

A briefing series for MED practitioners produced by the SEEP Network and sponsored by the Argidius Foundation

Introduction to Social Performance

Social Performance for Microfinance

In the microfinance arena, success of a microfinance institution (MFI) has long been associated with financial performance outcomes measured by loan portfolio quality, cost recovery, and profitability. Yet, these indicators only tell part of the performance story in microfinance. Most microfinance institutions strive to meet both financial and social goals, managing a double bottom line by which financial performance facilitates the fulfillment of a social mission.

What Is Social Performance?

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

- improving the lives of poor and excluded clients and their families; and
- widening the range of opportunities for communities.

To create this value the social objectives of an MFI may include:

- serving increasing number of poor and excluded people sustainably by expanding and deepening outreach to poorer people;
- improving the quality and appropriateness of financial services available to the target clients through a systematic assessment of their specific needs;
- creating benefits for microfinance clients, their families, and communities to improve access to social capital, social links, assets, income, and services; reduce their vulnerability; and fulfill their basic needs; and
- improving the social responsibility of the MFI toward its employees, its clients, and the community it serves.

Ultimately, a focus on social performance makes microfinance more customer-driven by monitoring performance against both social and financial goals. This requires that MFIs:

- set social and financial performance goals;
- identify indicators that measure achievement of these goals;
- continuously collect client data to monitor progress against the indicators;

- adapt program strategy and operations in response to both social and financial performance information; and
- incorporate the social performance information into management systems so that the information can be useful for decision making.

Why Is Social Performance Important?

The renewed interest in the social goals of microfinance is a response to the growing recognition that MFIs are, by their actions, able to affect the achievement of social outcomes. As the industry matures and grows more competitive, institutions are increasingly concerned about who is being reached, how well clients are being served, and whether clients are moving out of poverty or improving in other ways. MFIs are learning that retaining clients and attracting new ones increasingly depends on the institutions' ability to offer products and services that meet client needs. In microfinance, social and financial performance are linked and, as seen in practice, mutually reinforcing. Strong financial performance underpins an MFI's ability to pursue its social objectives, and conversely, achieving them is good for business.

The most common argument against social performance is that it is difficult to measure. But, is that a reason not to do it? It took the industry over three years to develop financial performance standards, which was well worth the effort. If the ultimate goal of microfinance programs is to improve the lives of the clients we work with, then there simply should be mechanisms in place to let MFIs know whether or not they are doing that. Is it adequate to just assume that they are doing a good job?

Organizations should be more deliberate in designing and managing their programs to achieve the social objectives they have set out. If they are not achieving their missions, then they should reexamine how they are carrying out their work, and either adjust the way they do business or adjust their mission to meet reality.

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Social Performance Initiatives

Over the last five years, a number of social performance initiatives have emerged. Social performance can be assessed, managed, audited, and/or rated. The following section clarifies the differences between these varying approaches and provides some helpful web sites to seek additional information. Each of these areas will be further explored in upcoming issues of the Social Performance Progress Briefs. In addition, this information will be posted on the Microfinance Gateway's Social Performance Resource Center in late fall 2006.

Social Performance Management

DETAILED INFORMATION COMING IN ISSUE 2

"Managing" social performance refers to the process of measuring, analyzing, reporting, and using social performance information. This information needs to be integrated into the MFI's work, operational routines, and value systems if it is to be useful; in other words, it must be institutionalized. Social performance management (SPM) is therefore an institutionalized process of translating mission into practice, which includes setting social objectives, tracking social performance, and using this information to improve practice. Building a social performance management system is how an MFI can ensure that this process remains effective and an inherent part of its activities.

The **Imp-Act Consortium** has produced a set of Social Performance Management Guidelines, as well as detailed material on managerial tools and training, and will help MFIs develop a SPM strategy, monitor and assess social performance, and use and institutionalise their SPM system. For Imp-Act's web site, see <http://www.imp-act.org>; for SPM Guidelines, see www.ids.ac.uk/impact/publications/guidelines.html.

Social Performance Assessment

DETAILED INFORMATION COMING IN ISSUE 3

"Assessing" social performance can evaluate the intentions, actions, and/or corrective measures implemented by an MFI in order to determine whether it has the means available to attain its social objectives. Social performance assessment also can evaluate the social outcomes that are achieved by a program. This can be done by a one-time assessment or an ongoing process. Most assessment tools contain a set of social indicators that the industry can use to provide greater transparency on the social performance bottom line – specifically related to the poverty levels of clients who are being reached and the social and economic changes that they have experienced. Assessment tools can also identify issues to address in order to improve performance. For more information on social assessment initiatives, the following websites and contact information are available.

