitment; the institution's social mission is not part of staff orientation.
- Staff is paid poorly and there is no investment in staff training and professional development.
- Staff manuals focus on financial issues; for instance, staff is not trained on how to serve poor people, how to collect sensitive information from clients, how to effectively communicate with clients and ensure pricing transparency.
- Staff understand social objectives, but incentives reward growth in the number of clients and portfolio volume.

■ INFORMATION SYSTEMS

Collecting and using social performance information is key in SPM, as management decisions need to be based on informed choices.

MFI's may have weak information systems when the following can be observed:

- MFI's have limited MIS that are unable to accommodate social performance data.
- No one is capable of analyzing and reporting data.
- Social performance information is considered too expensive to collect.

If members are weak on effective governance and leadership, the network's role is to help them raise awareness at the Board level, build understanding among Board members on managing a double-bottom line.

HR and systems alignment is often a weakness in contexts marked by

- Client desertion
- Staff desertion
- Lack of adequate HR
- Sudden market shifts
- Vulnerability of Clients

If members are weak on HR and systems alignment, the network's role is to help them raise awareness on how to align HR to social performance; help members foster staff commitment to social values; develop a SPM culture

INFORMATION SYSTEMS ARE OFTEN A WEAKNESS IN CONTEXTS MARKED BY

- Fast growth
- Competition
- Funding challenges
- Threats to regulation

MFI's are not aware of the kind of information to collect and how to use it. For instance, available client data is used for financial performance monitoring but not social performance monitoring, despite its potential to serve as a good proxy measure.

When social performance information is collected, it is considered priority, and thus is often irrelevant and of poor quality.

Impact studies are considered the only effective way to measure the results of intervention.

■ MARKETING AND PRODUCT DEVELOPMENT

Marketing here is understood as a broad functional area, covering market research (for understanding clients and their needs), product development (feedback from clients and field staff), communication with clients (marketing materials: adverts, leaflets, promotional materials), as well as communication with other stakeholders (public, donors, investors, governments).

MFI's may have weak marketing and product development systems when the following can be observed:

- MFI's have no systems for monitoring clients, understanding their basic characteristics, their needs, and how the design of products and services influence their behavior.
- MFI's do not use information produced by market research or it is used only for the purpose of communicating with external stakeholders, but not for product and services development.
- Product development systems are not in line with clients needs, or do not exist; MFI's offer one product to all clients, or products have not been revised since their development.
- Products and services are not communicated in a transparent way: clients are misled by advertisements

■ INTERNAL CONTROL

Internal control protects MFI's social objectives and values are equally important for maintaining its reputation and long-term sustainability. Internal control includes all methods, policies and procedures used to ensure that operations function in line with social strategy. This mitigates risks or negative implications, which can result from not adhering to MFI's social mission.

MFI's have weak internal control systems when the following can be observed:

There is no risk management, or it is focused only on financial performance risks; client level risks are not taken into consideration

Fraud is common

In most MFI's internal auditors do not visit clients in order to cross check the practice of staff

If members are weak on MIS, the network's role is to help them understand the different ways to assess social performance; establish monitoring systems for goals achievement; facilitate access to MIS upgrades; provide support to improve relevancy and quality of data.

MARKETING AND PRODUCT DEVELOPMENT SYSTEMS ARE OFTEN A WEAKNESS IN CONTEXTS MARKED BY

- Increased competition
- Client desertion
- Financial and economic crisis
- Unmet clients' needs

If members are weak on marketing and product development, the network's role is to help them raise awareness on the importance of collecting client feedback for product development; communicate transparently with customers; develop a range of products and services.

INTERNAL CONTROL IS OFTEN A WEAKNESS IN CONTEXTS MARKED BY

- Fast growth
- Competition
- Reputation risk

If members are weak on internal control, the network's role is to help them raise awareness on the importance of controls, audits, protecting end clients and risk management.

SOURCES OF INFORMATION

The first source of information may be the network's knowledge of its members. There are also tools to diagnose the SPM status and effectiveness in an MFI in order to identify areas for improvement:

- Analysis based on internal processes and systems: Quality Audit Tool (QAT) by MFC
- Analysis based on the main dimensions of social performance, i.e., outreach, products and services, benefits to clients, social responsibility: SPI by CERISE
- Social ratings
- Institutional assessments with social performance lens: CRS/MISSION diagnostic tool

Feedback from donors, investors or technical assistance providers can also be used to identify key weaknesses.

AN OVERVIEW OF SOCIAL PERFORMANCE MANAGEMENT ASSESSMENT

IDENTIFYING MANAGEMENT PRACTICE

Some SP data can be easily reported by MFIs. However, the quality of MFIs' internal systems and their alignment to social goals is not that easy to be identified. SP assessments (social audits and ratings) provide in-depth analysis of internal systems (strategy, operations, governance, HR, marketing, etc.) to identify how well they support the social mission.

IDENTIFYING STRENGTHS AND WEAKNESSES

Both social audits and ratings follow the same SP framework. The common feature of the output is a list of strengths and weaknesses of how internal systems support the social mission. This input can then be used to prepare the action plan for MFI capacity building.

SOCIAL AUDIT VS. SOCIAL RATING

There are 6 commonly used social audits and social ratings. Key differences between audit and rating include:

- Rating gives a grade based on the quality of management systems, whereas audits focus on providing input for improving systems.
- Rating is necessarily external, whereas audits can be delivered either externally (suggested when administered for the first time), or internally.
- Audits help prepare for ratings and are aimed at identifying action plans for SPM improvement.
- Both can include client feedback (focus group discussions for audits, surveys for ratings)
- Audits are generally less expensive than ratings.

For more information about social audit tools, see www.sptf.org

List the SIX COMMONLY USED SOCIAL AUDITS AND RATINGS
Social ratings by M-Cril, Microfinanza, MicroRate, PlanetRating
Social audits: SPI by CERISE, QAT by MFC

CASE STUDIES/EXAMPLES

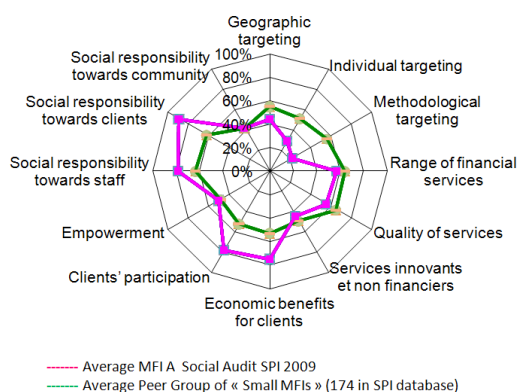
COMMON FINDINGS OF SPM DIAGNOSIS USING MFC QUALITY AUDIT TOOL

SPM STRENGTHS	SPM WEAKNESSES
<ul style="list-style-type: none"> • MFI leadership is committed to mission and social goals • Organizational culture supports staff ethical behavior and respects clients • Geographical strategy of targeting clients (branches location) supports outreach to target clients • MFI collects enough SP information to report on SP and make informed decisions 	<ul style="list-style-type: none"> • No clear social objectives in terms of outreach to target clients, meeting needs and changing clients' lives • No clear definition of who are target clients; no tools to differentiate targeted from non-target clients • MFI does not use client information to improve products, review targeting strategy, or set up a warning signal system for monitoring the performance • Exit or satisfaction surveys are not analyzed to improve performance • Staff incentives do not reflect social objectives

After identifying the weaknesses, prioritize them according to importance. Make sure to consider the number of members, for which the identified weakness is relevant.

SUMMARY OF A SPI AUDIT

Audit SPI: a clear picture of the MFI compared to its peers



A SPI audit allows an MFI to be compared to its peers (here in the example to other small MFIs) and identify areas of weaknesses (here the criteria of poverty outreach) and strengths (here, participation of clients and social responsibility to staff and clients).

From this diagnostic, MFI A worked, with support from the network, on defining a better policy for poverty outreach, and shared with the other members of the network how it involved clients' in decision-making and how it developed its human resources policy and social responsibility to staff in spite of its small size.

QUESTION 3.2 - HOW TO CATEGORIZE MEMBERS TO PLAN CAPACITY BUILDING SUPPORT?

Once weaknesses have been identified, the network must select a method to address them. The choice depends on how many members are committed and willing to correct the weakness and implement changes.

For example, members may claim they want to fulfill social goals, but few may be ready to invest time and resources to make genuine improvements. Thus, it is usually advisable for a network to concentrate on building the capacity of a few institutions and use them as an example to encourage others.

OPTIONS

Categorization of members will help identify which institutions to work with, and which approach to take. In general, for each weakness identified, networks should determine how many members will invest resources, both time and money, to correct the weakness. Usually, there are the following groups:

- **The majority is interested in correcting the weakness:** Most of the network's members are aware of the weakness, are interested in correcting it and can work jointly on it (no competition).
- **The minority is interested in correcting the weakness:** Even if a weakness is valid for the majority of members, only few may be aware and/or interested in correcting it. Sometimes, a weakness (or interest) only concerns some of members (for example in large networks with very diversified membership) or cannot be managed for a large group of MFIs (for example individual strategies for business plan or product development).
- **No one is interested in correcting the weakness:** Even if a weakness is valid for majority of members, no one is interested in correcting it.

SOURCES OF INFORMATION

Knowledge of members. History of SP related initiatives at the national level (i.e., awareness raising events, previous initiatives, trainings in tools, etc.).

NO ONE IS INTERESTED!

Even no one is interested in correcting the weakness, a network can still make it a priority. It must first raise awareness, to make members understand that there is a weakness, and then incite them to consider taking some corrective actions.

CASE STUDIES/ EXAMPLES

MCPI: ADAPTING THE STRATEGY TO DIFFERENT TYPES OF MEMBERS

MCPI in the Philippines has developed a differentiated action plan depending on its members. They started with those most committed to achieving a strong social mission (mainly NGOs). A social audit QAT was conducted to define next steps for these participants. Some of the members, because of their focus on poverty outreach, adopted the PPI tool to track client profiles. The question is now how to use PPI results to inform a SPM strategy, and how to raise awareness based on this experience, to involve more members in SPM.

MFC: KICKING OFF SPM WORK WITH A SMALL NUMBER OF COMMITTED MEMBERS

MFC identified lack of significant financial inclusion and mission drift as key trends in Eastern Europe and Central Asia. Although the internal systems of MFIs were well developed, MFIs lacked knowledge and skills on how to manage their social goals. Moreover, only a few members were aware of those weaknesses and interested in correcting them. In early 2006, MFC established a Regional Working Group, consisting of 10 pioneering MFIs (out of 100 members) and 2 national level associations. The group met twice a year for three years. It started developing its own social objectives and SPM monitoring system, followed by an internal system diagnostic (using QAT) and plan for improvement.

The group served as a case study for the rest of the MFIs in ECA region. Today, more than 50% of MFI members of MFC report to MIX on their SP, and many have initiatives to improve their practices in SPM and client protection.

NEXT STEP

The network now knows how many of its members are interested in correcting which weaknesses. This will inform the decisions made in Question 3.3.

QUESTION 3.3 - WHAT SERVICES OR SUPPORT CAN THE NETWORK PROVIDE TO CORRECT MEMBERS' WEAKNESSES?

Depending on the number of members interested, the METHOD of delivering support will be different. Support may be delivered directly by the network or indirectly by facilitating access to experts. This question helps identify the most appropriate method from among the following main categories.

TABLE 6. OPPORTUNITIES AND RISKS FOR EACH OF THE OPTIONS

METHOD	OPPORTUNITIES	RISKS
Training delivered to a group of members	Reaches many members Cost effective in terms of number of members reached Sends the same message to everyone; creates a common language among members	There is no guarantee that members will implement knowledge and skills. Training provides standardized information, adaptation to a specific context often causes problems for MFIs.
Technical Assistance individually designed and tailored to the needs of MFI: consulting, or dedicated training	Most effective method for implementing a solution. Can lead to a case study—the best way to convince other members. Can be adapted to the specific needs of individual MFIs.	Relatively high cost per institution (unless capacities exist at network's level and economies of scale achieved by assisting all/most members). MFI must be very committed to devote required time and resources.
Peer learning members learn through sharing experience with each other, through study tours, working groups, conference presentations, etc. Usually requires direct involvement of a network to facilitate the process	Effective when members experiment with various approaches Allows less experienced institutions to learn from those that are more advanced than others. Most MFIs prefer to learn from practical examples relevant to their context.	Competition challenges; reluctance of members to share information.
Case study documentation of experience gained by an MFI, in specific area	Most MFIs prefer to learn from practical examples relevant to their context. Disseminates good practice. If there is no good practice in the country, examples from other countries can be used.	Limited interaction with users, no possibility to monitor implementation.

OPTIONS

RESOURCES FOR KNOWLEDGE AND SKILLS BUILDING

The table below present examples of resources for knowledge and skills building, depending on area of weakness identified. For comprehensive review of tools and initiatives available, go to Appendix X 'Capacity building matrix '.

RESOURCE	TYPE	SP DRIVER	AREA OF WEAKNESS
imp-act consortium SPM Strategic Workshop	Training for group of MFIs	Financial inclusion/ poverty outreach	intent and design: How to define target clients, how to set objectives.
		Client satisfaction; Differentiation against competitors	products: Understanding the competitive advantage of product and service offerings; meeting clients' needs
Putting the Social into Performance Management: a Practice based Guide for MFIs	Guidance on social performance management. Case studies of experienced MFIs	Financial inclusion; Differentiation against competitors; approaching funding opportunities with social investors	governance: how to convince board members of SPM strategy and systems alignment.
smart campaign Introducing Client Protection	Promotional workshop for interested MFIs; Tools from MFIs that have implemented CP processes	Client Protection	systems development (HR, marketing, operations, internal audit, governance): what is the best practice in client protection?
imp-act consortium SPM Strategic Workshop	Training for group of MFIs	Financial inclusion/ poverty outreach	intent and design: how to define target clients? how to set objectives?
		Client satisfaction Differentiation against competitors	products: What is the competitive advantage of my offer? How to make sure I'm meeting clients needs?
MFC Strategic Management Toolkit	Workshop for one MFI	Financial inclusion; Differentiation against competitors; Approaching funding opportunities with social investors Client satisfaction	intent and design, governance: strategy, social goals development

■ SOLUTIONS FOR SYSTEM DEVELOPMENT

System setting requires individual technical assistance provided to an MFI. The experts capable to set up systems aligned to Social Performance are listed:

RESOURCE	TYPE	SP DRIVER	AREA OF WEAKNESS
CRS - Mission System of Competencies	Technical Assistance for interested MFIs	Financial inclusion Client Protection	hr: How to define job descriptions? How to train, incentivize and evaluate staff?