- **CERISE:** Social Performance Indicators (SPI) Initiative
The SPI-CERISE tool is a questionnaire that posits four dimensions of social performance: (1) outreach to the poor and excluded, (2) adaptation of products and services to target clients, (3) improving social and political capital, and (4) corporate social responsibility. (www.cerise-microfinance.org/publication/impact.htm)
- **CGAP/Ford Social Indicators project**
This tool assesses the social outcomes achieved by a program related to the Millennium Development Goals. For more information, contact Syed Hashemi at CGAP: shashemi@worldbank.org.
- **CGAP Poverty Audit**
www.cgap.org/docs/poverty_audit.pdf

USAID Social Performance Assessment Tool

The USAID SPA tool combines a set of social performance indicators and a social audit to evaluate five key internal processes related to social performance: mission and management leadership, hiring and training, monitoring systems, incentive systems, and strategic planning. For more information, contact Gary Woller at wollerg@yahoo.com.

Social Performance Rating

DETAILED INFORMATION COMING IN ISSUE 4

Social rating tools assess whether MFIs are achieving (or are likely to achieve) development objectives. Ratings, until recently, have focused on risk assessment and financial performance of MFIs which is only half the story. To this end, the social rating evaluates the social mission, the outreach, and client feedback.

- **Micro-Credit Ratings International Limited (M-CRIL):** M-CRIL offers a social rating tool that is linked to, and to be used in conjunction with, the standard credit rating tool. www.m-cril.com/social-rating-microfinance-institutions.html
- **Microfinanza Rating:** Microfinanza offers two types of social rating options: a social rating and a social rating survey. www.microfinanzarating.com/doc/brochure_MFR-social.pdf
- **Planet Rating:** Planet Rating has conducted social ratings using the CERISE tool and the USAID SPA tool. For more information contact Emmanuelle Javoy at ejavoy@planetrating.com.

Social Performance Governance

DETAILED INFORMATION COMING IN ISSUE 5

SP Governance creates the appropriate culture and environment for social performance management within the MFI, with analysis of the different actors and decision makers involved. Governance provides a critical link between assessment and management. For more information see www.cerise-microfinance.org/publication/gouvernance.htm#telecharger

Social Performance Reporting

DETAILED INFORMATION COMING IN ISSUE 6

There are efforts underway by the Social Performance Task Force to develop a common social performance reporting framework. For more information on the Social Performance Task Force and the work of its subcommittees, contact Laura Foote at lfoote@alternative-credit.com. See also Frances Sinha, "Social Rating and Social Performance Reporting in Microfinance: Toward a Common Framework" (SEEP, October 2006).

From the Field: Interview with Koenraad Verhagen

Argidius Foundation Committee Member

Why is the Argidius Foundation interested in social performance?

The Argidius Foundation has a track record as a social investor in microfinance in Latin America and more recently in Africa. Our mission is to promote entrepreneurship among the low-income sections of the population. We have supported the commercialization of microfinance and initiatives to make MFI performance financially transparent. While we were impressed by the MFI financial reports and growth of the sector, we gradually became aware that claims of enterprise development had been overstated and that microfinance is basically household finance, despite what brochures and anecdotal evidence said. Sector specialists now admit that access to microfinance is, in many cases, a necessary but not sufficient condition for enterprise development, especially at the “micro-level.” This is where many MFI clients carry out their small trade and service businesses, often in saturated markets with little space for expansion—and even sometimes at the expense of their neighbors.

At the same time, we realized that access to microfinance services, which more broadly includes savings and insurance, can be crucial to poor people in their daily struggle to survive, to be less vulnerable, and to maintain minimal standards of quality of life. While Argidius is particularly interested in enterprise development and employment creation, we believe generally that any development organization pursuing social objectives should formulate them clearly and develop indicators to track its results systematically. In addition, social performance reporting to stakeholders and external rating (see Progress Briefs, no. 4 and no. 6) will further help organizations be more mindful of accomplishing their stated social objectives.

However, social performance reporting has a long way to go to become general practice in microfinance, and standards of measurement to be broadly accepted. Currently, only a few MFIs have introduced social performance management systems and practice it to the benefit of their clients and their own institution. (See Progress Brief, no. 2). At the same time, we are proud of the progress made over the past few years to develop concepts, approaches, instruments, and indicators that allow social performance to be tracked and measured professionally. The pioneering work accomplished by the Imp-Act Consortium, CERISE, USAID, M-CRIL, and the Grameen Foundation may have further ramifications in the development field, since the underlying philosophy, proposed framework, and indicators can be adapted and applied to other sectors of development activity focusing on poverty alleviation.

What will it take to make social performance management, assessment, reporting, and rating common practice in the microfinance industry?

The prevailing mind set in microfinance needs to be changed and an incentive system introduced that supports this change.