SOURCES OF INFORMATION

Knowledge of members. History of SP related initiatives (i.e., trainings in tools, awareness raising events, previous initiatives)

Social Performance Task Force

Imp-Act Consortium resource center

CASE STUDIES/EXAMPLES

REGIONAL SPM WORKING GROUP BY MFC

MFC is a network of more than 100 members, and works in 27 countries, outreaching to even bigger number of MFIs. When MFC identified the risk of mission drift early in 2000, almost no one among members shared the opinion. After a series of research efforts and advocacy among members, in 2006 MFC established a Regional Working Group focused on SPM, counting only 12 member organizations (including two national Microfinance Associations). The members became drivers of change in the region. Five years later, all the market leaders in the region, followed by peers, have begun implementing various SP related activities. AMFA from Azerbaijan, one of the two national MF Associations, became another leading association in terms of promoting SPM among members.

MCPI created the Peer Learning Communities (PLC) among MFIs and resource institutions to create venues for active dialogue and address common concerns using shared resources. The PLC is aimed, through regular exchanges at promoting lateral and peer learning on SPM among institutions for a cost-effective and practical management of social performance among MFIs. It is composed of MFIs that have completed the SPM Strategy Workshop, submitted their SPM action plans, and demonstrated a commitment to pursue social performance management or that are already engaged in SPM. SPM PLC is a community of practitioners and intermediaries committed to strengthening their SPM capacities and supportive of each other's SPM efforts.

NEXT STEP

The network may choose to facilitate access to training, technical assistance, peer learning, and/or focus on the development of case studies to develop member capacity. Often it is necessary to time initiatives strategically to ensure the necessary focus of management and evaluate member response to different types of initiatives.

QUESTION 3.4 - HOW WILL THE NETWORK MEASURE SUCCESS OF ITS CAPACITY BUILDING STRATEGY?

It is good practice to set up a monitoring system for the developed strategy. This enables the network to track progress and achievement of goals. Networks should identify and track a relevant number of indicators.

OPTIONS

■ INDICATORS RELATED TO DIRECT SUPPORT OF MEMBERS

- number of members involved in SPM-related activities at beginning and end of planned period
- number of capacity building opportunities for members
- number of members trained
- number of case studies identified as improving good practice in SPM

■ INDICATORS RELATED TO QUALITY OF SPM

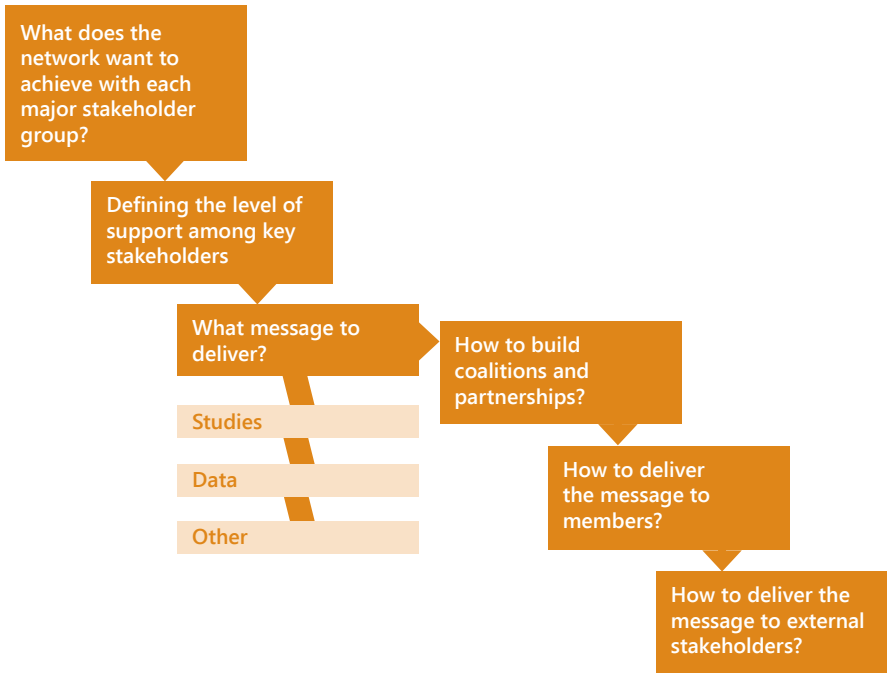
- number of members with clear social goals and objectives
- number of members with improved internal systems, and SP perspective aligned
- number of members tracking and analyzing client drop-out
- number of members measuring client satisfaction
- number of members measuring client poverty levels and tracking poverty changes over time

NEXT STEP

Networks will select indicators that measure direct outputs of their capacity building activities in addition to some Social Performance outcomes at the member level, often derived from social performance reporting frameworks of MFIs. Both types of indicators will allow the network to evaluate, adjust, and report on their strategy more effectively.

SPM-related activities include participating in the trainings, seminars, Working Groups, exchange visits, receiving TA

4. ADVOCACY



Networks need support from members and external stakeholders to effectively address the social performance drivers. Firstly, to achieve consensus on priority issues and a common vision for social performance. Secondly, to align the interests and efforts of various stakeholders to ensure successful implementation of the network's SP strategy.

QUESTION 4.1 - WHAT DOES THE NETWORK WANT TO ACHIEVE WITH EACH MAJOR STAKEHOLDER GROUP?

Networks must define short- and/or long-term advocacy objectives for engaging with members and key external stakeholders.

OPTIONS

Firstly, the network needs to identify the stakeholders that are key to addressing the social performance drivers. This includes both internal stakeholders (i.e. members), as well as external stakeholders (other MFIs, government, funders, technical assistance providers, and other industry groups).

TABLE 7. EXAMPLE OF ADVOCACY OBJECTIVES VIS A VIS DIFFERENT STAKEHOLDERS AND DRIVERS

TRENDS/ DRIVERS	EXAMPLE ADVOCACY OBJECTIVES TOWARDS DIFFERENT STAKEHOLDERS
Outreach/ financial inclusion	<ul style="list-style-type: none"> • members: advocate for outreach to excluded areas • government: advocate for policies to encourage outreach to excluded areas (e.g. tax breaks for MFIs with certain % of rural outreach) • investors: advocate for funding incentives for outreach to excluded areas (e.g. preferred terms for rural lending; free technical assistance for rural innovations, etc.)
Client protection	<ul style="list-style-type: none"> • members: advocate for design and adoption of codes of conducts • government: advocate for establishing and regulating credit bureaus; advocate for regulation on minimum standards of client protection • investors: advocate for integrating minimum client protection standards into due diligence requirements; advocate for funding incentives for MFIs with code of conducts/client protection systems in place
Client satisfaction	<ul style="list-style-type: none"> • members: advocate for product improvement and innovation
SP Advocacy and positioning	<ul style="list-style-type: none"> • members: advocate for increased transparency of MFIs • government: advocate for regulation/laws supporting greater market transparency (e.g. transparent interest rates) • investors: advocate for increased transparency among investors and incentives or/and requirements for MFIs related to transparency

SOURCES OF INFORMATION

Consultation process with the Board and/or members to define appropriate advocacy objectives.

CASE STUDIES/ EXAMPLES

FINRURAL BOLIVIA – ADVOCACY LEADS TO NEW REGULATION

In March 2008, at the impetus of national network FINRURAL, the Superintendence of Banks and Financial Entities (now the Financial System Supervisory Authority) decided to regulate microfinance NGOs, but with a lower reserve requirement, and with no obligation to give up their non-profit status. This decision will allow non-profit MFIs to function like for-profit MFIs, creating the possibility to mobilize savings. Under the rules of authorization, transformation for these types of financial institutions consists of a two-step process: obtain an adequacy certificate and operating license. At the end of June 2008, 63 cooperatives and 16 NGOs had requested certification, but only 16 cooperatives and 9 NGOs were granted adequacy certificates.

Source: Bédécarrats, Marconi, 2009/mix Market 2010

NEXT STEP

The network may need to prioritize among stakeholder groups and allot resources to short-term objectives. Often a strategic decision to target one or two influential groups will result in important gains, paving the way for larger, more complex advocacy efforts in the future.

QUESTION 4.2 - WHAT IS THE LEVEL OF SUPPORT FOR CHANGE AMONG KEY STAKEHOLDERS?

The network has formulated its objectives for key stakeholders. It now must assess the level of support to implement change with respect to priority SP drivers. By gauging support, the network can more effectively influence individuals and organizations with similar objectives. In some cases, it can even limit the influence of stakeholders unsupportive of change. Some stakeholders may have a neutral stance with respect to the need for change. If effectively targeted, these groups can become useful allies in the network's advocacy strategy.

Advocacy efforts should target as precisely as possible. For example, while certain government entities may be unconvinced of the need for change, others may be influenced or may have already identified social performance as a priority. The same can be said with respect to members. Rarely do members form instant consensus around issues. Identifying the key stakeholders that can significantly support/endanger work on social performance calls for an analysis of the interests and power of each.

OPTIONS

TABLE 8. EXAMPLE OF AN ANALYSIS OF KEY SUPPORTIVE AND UNSUPPORTIVE STAKEHOLDERS

SP DRIVER	KEY SUPPORTIVE STAKEHOLDERS	KEY UNSUPPORTIVE STAKEHOLDERS
Outreach to excluded area (untapped market)	<p>Ministry of Agriculture interested in providing incentives to institutions capable of reaching out to excluded markets</p> <p>Social investors with financial inclusion focus interested in providing incentives to MFIs reaching out to excluded markets</p> <p>A small group of members with social missions interested in extending outreach to excluded groups</p>	<p>Microfinance supervisory bodies interested in introducing interest rate caps</p> <p>Funders with short-term high return expectations pushing MFIs to serve low risk, well-known markets</p> <p>Majority of members reluctant to develop into unknown markets</p>
Client protection (stiff competition and saturated market creating the risk of over-indebtedness and misconduct)	<p>Majority of MFIs interested in sharing information on clients in order to avoid multiple loans</p> <p>A group of member MFIs under pressure of aggressive competition and increasing PAR, interested in developing and adopting a standard code of conduct</p> <p>Funders aware of multiple lending and are interested in supporting creation of a credit bureau</p>	<p>Central Bank not interested in supporting a credit bureau for lack of means or due to underestimation of risks</p>

SOURCES OF INFORMATION

Interviews with stakeholders on key drivers; knowledge of the different government entities (Ministry of Finance, Central Bank, Ministry of Agriculture, Rural Development, etc.) involved in setting and influencing policies for the microfinance sector; analysis of the implications policies may have on microfinance sector.

CASE STUDIES/EXAMPLES

IDENTIFICATION OF KEY SUPPORTERS FOR AN ADVOCACY STRATEGY

NCU, National Cooperative Union of credit cooperatives Evrostart, identified upfront the bodies, key resource persons and meeting opportunities that would be influential in updating the regulation in favor of rural credit cooperatives. An SP assessment at the cooperative level coordinated by the network was designed for internal strategy, but also to convene a message to the government and in particular the Ministry of Agriculture and Food. With individual and collective summaries, focusing on concrete actions implemented by the cooperatives, the objective was to advocate for a more flexible regulation to strengthen the cooperative's action in the rural areas.

NEXT STEP

Once the network identifies key stakeholders and their interests and potential in supporting its SP issues, it can formulate its advocacy objectives.

QUESTION 4.3 - WHAT MESSAGE DOES THE NETWORK WANT TO DELIVER TO WIN STAKEHOLDER SUPPORT?

This question helps define the “selling point” for the key stakeholders. The network can formulate a compelling message by analyzing the interests and positioning of different stakeholders vis-à-vis a social performance driver or trend. The message should be a concise and persuasive statement reflecting the advocacy objective: what the network wants to achieve, why, and how. Messages need to incorporate clear facts and numbers without overusing statistics. Likewise, it is important to avoid jargon, so that a wider audience will understand.

For more on crafting effective messages see: Policy Advocacy: A Toolkit for Microfinance Association
http://networks.seepnetwork.org/en/system/files/Policy_Advocacy_mar2010_web.en_.pdf

OPTIONS

An increasing number of sources with social performance-related information can provide clear facts and compelling case studies.

■ STUDIES

A number of organizations (CERISE, MIX, MICROFINANZA RATING, INCOFIN, etc.) have studied the link between social and financial performance. There are also a number of case studies on Social Performance Management practices available from the IMP-ACT CONSORTIUM website, while the SMART CAMPAIGN have published case studies related to good client protection practices.

■ DATA

By December 2010, over 350 MFIs had self-reported SPS information to MIX along with 450 social rating and audit reports. Networks can use these sources to compile both qualitative and quantitative information.

TABLE 9. KEY MESSAGES ON THE IMPORTANCE OF SERVING UNTAPPED MARKETS IN RURAL AND REMOTE AREAS (IN RESPONSE TO AN OUTREACH DRIVER)

KEY STAKEHOLDERS	KEY MESSAGES
Government (supportive): advocate for providing incentives to institutions reaching out to excluded markets	70% of the country's population living in rural areas has no access to formal financial services. MFI's have been successful at serving the needs of low-income clients but face significant cost barriers to extending services beyond their current market. Government support of USD 500 million in the form of wholesale funding and innovation grants would create the necessary incentives to promote an important increase in services. The network's goal of expanding access to an additional 1 million people over the next five years is consistent with the government goal of greater financial inclusion.
Funders (supportive): advocate for providing funding- incentives for MFIs reaching out to excluded markets to avoid over-indebtedness	The current market penetration rate for microfinance is high and accounts for 15% (in total adult population). Market saturation is concentrated in urban areas with penetration rates of 30% and multiple borrowing rate of 30%. At the same time, the penetration rate in rural areas (where majority of the low-income population lives) amounts to 5%. As the successful cases of a few member MFIs (name MFIs) with high portfolio shares in rural areas demonstrate, MFIs with social objectives can effectively reach out to excluded markets if provided with incentives (like assistance to develop cost-effective delivery mechanisms and innovative products) and appropriate financing product (longer term, affordable cost). Apart from having lower PAR (at 1%) in comparison to country average of 5%, they also experienced much higher growth (of 15% in comparison to 10% average) last year. Re-directing investors' focus and products to support outreach to excluded markets would help avoid negative consequences in saturated urban markets and increase outreach to the untapped market, estimated at 1 million rural households.
Members (a group of members with social missions): advocate for extending outreach to rural and remote areas	There are untapped markets that can be covered cost effectively if new products and methodology are developed, as demonstrated by last year's sector growth statistics. The MFIs that "expanded service in rural areas in the last two years were growing on average 5 percentage points faster than those that remained in traditional urban markets".
Government/regulator (unsupportive): advocate for lifting/establishing higher interest caps for MFIs serving low-income markets	Serving excluded markets is costly. The analysis showed that it costs 25% on every \$1 to lend to populations at 50% of the poverty line (measured with PPI). With proposed caps reaching 23%, it will no longer be sustainable to lend to this segment. The caps will provide disincentives to serve poorest market segments and will cut off access to financial services for the poorest 20%. If caps need to be introduced, they should reflect the cost structure of market being served. The institutional categories should be exposed to different rate caps. For example, MFIs serving the bottom 50% of the market should have higher interest rate limits—not lower than 25%.
Funders with short-term high return expectations (unsupportive): neutralize the push for MFIs to serve low risk, well-known markets	Currently, funders provide short-term debt for an average of 10%. While clients can afford to pay up to 30% interest rates, it costs 15% on average to lend \$1 lent in urban areas vis-a-vis 25% in rural areas. In this context, MFIs are disincentivized to expand to rural markets. This severely limits their growth potential and long-term sustainability. Studies estimate that the urban market is close to saturation (at 15%), while there is still an unmet credit demand of about 2 million people in rural markets. Longer-term and affordable financing is needed to stimulate MFIs to innovate and reach out more to rural areas.