The change in mind set implies a departure from a reductionist approach, that measures performance solely in terms of financial performance and number of people reached, to a more an integrated concept of “sustainability” that puts sustainability of client and their economic activities and livelihoods squarely in the center, and regards MFI financial sustainability as the means of ensuring the permanency of the financial services that clients need—not as an end in itself. I do not see the social merit of more poor women being caught in cycle after cycle of structural debt from “repeat borrowing” (often at high interest rates) or accumulating more debt by “multiple borrowing,” without substantial growth in their micro-business or positive change in the way they manage their money. One just has to talk to a few loan officers to learn that this is happening all over, even if the overall impact of microfinance is positive in most instances. In other words, a socially responsible MFI needs to have the instruments to assess both the positive effects and potential, unintended negative effects of lending operations. Some MFIs provide basic financial education to clients, which is crucial for credit to truly help the poor, especially not-so-poor, clients.

For systematic change to happen, social investors, including grant making organizations, need to adjust their criteria for appraisal, explicitly require “double bottom line” reporting from MFIs, and refuse to be satisfied with information that does not go beyond financial performance ratios, selective anecdotal evidence of positive change, and “number of microenterprises reached.” This subjective and non-applicable information may make them feel good about their “social” investment, but it is not sufficient for investors who want to be well informed about “social return.” For objective assessment of performance against social objectives, we will need social rating products (see Progress Brief, no.4)—concomitant with financial rating—that objectively evaluate how well organizations are set up to accomplish their stated goals.

The fight against poverty is serious business. For the microfinance sector to realize its full potential and make a substantial contribution to achieving the MDGs, we have to equip ourselves with the instruments to evaluate performance and results. Otherwise, we may end up with “an inclusive financial sector,”—but to whose avail?

How SEEP is contributing

THE SOCIAL PERFORMANCE WORKING GROUP OF SEEP

The Social Performance Working Group (SPWG) of SEEP has undertaken two initiatives related to social performance: its Social Performance Glossary and a Social Performance Map.

Social Performance Glossary: After about a year of work, the SPWG recently completed and has submitted to SEEP for publication a hard copy version of the *Social Performance Glossary*. The glossary contains more than 250 definitions related to social performance, assessment, micro-finance, financial services, and enterprise development. The purpose of the glossary is to create a common terminology in the industry to facilitate discussion, collaboration, and progress in the area of social performance.

The glossary is targeted primarily at microfinance practitioners, donors, and investors, but it will be useful to all industry stakeholders. The SPWG will work with SEEP and a web-design team to produce an interactive, web-based version of the glossary for 2007 to be housed either on the SEEP website or on the Social Performance Resource Center on the Microfinance Gateway.

Social Performance Map: The SPWG will launch the mapping exercise at SEEP's 2006 Annual General Meeting. The purpose of the Social Performance Map is to provide a comprehensive overview of social performance both in and out of the microfinance industry, and will include the following:

- A list and description of all approaches and initiatives related to social performance in microfinance, other development fields, other humanitarian fields, and the private sector.
- An analysis of the overlap and distinguishing characteristics among identified social performance approaches and initiatives.
- The organization of identified social performance initiatives and approaches into the social performance conceptual framework developed by the SPWG.
- An analysis of the gaps, challenges, and opportunities for future work in social performance.

A significant amount of information about SP approaches and initiatives exists, but it is fragmented across multiple fields (e.g., micro-finance, foundations, private sector business, and other development fields). Each field has reasonably good approaches and activities, but is largely ignorant of any other efforts. The lack of comprehensive (systematic and organized) information about SP has a number of important implications for work in this area:

- It produces inefficient, unnecessary duplication of efforts.
- It leads to inefficient allocation of funding. Donors and other social investors lack information to strategically and efficiently target their funds to complementary initiatives.
- It denies actors important information that would inform and improve their own SP initiatives.
- It slows down progress, both in terms of actual progress achieved and understanding of what progress has been made.

Absent a more complete picture of what is happening in SP, stakeholders can only judge progress based on what they see in their own efforts, which may lead to unnecessarily pessimistic conclusions about what has been, or could be accomplished.

Successful completion of the *Social Performance Glossary* and Social Performance Map offer potential for significant benefit to the microfinance and wider development communities. There exists a limited window of opportunity for the microfinance community to make substantial progress in social performance and to convince the donor and investor community that social performance merits their ongoing time and financial support. It is important, therefore, that the industry makes significant progress in promoting social performance in a relatively short period of time. The Social Performance Glossary and Social Performance Map are designed specifically to facilitate this process.

Social Performance Briefing Series

This briefing series is a SEEP Network initiative to introduce the concepts of social performance to the microenterprise field. The briefing series is funded by the Argidius Foundation.

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Argidius Foundation was founded in 1956 and focuses on international support of market-driven business development initiatives to alleviate poverty. The key areas of support are microfinance, business development services, and entrepreneurial education.

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The SEEP Network is a membership association of more than 61 international organizations that support micro- and small enterprise development programs around the world. SEEP's mission is to advance the knowledge base and practice of microenterprise development.

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