HOW DO FINANCIAL AND SOCIAL PERFORMANCE REINFORCE EACH OTHER?

Many MFIs and industry observers have long suspected financial performance and social performance are mutually reinforcing. Now, statistical studies show a positive correlation between the two.

Good social performance can positively impact operational and financial performance:

- Wider outreach = less competition, diversified risks
- Responsibility, satisfaction and trust = clients loyalty, better repayment
- Appropriate services = better returns for clients = better repayment
- Client involvement in MFI = lower operational costs and greater opportunities for innovation
- Decent work conditions = loyal and committed staff

To identify the relevant data needed and ways of ensuring their reliability, the network may look into the guidance in the transparency branch.

SOURCES OF INFORMATION

Interviews with stakeholders to analyze their interests, values and stakes in social performance in order to design effective communication messages. Analysis of membership/sector data, microfinance performance data from the MIX, etc.

CASE STUDIES/EXAMPLES

CLEAR MESSAGE FOR THE GOVERNMENT

rfr uses different sources of information: the results of social audits, figures on costs, development of services and outreach, and case studies from other countries (e.g. on interest rates caps and impacts on exclusion/inclusion) carried out by international organizations. In particular, rfr conducted analysis on the effect of the interest rate ceilings on the accessibility to financial services by the poor. Based on this, rfr communicates with the government on the importance of having a diversity of microfinance institutions in Ecuador. An observed increased of average loan size pushed rfr to promote increased government support of poverty-focused microfinance through the national program for popular finance (*Programa Nacional de Finanzas Populares, Emprendimiento Economía Solidaria*). Other messages from rfr focus on the valuable contribution of NGOs, or the risks of a decreased price transparency due to the interest rate ceiling.

NEXT STEP

To identify an effective set of main messages, the network needs to have a good understanding of the audience's expectations, beliefs and constraints. Data and/or case studies must be reliable to be able to craft a concrete evidence-based message. Once those are identified, the network should think about how to strengthen its own position to deliver those messages to key stakeholders.

QUESTION 4.4 - HOW CAN THE NETWORK BUILD COALITIONS AND PARTNERSHIPS TO DELIVER THE MESSAGE AND WIN STAKEHOLDER SUPPORT?

To strengthen its advocacy position, the network may want to build coalitions and forge partnerships. Partners may help the network increase its visibility and profile, financially support the implementation of the social performance strategy, provide technical assistance support and advice.

OPTIONS

The network may undertake the following efforts to establish partnerships and build coalitions around social performance issues:

- Become members of SP related organizations (e.g. INTERNATIONAL TASK FORCE FOR SOCIAL PERFORMANCE, SEEP WORKING GROUP ON SOCIAL PERFORMANCE, PROSPERA NETWORK, SPM NETWORK, etc.)¹ to seek opportunities to co-brand events, publications, provide letters of support to government, funders, members, etc.
- Establish formal collaboration with SP related initiatives (e.g. SMART CAMPAIGN, MF TRANSPARENCY, CRS MISSION PROJECT, IMP-ACT CONSORTIUM, etc.) This allows the network to co-brand events and publications, get support for capacity building, help develop case studies for advocacy use, access internally recognized tools, etc.
- Establish partnerships with stakeholders interested in social performance (e.g. social investors, funders, raters, etc.².)
- Establish partnerships with global or regional networks to jointly promote social performance and implement a SP agenda (e.g. cooperation on social performance implementation between CRS MISSION PROJECT and FORO LAC FR in Latin America; joint conferences on SP; issuing a joint award on Client Protection in collaboration with MICROFINANCE CENTRE and the SMART CAMPAIGN, etc.)
- Secure involvement of multilateral institutions like CGAP, UNDP, WB, ADB, IADB, etc.
- Establish cooperation with the MIX for monitoring and analysis of social performance information

1 www.sptf.info; www.spmnetwork.net; www.cerise-microfinance.org; www.seepnetwork.org/Pages/SocialPerformance.aspx;

2 see the list of organizations who are members of the Social Performance Task Force at www.sptf.info

SP ISSUE	SOME OF THE POTENTIAL PARTNERS
Customer protection	<p>SMART CAMPAIGN – a network may cooperate on awareness raising on the importance of client protection, capacity building of members through practical tools for client protection assessment and improvement, source case studies with described good practices in customer protection, implement certification in client protection</p> <p>MF TRANSPARENCY – a network may co-organize awareness raising on the importance of transparent pricing, source sector tools to unify cost disclosure, sector prices analysis, cooperate on capacity building in transparent reporting for its members, capacity building in implementing cost reduction strategies</p> <p>REGIONAL NETWORKS – Regional networks such as AFMIN in Africa are linked with the smart campaign and Microfinance Transparency to train the national networks in guiding their MFI members assess their systems and processes in terms of client protection.</p>
Gender equity	<p>WOMEN’S EMPOWERMENT MAINSTREAMING AND NETWORKING (WEMAN) – a network may source case studies of mainstreaming gender in microfinance, engage in joint action-research projects to mainstream gender, co-organize awareness raising workshops on gender equity for members and other stakeholders</p>
Health, safety, environment	<p>FMO – a network may cooperate on awareness raising and source practical environmental and social risk management tools for microfinance institutions and practical guidance to field staff for addressing environmental and social themes in the contact with their clients.</p>
Poverty outreach	<p>GRAMEEN FOUNDATION – a network may organize joint awareness raising workshops, capacity building of members and other stakeholders on using PPI for measuring poverty</p> <p>FREEDOM FROM HUNGER – a network may source case studies, engage in joint action-research, conduct a joint awareness raising of members and other stakeholders</p>
Rural outreach	<p>IFAD, FAO – action-research related to rural innovation and extending outreach to rural areas</p> <p>Improving Capacity Building in Rural Finance (CABFIN) – program financed by IFAD and FAO targeting organizations including MFIs interested in expanding outreach to rural areas; a network may support their members in joining the capacity building of members and other stakeholders as well as look for opportunities to involve its members in joint action-research projects</p> <p>FORO LAC FR / REDCAMIF – support to national networks and their MFIs members to promote rural outreach, regular seminar to learn from the concrete experiences of the MFIs or process of certification to value rural outreach, poverty or gender focus, etc.</p>
Social performance transparency	<p>MIX – social performance standards and benchmarks; cooperation may involve producing joint reports on country/regional microfinance sector performance (both social and financial) that can be used in advocacy efforts towards members and other stakeholders. mix and networks may also co-brand workshops at conferences. If a network has a good data collection and verification capacity, it may enter into a longer term relationship with mix for data collection.</p> <p>SOCIAL PERFORMANCE TASK FORCE – becoming a member of sptf helps network and its members position themselves as organizations committed to improving social performance in the microfinance industry. Cooperation may involve co-branding of regional and country level events.</p>
Improving management practice	<p>IMP-ACT CONSORTIUM – a network may join SPM network to join a community of practitioners that are interested in improving social performance management; IMP-ACT may help the network raise awareness on the importance of double/triple bottom line management among members and other stakeholders as well as provide capacity building services.</p>

For more information on how to engage with different social performance initiatives and supporters please see ... []

NEXT STEP

Once the network identifies potential partners, it needs to communicate with them to see how to link agendas and implement joint activities. It may also happen that partner organizations may decide to look for another partner to support their efforts through funding, technical assistance, sharing materials, etc. Once the network identifies partners it needs to focus on how to engage with members.

QUESTION 4.5 - HOW WILL THE NETWORK DELIVER THE MESSAGE TO ITS MEMBERS?

Being able to form a collective voice representing the SP related interests of the network's membership brings it a certain degree of legitimacy in front of external stakeholders. Therefore, the networks need to develop the consensus on key SP issue and commitment first among its members.

■ THE NETWORK MAY USE THE FOLLOWING WAYS TO DELIVER THE MESSAGE TO THE MEMBERS

- general assemblies to discuss key social performance issues and make consensus decisions on key SP issues to be addressed by the network and its members
- specific SP related training to raise the member's awareness and empower to make decisions the network's goals for SP
- encourage participation in SP related industry events like e.g. annual meeting of the global or/and regional Task Force, SP workshops at national and regional conferences, etc.
- meetings with members' board, management and staff to promote social performance, identify key social performance issues and secure their commitment and buy-in
- study tours to other networks and MFIs for demonstration cases

Additionally, the network may use indirect methods to keep the members informed about progress of common strategy implementation including articles in newsletters, information on the website, dedicated publications of the projects, etc.

SOURCES OF INFORMATION TO TAKE INFORMED DECISION

Lessons learnt on what works best with members from previous network's activities, case studies of other networks

CASE STUDIES/ EXAMPLES

CIF AND EXCHANGE OF SOCIAL INFORMATION AT DIFFERENT LEVELS OF THE ORGANIZATION

The social reports produced by each cooperative from the CIF network have been shared during meetings with the Board of Directors, the top management (*comités de direction*) as well as the general assemblies of members and technical teams of the local branches. This feedback, as well as the dashboards with key SP indicators, have developed a collective vision of SP at the different levels of the institutions. They have facilitated exchanges among the actors, to share experiences and enrich strategic discussions on SP, usually focused on financial and operational issues.

FINAL OPTION CHOSEN BY THE NETWORK AND NEXT STEP

The network will prioritize methods for message delivery with members and evaluate its effectiveness over time. Once the network knows how to gain consensus and commitment of its members, it can more effectively engage with external stakeholders.

QUESTION 4.6 - HOW WILL THE NETWORK DELIVER THE MESSAGE TO EXTERNAL STAKEHOLDERS?

Once the network has achieved consensus and commitment of its members, it has full legitimacy to reach out to external stakeholders in any number of ways:

- Invitations to Board meeting and general assemblies
- Individual meetings
- Study visits to member MFIs, other networks to study relevant experiences in similar contexts
- Educational workshops
- Participation in conferences and industry events
- Roundtables

Indirect methods are also helpful: publication of data, newspapers, technical papers, research papers, etc.

SOURCES OF INFORMATION

Lessons learned from previous activities related to engaging external stakeholders, interviews with key representatives of stakeholder groups to obtain advice and ideas on how to most effectively engage, case studies from other networks, etc.

CASE STUDIES/ EXAMPLES

MICROCREDIT FOR THE POOREST AND MARKET DISTORTIONS, THE REACTION OF THE BENINESE PROFESSIONAL ASSOCIATION, THE CONSORTIUM ALAFIA

When the government of Benin launched a subsidized program for the poorest implemented by the Fonds National de la Microfinance, the Consortium and its members had important discussions with the government on the risks of subsidized interest rate and proposals for improvement of the program. The Consortium Alafia also communicated widely at the international level to raise awareness on the situation of the microfinance sector and the potential impact of the government program. In particular, a Coup de Projecteur was published in May 2007 on the Portail de la Microfinance, the francophone equivalent of the Microfinance Gateway, to present the pros and cons of such a program and the position of the Consortium Alafia. www.lamicrofinance.org/content/article/detail/19807

NEXT STEP

Not all external stakeholders will respond in the same way. Networks will learn from experience and possibly feedback from external advisors about the most effective forms of communication. To face capacity constraints, the network should prioritize activities. This may result in dropping, postponing or changing the scope of other less important ones to match available resources and time. The final selection of communication activities should be included in the social performance action plan.

5. IMPLEMENTING THE NETWORK'S ACTION PLAN

It is often said that only 10% of managers reach their goals and achieve positive results. Why do the rest fail? According to management science literature, 70% of failures are due to poor strategy implementation.

The key success factor in implementing any strategy is to link the vision with organization's capacities. Throughout the DECISION TREE, we stress the importance of prioritization, as all plans need to be rooted in network realities: available staff, funds and expertise.

This chapter looks at the range of factors to consider while developing an action plan for social performance strategy implementation.

QUESTION 5.1 - WHO WILL PERFORM THE PLANNED ACTIVITIES?

At all stages of implementation, people are needed to manage the tasks and achieve results. The newer the concept of social performance is to the network and its stakeholders, the greater the challenge to developing or locating necessary expertise.

While deciding on the final selection of activities and timeframe, a network should consider who will work directly with members and/or stakeholders, and who will coordinate the activities on behalf of network.

For each activity, be it capacity building or advocacy or transparency, a network needs to designate who will perform the activity.

OPTIONS

■ LOCAL CONSULTANTS AND/OR NETWORK STAFF

Bringing in local consultants, trainers or network staff with expertise in SPM is the most optimal and cost-effective situation. This allows the network to deliver various types of social performance-related activities, under the condition the network regularly refresh and build capacity of its experts in line with appearance of new SP initiatives and tools on the market.

Building capacity of network staff or local consultants working for a network requires time and financial resources.

■ INTERNATIONAL EXPERTS

If local experts are not available, the network may source people at the regional or international level. There are two options:

- 1. Global experts:** there are experts attached to each social performance initiative and tool, based in the countries of origin, often willing to come and deliver services in the country.
- 2. Regional experts:** many initiatives and organizations have either regional representatives or regional partners who can deliver services on their behalf. For example, MFC built the capacity of network Sanabel to administer QATs in MENA region. Sourcing experts from these centers is usually more cost effective than relying on global experts.

The role of such experts is to deliver specific activities, for example :

- Help design a social performance reporting process or format
- Deliver trainings, workshops or TA for improving specific practices of MFIs
- Support the network in preparing documents to lobby the government

■ LOCAL TRAINERS/CONSULTANTS AND NETWORK STAFF CAPACITY BUILDING

When activities are delivered by external experts, there is no one at the network level who can follow up with members when the external expert leaves. Thus a network should ensure external experts build capacity of local consultants/trainers. This is especially important if at first only a few members are interested in the activities—in time, more members will become interested, and capacity building or advocacy efforts will be need to be rolled out.

Local experts usually know local context and barriers influencing MFIs' performance, thus can better align the message to 'sell' it more effectively.

The challenge of using local trainers/consultants is skills and experience. In order to fully understand SPM, the following key competencies are required:

- Good knowledge of microfinance, its key functions and challenges
- Understanding of MFIs from a managerial perspective and how different functions work
- Commitment to social values of microfinance

When selecting local consultants to train in SPM, the network should be careful to choose the right people. Most tools and initiatives suggest specific criteria for trainees.

International experts can be found at:

- sptf Consultants Database
- imp-act consortium Consultants database

There are two main types of capacity building of local consultants and trainers:

- **Overall SPM capacity building** to holistic understanding of social performance and how it fits with various functional areas of MFIs; often needs to be combined with training people in fundamentals of microfinance. Requires time and financial resources.
- **System-led capacity building** focuses on applying social performance lens to specific technical expertise. For example, an HR expert already working with members may need to acquaint herself with the social performance aspect of HR.

For skilled experts, reading up on social performance may be enough to mainstream SPM into specific areas, like how to apply a SP lens to HR.

■ COORDINATION

No matter who delivers direct capacity building or advocacy activities, people are needed to coordinate the strategy implementation. Network staff is best positioned to manage the SPM strategy by fitting it into other network's initiatives and resources.

Link to [SPTF SPM Officer position description](#)

■ GENERAL CAPACITY BUILDING OF NETWORK

The network should regularly expose key staff to social performance-related initiatives and events at the global level. The social performance landscape changes very fast: new initiatives and tools appear every few months, offering new opportunities for SPM scale up or addressing specific issues. Networks need to stay tuned into to key sources of information and innovation.

Trend setting sources include:

- SPTF
- SMART CAMPAIGN
- IMP-ACT CONSORTIUM

SOURCES OF INFORMATION

SPTF consultants database, IMP-ACT CONSORTIUM consultants database, Direct contact with the initiatives (see appendix)

SPTF Ambassador Toolkit

a good SPM coordinator has...

- Project management skills
- General SPM knowledge of technical issues
- Good understanding of SPM global agenda

social performance task force is the key resource for building capacity of network staff. Each year, sptf hosts a number of workshops and webinars aimed at introducing SPM as a whole or individual concepts of SPM.

For more information about upcoming events, see www.sptf.org

CASE STUDIES/EXAMPLES

AMFA FROM AZERBAIJAN

Like most national associations, AMFA faces difficulties in sourcing senior staff. To launch the first capacity building activities in SPM with members, they relied on the international experts and took the opportunity to build capacity of a local consultant. For example, a local consultant accompanied MFC in administering the QAT to an AMFA member, and later conducted the QATs alone with other members. AMFA has also exposed its junior staff to national and international SP events.

PUCA, A COLLABORATIVE EFFORT OF TA PROVIDERS AND NETWORKS

PPI Users Collaborative in Africa (PUCA) is a multi-stakeholder group that unites technical assistance partners and PPI users (Oikocredit, Catholic Relief Services, Terrafina Microfinance, Planet Rating and Grameen Foundation) with the national microfinance networks apim/Mali and apsfd Senegal. Those stakeholders join forces to help the sector collect and use poverty assessment data in the most effective way. Training are provided and case studies will be documenting the MFIs' experiences which can help guide the work of other MFIs as well as networks seeking to replicate this collaborative model of poverty assessment training.

NEXT STEP

The network should identify the sources of expertise for any planned activity. When local expertise is limited, the network must plan to build capacity to ensure long-term sustainability of SPM efforts.

QUESTION 5.2 - HOW TO ACCESS FINANCIAL RESOURCES TO SUPPORT SOCIAL PERFORMANCE?

OPTIONS

■ MEMBERSHIP FEES

The weight of membership fees in a network's budget depends on the network mandate, maturity of members and available donor funding. Membership fees are usually spent on key priorities, like lobbying or knowledge sharing. Potentially, a network can use those resources to cover costs related to longer-term strategic priorities, for example:

- Advocacy, lobbying
- Encouraging improved transparency among members (i.e. SPS reporting to MIX)
- Awareness raising activities—introducing client protection or social performance management to members

■ SERVICE FEE

Members may be charged a service fee for specific products:

- Trainings
- Conference-type events for knowledge sharing and peer learning
- Technical assistance
- Social performance assessments

Members are willing to pay extra for services (i.e. beyond the membership fee) when they are convinced they will benefit from it. However, they need to understand how their performance (both financial and social) will be improved before they will invest.

■ GRANTS

Networks are often issued grants to kick off activities or for innovation. Examples of activities grants may cover:

- Awareness raising (e.g. client protection principles)
- Working with pioneers and using the results to promote the concept with other members (e.g. aligning HR practices to social mission)
- Innovating and developing new products (e.g. non-financial services)
- Process facilitation (e.g. facilitation of SPS reporting)

The advantage of grants is they can cover both the costs of specific events (like training or one day member workshops) as well as staff time devoted to coordinating the activities.

Applying a service fee makes sense when many members are interested in the product. The more the local market values social performance, the more MFIs will be willing to pay. Also, leaders and early pioneers committed to the social mission of microfinance are usually willing to make investments, because they understand the need and want to maintain their leadership position.

■ GRANT SOURCES FOR NETWORKS

- **NETWORK PARTNERS:** donors that already have a relationship with the network. As Social performance becomes more and more popular, more and more donors and investors include SP related activities into the scope of work funded by them.
- **PHILANTHROPIC FOUNDATIONS:** increasingly private foundations support social performance-related activities (FORD)

SP FUND FOR NETWORKS: this facility supports country-level networks willing to pursue social performance-related activities. For more information, see www.mfc.org.pl/SPFund.

■ PARTNERSHIPS

In some cases, costs may be covered in kind by networks' partners. For example, many TA providers (social rater or social auditor) are willing to deliver and cover the costs of one-day promotional workshops as a way to advertise their products.

CASE STUDIES/EXAMPLES

THE SOCIAL PERFORMANCE START-UP FUND

The SP Start-up Fund to support national microfinance networks in Africa, Asia and Eastern Europe, was launched in May, 2011. It is a global facility to provide technical and financial support to country level and regional microfinance networks who want to move their activities towards Social Performance. The project is funded by the Ford Foundation and will be implemented by the Microfinance Center. The objective is to increase the networks' capacity to work with their members on the standardized reporting dealing with SP and their adjustment to local contexts and Social Performance Managing. The SP Start-up Fund will provide one-year grants of up to USD 50,000 for starting-up social performance related activities with its members. It will support in development and implementation of the network's social performance plans and capacity building of the network staff and local consultants in fundamentals of Social Performance Management and SPTF/MIX SPS Reporting. Additionally, it will provide information brokerage on available SP related educational and networking opportunities and information brokerage on available technical assistance opportunities for networks and their members.

DEVELOPING FEE BASED SERVICES

To develop solutions to support its members' improve social performance practices, MFC first identified like-minded donors, which provided funding for the first experimental phase. The work resulted in developing practical tools (Quality Audit Tool and Strategic Management Toolkit). Over time, MFIs from throughout ECA region requested MFC to administer the tools as a fee-based service.

For each activity, make sure to specify the amount of direct costs (logistics, fee for TA provider) as well as network costs (staff time, administration).

QUESTION 5.3 - WHAT IS THE SEQUENCE OF ACTIVITIES?

At this point, the network may have selected activities in all three branches. Some may be stand-alone events, others may have to be phased in over time. For example, the network cannot promote the social utility of its members to the Central Bank (advocacy) if it does not have any social performance results (transparency). Similarly, the network cannot collect data from members until they are trained in assessing and reporting on social performance.

The following list help sequencing the activities in the action plan.

CHECKLIST FOR DEVELOPING THE SEQUENCE OF ACTIVITIES

LIST ACTIVITIES ONE BY ONE	Determine which activities depend on each other. For example, you must collect SP information before advocating for better regulation. Or, members may first need to be convinced of client protection, before investing in Client Protection Assessment
ESTIMATE TIME TO PREPARE AND DELIVER EACH ACTIVITY	For example, a two-day training may require a month of preparations (negotiations with TA provider, logistics, etc.). Developing a code of conduct will take at least few months (although network staff will not spend all their time on this activity).
ASSIGN FOCAL POINTS FOR EACH ACTIVITY	Designate network staff and/ or consultants to each activity; make sure they are given enough time.
ESTIMATE BUDGET AND DETERMINE FUNDING	If there is no funding currently available, determine how much can be reasonably fund raised and adjust your plan accordingly.
IDENTIFY OUTPUTS	Identifying outputs of each activity helps monitor implementation and can inform communication with stakeholders, especially donors.
IDENTIFY OUTCOMES (RESULTS)	A network does not organize training in governance just for the purpose of organizing a training. The aim is to change practices and improve quality of governance. The training in itself is not enough. The network should encourage members to put new knowledge into practice. This may require follow up to the training (experience sharing, dissemination of case studies) so that the final outcome—improved governance—is achieved.

examples of output indicators

Training: number of members trained

Developing standards for code of conduct: number of signatories

Workshop on client protection: number of participants; number of Client Protection Quick Assessments conducted

TABLE 10. AEMFI ONE YEAR ACTION PLAN

ACTIVITY	DESCRIPTION	SUCCESS INDICATORS	IMPLEMENTING PARTNERS	BUDGET REQUIRED IN ETHIOPIAN BIRR	SOURCES OF FUNDING	TIMELINE, QUARTER
Awareness workshop for MFIs on SP, SPM and Client Protection	A workshop for 25 MFIs for three days	number of participating MFIs taking on SP related activities	Local consultants smart campaign	80,000	terrafina/aemfi	1st quarter
Workshop for members on SPS/mix reporting	A workshop for 25 MFIs to discuss SP standard indicators for 2 days	number of MFIs reporting to mix	Local consultants, terrafina, MFC	80,000	CRS/terafina	1st quarter
PPI training and implementation	A training for 10 MFIs and 5 consultants for 5 days	number of MFIs implementing PPI	grameen foundation	120,000	CRS	2nd quarter
Assistance of consultants to members in PPI implementation	Assistance delivered to 10 MFIs	number of MFIs implementing PPI	Local consultants	250,000	CRS	
Training on governance for Board members aligned to SP perspective in line with imp-act consortium materials	A training for board members of MFIs to understand the concepts of SPM	number of MFIs improving their practice in governance	MFC , CERISE	100,000	CRS, CERISE, terrafina	3rd quarter
Code of conduct for MFIs	Prepared code of conduct for MFIs	number of MFIs adopting the Code of Conduct	Consultant, aemfi	10,000	terafina/aemfi	1-4 quarter

RESOURCES AND AVAILABLE TOOLS

DEFINITIONS

Drivers

Networks

BOOKS

WEBSITES

INITIATIVES

CERISE

Main Objective, linked to networks' SPM strategy

Approach

Tools

Work with networks

Contact

CRS-MISION

Main Objective, linked to networks' SPM strategy

Approach

Tools

Work with networks

Contact

GRAMEEN FOUNDATION AND THE PROGRESS OUT OF POVERTY INDEX

Main Objective, linked to networks' SPM strategy

Approach

Tools

Work with networks

Contact

IMP-ACT CONSORTIUM

Main Objective, linked to networks' SPM strategy

Approach

Tools

Work with networks

Contact

MICROFINANCE CENTER (MFC) – POLAND

Main Objective, linked to networks' SPM strategy

Approach

Tools

Work with networks

Contact

MICROFINANCE CREDIT SUMMIT – SEAL OF EXCELLENCE

MICROFINANCE TRANSPARENCY

Main Objective, linked to networks' SPM strategy

Approach

Tools

Work with networks

Contact

MIX AND THE SOCIAL PERFORMANCE STANDARDS (SPS)

Main Objective, linked to networks' SPM strategy

Approach

Tools

Work with networks

Contact

OIKOCREDIT

Main Objective, linked to networks' SPM strategy

Approach

Tools

Work with networks

Contact

PAMIGA

Main Objective, linked to networks' SPM strategy

Approach

Tools

Work with networks

Contact

SEEP/SPTF NETWORK WORKING GROUP – WORK IN PROGRESS ON CERTIFICATION

Main Objective, linked to networks' SPM strategy

Approach

Tools

Work with networks

Contact

SOCIAL PERFORMANCE TASK FORCE AND UNIVERSAL STANDARDS OF SOCIAL PERFORMANCE

Main Objective, linked to networks' SPM strategy

Approach

Tools

Work with networks

Contact

SMART CAMPAIGN FOR CLIENT PROTECTION

Main Objective, linked to networks' SPM strategy

Approach

Tools

Work with networks

Contact

TERRAFINA

Main Objective, linked to networks' SPM strategy

Approach

Tools

Work with networks

Contact

APPENDIX

APPENDIX 1. DEFINING SOCIAL PERFORMANCE

Social performance is the effective translation of an institution's mission into practice in line with accepted social values that relate to:

- Reaching target market
- Delivering high-quality and appropriate financial services
- Responding to the needs of clients, their families, and communities
- Ensuring responsibility toward its employees, its clients, the community it serves, and the environment



This arrow represents the social performance pathway—the different aspects of social performance and how they come together.

- *Intent* refers to the institution's mission—what it intends to do to reach its social goals
- *Internal systems and activities* refers to everything inside the institution—all that it does to make sure the mission is achieved;
- *Outputs* are different from outcomes
 - OUTPUT = what services are delivered, of what quality, to whom – breadth and depth of outreach. Are the products designed to meet client's needs?
 - OUTCOME = what changes can be observed – e.g. businesses grow, incomes increase, skills increase?
 - IMPACT¹ = what are the changes attributable to the MFI? The longer term sustainable changes as a result of the outcomes e.g. poverty reduction? What are the unintended consequences?

¹Impact studies are generally much more complex and expensive, and the choice of a valid control group is subject to recurrent debate in the academic world. See the work done by Jameel Poverty Action Lab for example on randomized surveys (REFERENCES)